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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL  
AUDIT OF GRANT AWARD**

**University of Pikeville  
Kentucky College of Optometry  
Pikeville, Kentucky**

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**Final Report Number: 16-15  
Project Number: KY-17957  
May 19, 2016**

**Prepared By:**

**Bonadio & Co., LLP**  
Certified Public Accountants

May 19, 2016

Appalachian Regional Commission  
Office of Inspector General  
1666 Connecticut Avenue, N.W.  
Washington, D.C. 20009

Bonadio & Co., LLP completed a performance audit of grant number KY-17957 awarded by the Appalachian Regional Commission (ARC) to the University of Pikeville for creation of the Kentucky College of Optometry. The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant activities.

The primary objectives of the audit were to determine whether: (1) program funds were managed in accordance with ARC and Federal grant requirements; (2) grant funds were expensed as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the goals, objectives and performance measures of the grant were met.

Issues identified during our audit are discussed in detail in the Findings and Recommendations section of the report. A draft report was provided to the University of Pikeville on April 26, 2016, for comments. University of Pikeville provided a response to the report on May 3, 2016. Their comments are included in their entirety in Appendix I.

Bonadio & Co., LLP appreciated the cooperation and assistance received from the University of Pikeville and ARC staff during the audit.

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## **BACKGROUND**

Bonadio & Co., LLP completed a performance audit of grant number KY-17957 awarded by the Appalachian Regional Commission (ARC) to the University of Pikeville (University or Grantee) for creation of the Kentucky College of Optometry (the College). The audit was conducted at the request of ARC, Office of Inspector General, to assist in its oversight of ARC grant funds.

ARC grant number KY-17957 was awarded to cover the period July 1, 2014 to June 30, 2015, and provided \$750,000 of ARC funds and \$187,500 of non-ARC funds. The grant was amended to extend the grant period to August 31, 2015. The ARC amended the grant again via KY-17957 R1, extending the grant period to August 31, 2016 and providing for an additional \$750,000 from ARC and another \$187,500 from non-ARC sources, making the total amount of the grant \$1,875,000.

The University has created the Kentucky College of Optometry and their inaugural class starts in August 2016. The new College will complement the University's existing medical school. Activities include hiring staff and developing curriculum, policies, and procedures. The University is also building clinical partnerships with other healthcare facilities. These partnerships allow 3rd and 4th year students to work in a clinical environment. The University is currently constructing a new building which will house the Optometry department. The expected completion date of the building is December 2016. The Kentucky College of Optometry has pre-accreditation status which they will maintain until their first class graduates.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The audit objectives were to determine whether: (1) program funds were managed in accordance with ARC and Federal grant requirements; (2) grant funds were expensed as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the goals, objectives and performance measures of the grant were met.

We interviewed University personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We reviewed the University's administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We also reviewed financial and other required reports to determine whether grant expenses were properly supported and submitted in accordance with requirements. We obtained the most recent Single Audit report to determine whether there were any internal control issues that could impact the ARC grant.

The performance period is still open and the audit encompasses the first five reimbursement payments from ARC to the University. The 1<sup>st</sup> payment was made December 10, 2014 and the 5<sup>th</sup> payment was made February 28, 2016. The first four reimbursements totaled \$750,000 and per the grant budget were for salaries and benefits. The 5<sup>th</sup> reimbursement included salaries, benefits, travel, equipment, supplies, contractual and other. The controller of the University provided general ledger activity for the salaries and the benefits of the Optometry Department, which were compared to the reimbursement worksheets submitted to ARC. We reviewed 100% of the Kentucky College of Optometry's W-2 forms for 2015. Currently, there are 17 employees, of which 8 employees' personnel files were selected at random and reviewed. Our review of the personnel files included examining salary information, W-4 forms, health insurance and other employment documentation. There was \$50,811.35 of travel, equipment, supplies, contractual and other expenses in the 5<sup>th</sup> payment. 57% of these expenditures were selected for testing.

The criteria used in performing the audit was derived from ARC grant documents, the grant approval, ARC code, other ARC requirements, federal cost principles, and audit requirements for federal awards. The audit was performed in accordance with *Government Auditing Standards*. The fieldwork was performed during the period of March 22-24, 2016, including on-site work at the University of Pikeville in Pikeville, Kentucky. The audit results were discussed with Grantee representatives at the conclusion of

the on-site visit. The Grantee generally agreed with the findings and reiterated they would try and make up the insufficient match during the second year of the grant.

