



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Pikeville Medical Center, Inc.

Grant Number KY-20717

Report Prepared by Castro & Co, LLC

Report Number 24-23

May 10, 2024

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, Suite 718
Washington, D.C. 20009



Office of Inspector General

Appalachian Regional Commission

May 10, 2024

TO: Brandon McBride, Executive Director

FROM: Rhonda L. Turnbow, Acting Inspector General *Rhonda Turnbow*

SUBJECT: Audit Report 24-23 – Pikeville Medical Center, Inc.

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number KY-20717 per its agreement with the Appalachian Regional Commission. The objective of the audit was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were reasonable, supported, and fairly represented to the Commission.

Castro & Company, LLC, is responsible for the attached audit report and the conclusions expressed in this report. The auditors issued no recommendations in the report. We do not express any opinion on the conclusions presented in the audit report. To fulfill our responsibilities, we:

- Reviewed the approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings, as necessary;
- Reviewed the draft and final audit reports; and
- Coordinated the issuance of the audit report.

We thank your staff for the assistance extended to the auditors during this audit. Please contact me at 202-884-7675 if you have any questions regarding the report.



**Appalachian Regional Commission
Performance Audit Report
of Grant No. KY-20717**

**For the period from June 1, 2022 to October 30, 2023
Awarded to Pikeville Medical Center, Inc.**

**Prepared for the Appalachian Regional Commission
Office of Inspector General**

May 9, 2024

Final Report

Table of Contents

Executive Summary	1
Background.....	2
Objectives, Scope, and Methodology	2
Summary of Results.....	4

Executive Summary

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

Castro & Company, LLC (Castro & Co) conducted a performance audit of Grant Number KY-20717 awarded by the Appalachian Regional Commission (ARC) to Pikeville Medical Center, Inc. (Pikeville Medical Center or the Grantee) for the period of June 1, 2022 to October 30, 2023. The audit was conducted at the request of the ARC Office of Inspector General to assist it in its oversight of ARC grant funds.

The objectives of the performance audit were to determine whether: (1) grant funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended, as provided for in the approved grant budget; (3) internal guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements); (5) matching requirements were met; and (6) the reported performance measures were fair and reasonable.

We determined that the Grantee's financial management, administrative procedures, and related internal controls were adequate to manage the ARC grant funds. There were no findings and recommendations resulting from this performance audit engagement.

We discussed the results of this performance audit with Pikeville Medical Center's management at the conclusion of our fieldwork.

Castro & Co appreciates the cooperation and assistance received from the Grantee and ARC staff during this performance audit.

Castro & Company, LLC

Alexandria, VA
May 9, 2024

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency, representing a unique partnership of Federal, state, and local governments. ARC-funded programs are used to support education and job training; health care; water and sewer systems; housing; highway construction; and other essentials of comprehensive economic development. ARC grants are made to a wide range of entities including local development districts, state ARC offices, state and local governments, educational establishments, nonprofit organizations, and for a variety of economic development projects. Castro & Company, LLC (Castro & Co) was contracted by the ARC's Office of Inspector General to perform the audit of Grant No. KY-20717 awarded to Pikeville Medical Center, Inc. (Pikeville Medical Center or the Grantee) for the period of June 1, 2022 to October 30, 2023.

ARC awarded Grant No. KY-20717 to Pikeville Medical Center to develop the Eastern Kentucky Nursing Training Complex, a collaboration between the Pikeville Medical Center, Eastern Kentucky Concentrated Employment Program, Inc. (EKCEP), Galen College of Nursing, and the public and private secondary school system. The Nursing Complex will support future and current nursing students by enhancing hands-on learning skills and supporting career development for the nursing profession. In addition to providing technical support and equipment installation, Pikeville Medical Center will serve as a continuing education liaison to partnering colleges and healthcare professionals.

The period of performance for Grant No. KY-20717 covered the period from June 1, 2022 to December 31, 2023. The grant agreement provided a budget of \$780,444 in ARC funds and required non-ARC matching funds of \$195,111 for total project costs of \$975,555. The allowable percentage breakout of ARC to non-ARC funding for the project was 80% ARC funds to 20% matching funds.

We obtained Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering July 1, 2023 to October 30, 2023 that identified cumulative total ARC costs of \$780,444 (79%) and non-ARC matching costs of \$201,883 (21%) for a total project cost of \$982,327.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of Pikeville Medical Center to determine compliance with the requirements of the ARC Grant No. KY-20717 for the period of June 1, 2022 to October 30, 2023.

