

**MEMORANDUM REPORT ON REVIEW OF
PIKEVILLE COLLEGE SCHOOL OF OSTEOPATHIC
MEDICINE, INC.
PIKEVILLE, KENTUCKY**

Phase I, Equipment Project

ARC Grant No.: KY-12113-95-I-302-0508

September 1, 1996 through November 30, 1997

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Report Number: 98-27(H)

Date: April 15, 1998

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Prepared By:
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Under Contract Number J-9-G-5-0010 with the
U.S. Department of Labor
Office of the Inspector General
Office of Audit

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 98-27(H)

SUBJECT: Memorandum Review Report on Pikeville College School of Osteopathic
Medicine, Inc. Phase I, Equipment Project, Pikeville, Kentucky. Grant
No. KY-12113-95-I-302-0508; ARC Contract No. KY-12113-96.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Pikeville College School of Osteopathic Medicine, Inc., for the Phase I, Equipment Project were expended in accordance with the ARC-approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and, (c) the objectives of the grant had been met.

BACKGROUND: ARC awarded Grant Number KY-12113-95-I-302-0508 to the Pikeville College School of Osteopathic Medicine Inc. (Grantee) for the period September 1, 1996 through November 30, 1997. Total project costs were estimated at \$625,000, of which total ARC funding was not to exceed \$500,000, or 80 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$125,000, or 20 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made four payments totaling \$450,000 to the Grantee as follows: \$124,054 on January 16, 1996, \$202,151 on July 11, 1997, \$32,026 on October 2, 1997, and \$91,769 on October 15, 1997. A final payment of \$50,000 is has not been made, pending submission of the final report.

The funds for this grant were provided to undertake all actions and activities necessary to develop a fully accredited college of osteopathic medicine. These activities included:

1. Renovation and expansion of building(s).
2. Procurement of instructional aids, laboratory and classroom equipment, instructional manuals and reference books and furniture.
3. Completion of accreditation.
4. Recruitment and hiring of faculty and staff.
5. Advertisement for and enrollment of students for the initial class entering in Fall, 1997.

SCOPE: We performed a program review of the grant project as described in the Purpose, above. Our reviewed covered the grant period of September 1, 1996 through November 30, 1997. We based our review on the terms of the grant agreement and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. Specifically, we determined if the specific tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if the Grantee had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with the Grantee's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results are based on our review performed at the Grantee's campus in Pikeville, Kentucky on April 14 through 15, 1998.

A. Incurred Costs

The Grantee incurred total program costs of \$701,984, of which they claimed direct reimbursable costs from September 1, 1996 through November 30, 1997 of \$500,000 and in-kind costs of \$201,984. We reviewed the direct and in-kind costs claimed and determined that, in general, the funds had been expended as reported. However, we identified \$22,000 that was unallowable or unsupported in accordance with the terms of the grant and applicable OMB Circulars. These costs are discussed below.

Costs Incurred After the Grant Completion Date

The Grantee claimed \$22,000 which was obligated subsequent to the project year-end. On December 11, 1997, the Grantee made a payment to Connecting Point for \$22,000 for a down payment on a computer system. The price quote from the vendor was dated December 8, 1997, and the invoice for the first payment was dated December 11, 1997. There is no other

indication that the obligation was made prior to the invoice date.

OMB Circular A-110, Section .28 Period of availability of funds, states:

“Where a funding period is specified, a recipient may charge to the grant only allowable costs from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.”

RECOMMENDATION:

We recommend that the Grantee reduce total reported expenditures by \$22,000 for costs incurred after the grant period.

B. Internal Controls

We determined that the Grantee had the following internal control weaknesses that affected the accountability of costs or compliance with the terms of the grant. These weaknesses could result in unallowable costs being charged to the grant.

1. Purchased Equipment Not Inventoried

The Grantee did not maintain an inventory of equipment and was unable to verify the location of the equipment, the condition of the equipment, or whether the equipment had been disposed of or lost.

