

MINUTES OF THE MEETING OF THE
AUDIT, COMPLIANCE, AND RISK COMMITTEE OF THE
BOARD OF DIRECTORS OF THE UofL RESEARCH FOUNDATION, INC., AND THE
BOARD OF TRUSTEES OF THE UNIVERSITY OF LOUISVILLE

October 28, 2022

In Open Session

Members of the Audit, Compliance, and Risk Committee of the UofL Research Foundation, Inc., Board of Directors and the UofL Board of Trustees met in the Angel's Envy Bourbon Club, Cardinal Stadium, on October 28, 2022, at 1:08 p.m. with members present and absent as follows:

Present: Mr. James Rogers, Chair
Dr. Larry Benz
Mr. Gary Stewart, *advisor, non-voting*

Absent: Mr. Al Cornish
Ms. Mary Nixon

Other Trustees

Present: Mr. Jerry Abramson
Mr. Scott Brinkman
Mr. Dorian Brown
Dr. Raymond Burse
Ms. Diane Medley
Dr. Eugene Mueller
Ms. Diane Porter
Mr. John Smith
Ms. Sherrill Zimmerman

From the
University: Dr. Lori Stewart Gonzalez, Interim President
Dr. Gerry Bradley, Interim Provost
Mr. Dan Durbin, Executive Vice President for Finance and Administration
Ms. Mariana Barzun, Co-Interim Vice President for University Advancement
Dr. Douglas Craddock, Interim Vice President for Community Engagement
Ms. Angela Curry, General Counsel and Vice President for Legal Affairs
Ms. Julie Dials, Co-Interim Vice President for University Advancement
Mr. Lee Gill, Vice President for Diversity and Equity
Mr. Josh Heird, Vice President for Athletics and Athletic Director
Dr. Michael Mardis, Vice President for Student Affairs
Ms. Mary Elizabeth Miles, Vice President for Human Resources
Ms. Sandy Russell, Vice President for Risk, Audit, and Compliance
Mr. John Drees, Sr. Assoc. Vice President for Communications & Marketing

Ms. Shannon Rickett, Assoc. Vice President for Government Relations
Dr. William Metcalf, Assoc. VP for Research Dev. & Strategic Partnerships
Mr. John Karman, Executive Director of Communications
Dr. Robert Fox, Dean, University Libraries
Ms. Beverly Santamouris, Treasurer
Mr. Jerry Johnson, Interim COO
Ms. Kim Adams, Chief Information Security Officer
Ms. Jennifer Mudd, Director of Integrity and Compliance
Ms. Sarah Lopez, Deputy Chief of Staff, Provost's Office
Ms. Melissa Brown, Coordinator for Minors on Campus
Ms. Agustina Gomez Cisterna, Student Athlete, Women's Golf
Ms. Mairead Martin, Student Athlete, Women's Golf
Mr. Gary Stewart, Advisor to Audit, Compliance, and Risk Committee
Mr. Jake Beamer, Dir. of Governance & Strategic Initiatives & Asst. Secretary

From UofL

Health: Mr. Tom Miller

From UofL

Foundation: Mr. Keith Sherman

Others: Mr. Ethan Lay, Clifton Larson Allen
Mr. Chris Suda, Clifton Larson Allen

I. Call to Order

Chair Rogers was unable to determine a quorum present. The committee was not called to order but proceeded with the presentation of its information items in which no actions were necessary.

Approval of Minutes, 6-23-2022

There was no quorum and the minutes of the June 23, 2022 meeting were not approved.

II. Information Item: UofL and ULRF Audited Financial Statements

Mr. Suda briefed the committee on the audited financial statements of the university and the research foundation using the **attached** presentation.

The auditor's terms of engagement, audit scope and coverage, results highlights, and discovered deficiencies and uncorrected misstatements were the topics of the briefing.

Mr. Lay then fielded questions from trustees. No action was taken.

III. Information Item: Overview of FY 2022 Financial Results

Using the **attached** presentation, Mr. Durbin and Ms. Santamouris provided a high-level overview of the results of the audit, including the unmodified opinion on the financial statements, the deficiency found by the external auditor, the single audit of federal awards, the restatement of FY2021 financials due to new accounting standard GASB 87, and a summary of revenues, expenses, and changes in net position.

Mr. Durbin and Ms. Santamouris then fielded questions from trustees.

IV. Action Item: Approval of UofL Audited Financial Statements

There was no quorum and the university's financial statements were not approved.

V. Action Item: Approval of ULRF Audited Financial Statements

There was no quorum and the ULRF financial statements were not approved.

VI. Update from the Vice President for Risk, Audit, & Compliance

Vice President Russell, using the **attached** presentation, reported on activities as they relate to the Risk, Audit, and Compliance unit. She also provided an annual audit report, a summary of activities from October 1, 2021, through September 30, 2022, noting that Audit Services received full cooperation from all administration, staff, and faculty.