## **REVIEW OF AUDIT RESULTS**

Overall, the University's administrative procedures were adequate to manage the grant funds. Grant milestones continue to be met. There were inconsistencies in the amounts reported or recorded by the Grantee for the first award that covered the period July 1, 2014, through the extended (amended) date of August 31, 2015. This audit period covers grant activities through December 31, 2015. We noted the following findings:

### **Findings and Recommendations:**

#### **Inaccurate and Inconsistent Reporting**

For the 14 months ended August 31, 2015 (budget year), the Grantee was awarded \$750,000 from ARC, which required a local match of \$187,500 for a total project budget of \$937,500. Actual expenditures per the general ledger were \$819,517 for the period. Based on the approved funding allocation of 80% federal and 20% local, the Grantee's share of the Year 1 expenditures should have been \$163,903. Per the request for reimbursement and ARC payments at \$750,000 the matching funds were \$69,517 resulting in questioned cost of \$94,386 and ARC reimbursing 95% of project costs.

The salaries reported on the 2<sup>nd</sup> reimbursement request worksheet were \$172,369.27. The actual salaries for this period were \$122,369.27 according to the University's general ledger. Per discussion with Grantee personnel, this was the result of a clerical error.

There were inaccuracies and inconsistencies with regards to the amounts reported by the Grantee on reimbursement request worksheets #1 through #5 compared to the general ledger detail. There were deviations from the budgeted amount, and there was no documentation indicating that the Grantee had requested approval of this deviation from the ARC.

In addition, \$2,000 of other expenses were included in the 5<sup>th</sup> reimbursement request worksheet. The date on this worksheet is October 1, 2015 through December 31, 2015. This expense was incurred in July 2015 (year 1 of the budget) and is not eligible for reimbursement since the budget only covered salaries and benefits for that period. Funds were not approved for other expenses for that time period resulting in questioned costs of \$2,000.

#### **Recommendations:**

1. The Grantee should ensure that matching funds are being provided for according to the grant budget. The Grantee should communicate insufficient matching funds with the ARC, when applicable.
2. The YTD total program outlay column on the "reimbursement request sheet" submitted by the Grantee should be adjusted for the \$50,000 error.
3. Requests for reimbursement should include actual program outlay and future reimbursement requests should only include outlays for the approved grant.
4. The Grantee should obtain approval from the ARC for the \$2,000 questioned expenditure.
5. The Grantee should report changed budget projections timely and request approval by the ARC.
6. Reimbursement requests should be reviewed and agreed with supporting documentation prior to submission to ARC to ensure no errors or omissions have occurred.

### **Other Observations – Performance Measures**

The Grantee has achieved the following milestones with respect to the project outcomes outlined in the grant agreement:

- The College has accepted and received a deposit from 51 incoming students.
- As of the completion of field work there are 17 employees in the Optometry department. These include the dean, professors, clinical instructors, and administrative assistants.
- The four year curriculum has been finalized.
- The College has a “pre-accreditation” status with the Accreditation Council on Optometric Education. The application process included application fees, a review of the program’s initial self-study, and a site-visit. In order to maintain this status the College will be monitored and once their first class graduates the College is eligible to obtain “accreditation” status.

# UNIVERSITY OF PIKEVILLE

*The Leading University of Central Appalachia*

## Appendix I

May 3, 2016

William Murphy - The Bonadio Group  
100 Corporate Parkway, Suite 200  
Amberst, NY 14226

RE: Appalachian Regional Commission Grant Audit

Mr. Murphy:

The purpose of this letter is to respond to the letter from Bonadio & Co., LLP regarding the performance audit of grant number KY-17957.

There were three issues cited in the section "Inaccurate and Inconsistent Reporting."

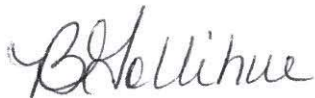
In the initial reporting periods, the reporting requirements were not completely understood. Since the first award period and the extension award period, we have adjusted the processes of compiling information for reporting periods as well as the preparation and review of the report.

Upon completion of the report, the Controller will review before submission. We will also maintain a file of detailed records for each submission instead of a summary of expenses. Before a final submission, all involved will review the recommendations to ensure that we have improved the processes advised by the audit.

In the next reporting period, we will adjust for the discrepancy of over spending in the first award period.

We appreciate the time and assistance during the audit. Should you want to discuss this further, please contact me at the number below.

Sincerely,



Brandi Gollihue  
Controller  
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606-218-5204