The budgeted amounts for the grant are presented in Exhibit A below:

Exhibit A: Schedule of Grant Budget			
Category	Federal	Non-Federal	Total
Equipment	\$ 457,489	\$ 195,111	\$ 652,600
Supplies	\$ 149,686	\$ -	\$ 149,686
Other	\$ 173,269	\$ -	\$ 173,269
Total	\$ 780,444	\$ 195,111	\$ 975,555

The objectives of our audit were to determine whether the Grantee used grant funding from the ARC in accordance with its ARC grant agreement and complied with financial management requirements, specifically to determine whether:

- Program funds were managed in accordance with the ARC and Federal grant requirements;
- Grant funds were expended as provided for in the approved grant budget;
- Internal grant guidelines, including program (internal) controls, were adequate and operating effectively;
- Accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements);
- Matching requirements were met; and
- Reported performance measures were fair and reasonable.

The scope of this audit included those costs addressed in Pikeville Medical Center's system that specifically applied to ARC such as equipment, supplies, and other costs. We conducted this performance audit from September 2023 to April 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit was conducted using the applicable requirements contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the ARC Code, and the Grant Agreement.

To meet the audit objectives, our overall methodology included the following:

- Obtaining an understanding of the Grantee's internal controls and documenting key controls over cash disbursement, cash receipts, procurement, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry of the Grantee's management and other available documentation, assessing control risk, and determining the extent of testing needed based on the control risk assessment;
- Considering fraud risk through a team fraud brainstorming session and inquiries of the Grantee's management about their understanding of the risks of fraud related to grant awards, programs and controls the Grantee had established to mitigate specific fraud risks, and whether management was aware of any allegations of fraud or suspected fraud;
- Selecting a sample of expenditures based on materiality calculated using Government Accountability Office (GAO)/Council of the Inspectors General on Integrity and Efficiency (CIGIE) Financial Audit Manual (FAM) sections 230.01 through 230.13 and auditing, on a test basis, evidence supporting the grant funds were expended during the grant period, were properly supported, and allowable under both Federal and ARC requirements;

- Testing match costs to determine whether match requirements were met, were properly supported, and allowable under both Federal and ARC requirements;
- Conducting interviews with the Grantee to evaluate the Grantee's processes for accurately tracking and reporting on the grant performance measures.

Grantee's Response to Audit Results

Our audit results were discussed with Ms. Michelle Hagy, Chief Financial Officer, and Ms. Lisa Kendrick, Vice President of Grants and Foundation Development, for Pikeville Medical Center during the exit conference on May 8, 2024. Pikeville Medical Center concurred with our results.

Summary of Results

Castro & Co's procedures determined Pikeville Medical Center managed the grant funds in accordance with the ARC and Federal grant requirements. Grant funds were expended as provided for in the approved grant budget; however, we noted the SF 270 for the period ending March 2, 2023 included variances from the approved budget and as a result, the Grantee worked with ARC to revise the budget under Amendment 1.

Pikeville Medical Center's financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. The Grantee's internal guidelines, including program (internal) controls, were adequate and operating effectively. We noted Pikeville Medical Center had written policies and procedures for applicable grant activities, which we considered adequate for administering the grant. Accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements), including ARC requirements.

We reviewed Single Audit reports available on the Federal Audit Clearinghouse for Pikeville Medical Center and noted the Grantee had a Single Audit performed for the years ended September 30, 2020, September 30, 2021, and September 30, 2022. The Single Audit reports did not include any findings or recommendations related to internal control and compliance with the requirements outlined in the OMB Compliance Supplement for the management of federal assistance awards.

The Grantee reported a total of \$780,444 in ARC costs and \$201,883 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of October 30, 2023. These matching funds were properly supported and allowable under both Federal and ARC requirements. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

Exhibit B below presents costs claimed by Pikeville Medical Center and costs recommended as a result of the grant audit.

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Category	Claimed		Questioned Cost		Audit Recommended		Total
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	
Equipment	\$ 457,489	\$ 201,883	\$ -	\$ -	\$ 457,489	\$ 201,883	\$ 659,372
Supplies	\$ 149,686	\$ -	\$ -	\$ -	\$ 149,686	\$ -	\$ 149,686
Other	\$ 173,269	\$ -	\$ -	\$ -	\$ 173,269	\$ -	\$ 173,269
Total	\$ 780,444	\$ 201,883	\$ -	\$ -	\$ 780,444	\$ 201,883	\$ 982,327