She noted the Privacy Office fielded 370 privacy-related questions and concerns, request for contracts or contract reviews, requests for erasure, and consultations. Investigations resulted in fifty allegations of inappropriate and/or unauthorized disclosures of health information and four substantiated breaches.

VP Russell also discussed with committee members the Information Security Incident response events for 2021-2022, enterprise risk and insurance, athletic compliance, and conflict of interest and commitment.

Ms. Russell reviewed with the committee the audit services mission statement and charter before fielded members' questions

Chair Rogers thanked the vice president for her update.

VII. Adjournment

Having no other information items to discuss, the meeting ended at 1:47 p.m.

Approved by:



Signature on file
Assistant Secretary



We'll get you there.

University of Louisville and Affiliated Corporations

Audit Presentation Year Ending June 30, 2022

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Terms of Engagement



Express an opinion on the University's financial statements as of June 30, 2022.

Report on internal controls and compliance under Government auditing standards (Yellow Book).

Express an opinion on compliance over major federal programs and completion of the schedule of findings and questioned costs (**Delayed**).

Summarize audit findings and observations and present to management and the Board of Trustees



Audit Scope and Coverage

- Performed audit using a risk-based approach
- Time spent understanding and testing each audit area was commensurate with the level of assessed risk:

Internal Controls

Compliance
Uniform Guidance
(**Delayed** – SFA &
HEERF)

Revenue
Recognition

Payroll Expense

Accounts
Receivable and
Related Allowance

Capital Assets
(Property &
Equipment)

Unearned
Revenues

Actuarial
Estimates – Other
Postemployment
Benefits

Bonds, Notes and
Debt

Cash and
Investments

Implementation of
GASB 87



Audit Results Highlights

- Financial statement audit opinion is unmodified “cleanest opinion” (page 2).
- Federal awards opinion delayed.
- Consolidated Audit - One significant deficiency reported on internal controls over financial reporting for audit adjustments
- Research Foundation Audit – two significant deficiencies reported on internal controls over financial reporting for audit adjustments
- Implementation of GASB Statement No. 87, Leases



Government Auditing Standard Deficiencies (Consolidated Audit)

- Significant Deficiency:
 - 2022-001 Accounts Payable: During the audit process, CLA noted that controls related to cutoff of accounts payable were not operating effectively. As a result, an audit adjusting entry was recorded to increase accounts payable, capital assets, and expenses by approximately \$3,014,000, \$1,810,000, and \$1,204,000, respectively.



Government Auditing Standard Deficiencies (Research Foundation)

- Significant Deficiencies:
 - 2022-001 Audit Adjustments: During the audit process, a material audit adjustment was recorded to increase amounts due from affiliate and amounts due to University by approximately \$15,625,000. The University must have controls in place to ensure related party transactions are properly recorded.
 - 2022-002 Accounts Payable: During the audit process, CLA noted that controls related to cutoff of accounts payable were not operating effectively. As a result, an audit adjusting entry was recorded to increase accounts payable and expenses by approximately \$1,200,000.



Effects of GASB 87 Implementation

- Changes to Net Position as of June 30, 2021 are as follows (in thousands):

Entity	As previously reported	Effect of Change	As Restated
Consolidated	\$979,964	\$6,308	\$986,272
Research Foundation	\$157,624	\$6,942	\$164,566



Federal Awards Audit

- Two Major Programs
 - Student Financial Aid
 - HEERF Cluster
- Federal awards opinion delayed.



Governance Communication Letter

Overall

- No transactions noted which there is a lack of authoritative guidance.
- No changes in scope of audit.

Estimates

- Some estimates present in financial statements.
- Allowance for doubtful accounts receivable, depreciation based on estimated useful lives, self-insurance accrual, fair market value of investments, other postretirement liability and related deferred outflows and inflows.
- We are comfortable with management's estimates.

Difficulties

- No difficulties with management.
- No disagreements encountered.

Other

- Management will provide a signed Representation letter at the conclusion of the audit.
- Management has determined that the effects of all uncorrected misstatements are immaterial.
- None of the misstatements detected as a result of audit procedures and corrected by management were material.



Uncorrected Misstatements

- Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The below schedule summarizes uncorrected misstatements of the financials.

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT

University of Louisville

Consolidated Audit

Year Ended June 30, 2022

UNCORRECTED MISSTATEMENTS OF AMOUNTS

Effect of misstatements on:

Description	Effect of misstatements on:			Net Expense/Revenue and Change in Net Assets / Fund Balance
	Assets	Liabilities	Fund Balance / Net Assets	
Potential Uncapitalized Purchases	\$ 4,798,145			\$ (4,798,145)
Medicaid Accounts Receivable Allowance	2,208,072			(2,208,072)
Net current year misstatements (Iron Curtain Method)	7,006,217	-	-	(7,006,217)
Net prior year misstatements	-	-		
Combined current and prior year misstatements (Rollover Method)	\$ 7,006,217	\$ -	\$ -	\$ (7,006,217)
Financial statement totals	\$ 2,411,469,000	\$ 1,371,981,000	\$ 1,039,488,000	\$ 53,216,000
Current year misstatement as a % of financial statement totals (Iron Curtain Method)	0%			-13%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)	0%			-13%



Uncorrected Misstatements

- Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The below schedule summarizes uncorrected misstatements of the financials.

