

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE  
OF THE FINANCE COMMITTEE**

**University of Kentucky Board of Trustees**

**March 16, 2015 8:00 a.m.**

**Patterson Office Tower, 18th Floor, Suite A**

**Subcommittee Members Present**

Bill Britton (Chair), Angela Edwards, David Hawpe and Jim Stuckert

**Approval of Minutes**

The minutes of the December 8, 2014 Audit and Compliance Subcommittee (ACS) meeting were approved as presented.

**Reports and Discussion Items**

BKD FY 2015 Engagement Letters

Ms. Susan Krauss, Treasurer, reviewed the following BKD Engagement Letters:

- Audit of the FY 2015 consolidated financial statements of UK and affiliated corporations (pages 6-19)—Ms. Krauss reviewed the main sections of the Letter and noted that the detail of BKD's engagement fees were listed on pages 12-13. She mentioned that UK is in the last year of BKD's 8-year term and a Request for Proposal (RFP) for the external audit would be issued in the fall.
- Performance of agreed-upon procedures for NCAA compliance (pages 20-31)—Ms. Krauss noted that this letter relates to agreed-upon procedures required by the NCAA Bylaws.
- Performance of certain procedures to document an analysis of subsequent events (pages 32-34)—Ms. Krauss noted that this engagement letter is for the purpose of BKD's performance of a subsequent events review in connection with the upcoming bond issuance.

UK Internal Audit (UKIA) FY 2015 Activity Update

Mr. Joe Reed, Internal Audit Senior Director, gave the following update related to page 36:

- Mr. Reed noted that the first quadrant represents the FY 2015 UKIA Approved Work Plan providing a status of each audit project. He noted that 70% of direct hours have been utilized on the Work Plan as of December 31, 2014. The Work Plan was created using 80% of direct hours; the UKRF Data Center Review (which is a carryover project from FY 2014) is requiring more hours than expected.
- Mr. Reed reported that the second quadrant represents the FY 2015 Unplanned Reviews and mentioned that 30% of direct hours have been spent on unplanned activity. The Mining Engineering and Pledge projects required significant hours to complete.
- Mr. Reed reviewed the third quadrant that lists the FY 2015 UKIA Audit Coverage by Enterprise Division, including the number of projects, project hours and projects requiring significant hours.
- The fourth quadrant lists the FY 2015 UKIA Metric Update. Mr. Reed reported that UKIA is achieving four of the six metrics as of December 31, 2014.

There were questions about University pledges, including how delinquent University pledges are handled.

ACS/UK Administration Response for UK Internal Audit QAR Report

Mr. Eric Monday, Executive Vice President for Finance and Administration distributed a handout with the pertinent Observation and Recommendation Sections from the QAR report and a proposed ACS or Senior Management Response (see attachment). Chair Britton led the discussion and answered questions.

Following the discussion, James Stuckert moved that the proposed response be approved and given to Senior Management to include in the QAR report. David Hawpe seconded the motion. Approved.

### ACS Reporting Structure Discussion

Mr. Monday reported benchmarking results as compiled by the Office of General Counsel regarding the reporting structure of Audit Committees at peer institutions. Of the 21 institutions surveyed, 15 have either stand-alone or audit plus compliance committees. The other 6 include finance, investment or budget responsibility with audit as well. There were none that had audit subcommittees. Following discussion, Chair Britton conveyed that the ACS desires to move forward. Mr. Bill Thro, General Counsel, will prepare a draft of the amended Governing Regulation (GR) allowing the ACS to become a full stand-alone committee reporting directly to the Board of Trustees. The draft will need to be presented at the next two Board of Trustees' meetings.

### GR/AR Amendment Update

Mr. Thro gave an update on the status of the creation of a faculty progressive discipline policy as requested by the President. Mr. Thro gave a timeline of the proposal development; a document has been created by a committee of the Faculty Senate Council in collaboration with Mr. Thro. It will be sent to the Faculty Senate Council and the University Senate with an anticipated acceptance. It will then be submitted as a proposed GR at the May Board of Trustees' meeting with possible final ratification at the June meeting.

There being no further business, the meeting was adjourned.

### **Next Meeting**

Friday, May 8, 2015

- BKD FY 2015 Scope Review
- Internal Audit FY 2016 Risk Assessment
- GASB Update
- OMB Uniform Guidance Implementation
- GR/AR Updates

Respectfully submitted,

Catherine Miller

**DRAFT – 03/11/15**

**Observation and Recommendation Sections are from the QAR Report from Third Party**

**Observation:**

Strengthen Audit and Compliance Subcommittee Charter • Standard 1110 (Organizational Independence) The CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The clear understanding of a functional reporting relationship between an internal audit activity and its oversight committee is often difficult to communicate to all stakeholders of the department. Functional reporting is best described by the interpretative examples provided in IIA Standard 1110 - Organizational Independence. Examples of functional reporting to the board involve the board: • Approving the internal audit charter; • Approving the risk-based internal audit plan; • Approving the internal audit budget and resource plan; • Receiving communications from the CAE on the internal audit activity's performance relative to its plan and other matters; • Approving decisions regarding the appointment and removal of the CAE; • Approving the remuneration of the chief audit executive; and • Making appropriate inquiries of management and the CAE to determine whether there are inappropriate scopes or resource limitations. These oversight committee responsibilities are considered by the profession to be the cornerstones of a solid functional reporting relationship. They strengthen independence by providing the necessary functional oversight for the scope of proposed work and any limitations placed on that scope, while being recognized as innovative governance practices.

**Recommendation:**

To strengthen and make clear this functional reporting relationship, the Audit and Compliance Subcommittee should consider revising its Charter to emphasize and clarify the functional reporting relationship of the CAE by including or adjusting language (e.g. from review to approve) in the following areas: • Final approval of the financial and resource budget plans and any significant subsequent changes • Final approval for the compensation, and performance evaluation of the CAE

**PROPOSED - Audit and Compliance Subcommittee or Senior Management Response:**

The President will work with the Chair of ACS to revise the Charter to affect the following:

- (1) The EVPFA and CAE will present the financial and resource budget plan for the Internal Audit function at the April, May or June ACS meeting each year. This budget plan will include projections for the current fiscal year as well as the proposed budget for the next fiscal year. The EVPFA and CAE will appropriately incorporate any feedback and guidance from the ACS into future financial and resource budget plans.
- (2) The EVPFA will solicit and incorporate feedback and input from the Chair of ACS when completing the performance evaluation of the CAE.

Target Implementation Date: 2015