OMB Circular A-110, Section .34, Equipment, paragraph (f), states:

“The recipient’s property management standards for equipment acquired with Federal funds and federally-owned equipment shall include...(1) Equipment records shall be maintained accurately and shall contain the following information:

- (i) A description of the equipment.
- (ii) Manufacturer’s serial number, model number, Federal stock number, national stock number, or other identification number.
- (iii) Source of the equipment, including the award number.
- (iv) Whether title vests in the recipient or the Federal Government.
- (v) Acquisition date (or date received if the equipment was furnished by the Federal Government) and cost.

- (vi) Information from which one can calculate the percentage of Federal Participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).
- (vii) Location and condition of the equipment and the date the information was reported.
- (viii) Unit acquisition cost.
- (ix) Ultimate disposition data.”

RECOMMENDATION:

We recommend that the Grantee develop and maintain an equipment inventory for equipment purchased with Federal funds.

2. Purchases Not Supported by Purchase Orders

The President of the College was the Project Director on the project and oversaw the renovations. As such, the Grantee did not require purchase orders for purchases made for the grants. Seventy-five (75) percent of the invoices sampled during our review did not have purchase orders supporting the purchase. Because of this, there is no clear trail of review and approval of purchases to ensure they are proper and allowable under the terms of the grant.

The Grantee’s Business Affairs Procedure Manual, which outlines the Grantee’s internal controls, states:

“All orders exceeding \$25.00 should be initiated on a purchase order form...A copy of the completed form, signed by the department head and budget officer, should be sent to the business office along with the invoice.”

RECOMMENDATION:

We recommend that the Grantee take steps to ensure the enforcement of their purchasing procedures.

3. No Procurement Information

The Grantee did not maintain bid and proposal information for purchases made under the grant. The Grantee appears to have informal bidding process, however, the Grantee could not supply any support that bids were solicited or multiple vendors were considered for large purchases. Therefore, no documentation exists to support that the Grantee received the most favorable pricing, or how the Grantee selected a vendor.

OMB Circular A-110, Section .46, Procurement Records, states:

“Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.”

RECOMMENDATION:

We recommend that the Grantee design and implement a bid process which includes cost and price analysis, and criteria for selecting a vendor.

4. Quarterly Progress Reports Not Submitted

The Grantee did not submit quarterly progress reports on a timely basis. Progress reports were submitted intermittently often covering periods other than the required reporting period. Because of this, the ARC was not apprised of progress on the project, nor were they alerted to any potential issues that may hinder the progress of the project.

ARC Contract No.: KY-12113-96, Article 2-9.1, Progress Reports, states:

“Grantee shall prepare and submit to the ARC project coordinator quarterly progress reports.”

RECOMMENDATION:

We recommend that the Grantee establish procedures to ensure that quarterly progress reports are submitted in a timely manner in accordance with the grant terms.

5. The Final Report Was Not Submitted

The Grantee was able to supply a copy of the final financial and progress report had been prepared, but it has not yet been submitted to the ARC Project Coordinator. The Grantee had not received a time extension to submit the report, and has not yet received the final payment.

ARC Contract No. KY-12113-98, Article 2.9.2, Final Report, states:

“Within one (1) month after the period of performance, Grantee shall prepare and submit to the ARC Project Coordinator for approval, three copies of a draft final report.”

RECOMMENDATION:

We recommend that the Grantee submit the final report as soon as possible, and institute policies to ensure timely submission of reports.

6. No Comparison of Budget to Actual Amounts

Because the grant was established for equipment and renovations, the Grantee included the grant activities within its plant fund accounts. The accounting system for the plant fund was not set up to allow budget to actual comparison of expenditures. Because of this, the Grantee was unable to ensure that spending for the grant was in accordance with the budget approved by the ARC.

OMB Circular A-110, Section .21, Standards for financial management systems, paragraph (b) (4), states:

"Recipients' financial management system shall provide for (4) Comparison of outlays with budget amounts for each award."

RECOMMENDATION:

We recommend that the Grantee establish a system for comparing actual expenditures to budgeted amounts.

C. Program Results

Our review of specific tasks identified in the grant, as described above, determined that in general, all specific tasks had been achieved.

DISCUSSION:

We discussed these issues with the Grantee's management during an exit conference held on April 15, 1998. Management generally agreed with the findings and recommendations.

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