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT

University of Louisville

University of Louisville Research Foundation

Year Ended June 30, 2022

UNCORRECTED MISSTATEMENTS OF AMOUNTS

Effect of misstatements on:

Description	Effect of misstatements on:			Net Expense/Revenue and Change in Net Assets / Fund Balance
	Assets	Liabilities	Fund Balance / Net Assets	
Unbilled AR	\$ (841,499)			\$ 841,499
UL Health Margin Share			1,253,027	(1,253,027)
Potential Uncapitalized Purchases	2,221,377			(2,221,377)
Grant AR	(600,000)			600,000
Medicaid Accounts Receivable Allowance	2,208,072			2,208,072
Net current year misstatements (Iron Curtain Method)	2,987,950	-	1,253,027	175,167
Net prior year misstatements				
Combined current and prior year misstatements (Rollover Method)	\$ 2,987,950	\$ -	\$ 1,253,027	\$ 175,167
Financial statement totals	\$ 952,218,000	\$ 743,938,000	\$ 208,280,000	\$ 43,714,000
Current year misstatement as a % of financial statement totals (Iron Curtain Method)	0%		1%	0%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)	0%		1%	0%



Questions

- We welcome any questions pertaining to the audit report and governance communication letter.
- We appreciate the opportunity to serve the Board of Trustees as the auditors for the University of Louisville.



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Risk, Audit, and Compliance
Annual Report Overview
7/1/2021 – 6/30/2022

Sandra Russell
Vice President for Risk, Audit, & Compliance
October 28, 2022

Audit Services

10/1/2021-9/30/2022

Provide Independent and Objective Assurance and Consulting Services designed to add value and improve the organization's operation; and to help the organization accomplish its objectives by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, control, and governance processes.

Audits

Total: 14

Completed: 8

Deferred: 1

Cancelled: 0

In Process: 5

Investigations*

Total: 11

Completed: 9

Substantiated: 0/9

Open: 2

**Alleged fiscal misconduct*

University Integrity and Compliance Office

Supports and fosters a culture of integrity, compliance, and accountability as compliance functions are integrated into the activities that take place across our campuses every day.

Total Complaints: 120

Hotline: 40
Other: 80

Closed: 96

Unsubstantiated: 58
Partially substantiated: 8
Substantiated: 9
Other: 21

Open: 24

Trends

- Employee behavior related to standards of conduct
- Fiscal misconduct
- Student/Parent concerns

Privacy Office

Provides guidance and assistance to the University community regarding regulations which may impact the privacy of our students, our employees, our patients, and our campus visitors.

Fielded 370 privacy related questions and concerns, requests for contracts or contract reviews, requests for erasure, and consultations.

Privacy Office updated the process for HIPAA training.

Privacy Office Investigations for 2021-2022

Allegations of inappropriate and/or unauthorized disclosures of health information: 50

Substantiated breaches: 4

Information Security Incident Response 2021-2022

EVENTS	27
Reportable:	9
Reportable under KY PI and HIPAA	4
Reportable under KY PI, FERPA and Dept. of Education	1
Reportable under KY PI and FERPA	2
Reportable under KRS KY PI	2

The ISCO partnered with the Department of Homeland Security (DHS) Stop.Think.Connect national campaign. The partnership promotes National Cybersecurity Awareness Month (NCSAM) and is a month-long campaign of the importance of cybersecurity.

Information Security Compliance Office

Provide guidance and foster a culture of compliance and accountability in protecting the confidentiality, integrity, and availability of university information assets.

Enterprise Risk and Insurance

Advance the mission of the Institute through informed risk taking. Foster a culture of risk awareness that promotes intelligent, informed decisions consistent with the University's values of excellence and integrity, and within the decentralized, collaborative, and innovative spirit of the University.

Youth Protection Program

In Person Projects/Camps: 121

Authorized Adult Background Checks: 225

Motor Vehicle Record Checks: 311

Claims

Property: 38

Liability: 18

Bodily Injury: 4

Auto: 27

Crime: 0

Workers'

Compensation: 173

Engaged with Dean Dorton on formal ERM Program

Athletic Compliance

Advance the NCAA principle of Institutional Control, and to provide our student-athletes, coaches, staff, and outside constituents exemplary customer service, sound guidance, visibility, and effective communication.

Increased athletic compliance presence and visibility through inserting compliance staff in specific sport facilities including Men's/Women's Basketball, and Football to increase access to student-athletes, coaches and non-coaching staff.

Developed regular rotation of practice/competition visits to all sport programs to deliver focused rules education and better monitor countable athletically related activities across all sport programs.

Conflict of Interest and Commitment

Ensure university transactions are conducted with integrity and free from unmanaged conflicts of interest and commitment.

Conducted training sessions for new foreign engagement disclosure requirement

Revised and updated Conflict of Interest and Commitment Policy

Questions?