



March 10, 2021

Ms. Penny Cox
Treasurer
University of Kentucky
411 South Limestone Street
Peterson Service Building
Lexington, KY 40506-0005
and
Administration and Financial Management Director
Department of Behavioral Health, Developmental
and Intellectual Disabilities
275 East Main Street, 4-CD
Frankfort, KY 40621

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to the following specified users: **UNIVERSITY OF KENTUCKY (UK)** and the **COMMONWEALTH OF KENTUCKY'S DEPARTMENT FOR BEHAVIORAL HEALTH AND DEVELOPMENT INTELLECTUAL DISABILITIES (DBHDID)**.

ENGAGEMENT OBJECTIVES AND SCOPE

We will apply the procedures enumerated in the attachment to this letter to the budget-to-actual schedules related to UK HealthCare's management of Eastern State Hospital (ESH) and Central Kentucky Recovery Center (CKRC) of UK for the year ending June 30, 2021. The sufficiency of these requested procedures is solely the responsibility of the specified parties listed above. Consequently, we make no representation regarding the sufficiency of the procedures for the purpose for which the report has been requested or for any other purpose.

Because we have not been engaged to conduct an examination or review, we will not express an opinion or conclusion, respectively, on the budget-to-actual schedules. In addition, we have no obligation to perform any procedures beyond those listed in the attachment to this letter.

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OUR RESPONSIBILITIES

We will conduct our agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants.

Our engagement will not include a detailed examination of all transactions and cannot be relied upon to disclose misstatements that might exist due to error, fraud and illegal acts. However, we will inform you of any such matters, if material, that come to our attention.

We will submit a report summarizing the procedures performed and the results of those procedures. The report is intended solely for the information and use of UK and DBHDID and is not intended to be and should not be used by anyone other than these specified parties.

Mary McKinley, partner, will oversee and coordinate the engagement. Joanie Duckworth, director, is responsible for supervising the engagement team and authorizing the signing of the report.

If, for any reason, we are unable to complete our procedures, we may decline to issue a report as a result of this engagement.

YOUR RESPONSIBILITIES

It should be understood that the management of UK is responsible for the proper recording of transactions and preparation of financial statements. Management of UK is also responsible for establishing and maintaining effective internal control over financial reporting and setting the proper tone; creating and maintaining a culture of honesty and high ethical standards; and establishing appropriate controls to prevent, deter and detect fraud and illegal acts. Management of UK is also responsible for identifying and ensuring compliance with laws and regulations applicable to its activities and for establishing and maintaining effective internal control over compliance.

Management is responsible for implementing and monitoring controls.

To facilitate our engagement, management is responsible for providing a written assertion about the measurement or evaluation of the subject matter against the criteria, supplying us with all necessary information and for allowing us access to personnel to assist in performing our services. It should be understood that management is responsible for the accuracy and completeness of these items, for the subject matter and the written assertions referred to above and for selecting and determining the appropriateness of the criteria.

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At the conclusion of our engagement, management will provide to us a letter confirming the availability of this information, the written assertions, certain representations made during the engagement and acknowledging certain responsibilities outlined in this engagement letter.

OTHER SERVICES

We may perform other services for you not covered by this engagement letter. You agree to assume full responsibility for the substantive outcomes of those services, including any findings that may result. You also acknowledge those services are adequate for your purposes, and you will establish and monitor the performance of those services to ensure they meet management's objectives. Any and all decisions involving management responsibilities related to those services will be made by you, and you accept full responsibility for such decisions. We understand you will designate a management-level individual to be responsible and accountable for overseeing the performance of those services, and you will have determined this individual is qualified to conduct such oversight.

ENGAGEMENT FEES

Our fees for this agreed-upon procedures engagement are included in the 2021 UK engagement letter dated February 8, 2021.

Our fees are based upon the understanding that the personnel of UK will be available to assist us. Assistance is expected to include:

- Preparing schedules and analysis
- Responding to inquiries
- Pulling selected documents from files
- Helping to resolve any difficulties encountered

We will provide you with a detailed list of assistance and schedules required and the date such assistance and schedules are to be provided before the engagement begins. All schedules should be provided in electronic form unless indicated otherwise.

Our timely completion of the engagement depends on timely and accurate schedule and analyses preparation and on the availability of the UK personnel to provide other assistance. If there are inaccuracies or delays in preparing this material, or if we experience other assistance difficulties that add a significant amount of time to our work, our fees will increase. If these circumstances occur, we will promptly notify you to discuss alternative solutions and impact on our fees.

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Our fees do not consider additional efforts related to the SARS-CoV-2 virus and the incidence of COVID-19 environment and the impact of accounting and auditing issues. Such amounts will be billed based on time expended.

Our pricing for this engagement and our fee structure are based upon the expectation that our invoices will be paid promptly. We will issue progress billings during the course of our engagement, and payment of our invoices is due upon receipt. Interest will be charged on any unpaid balance after 30 days at the rate of 10% per annum, or as allowed by law at the earliest date thereafter, and highest applicable rate if less than 10%.

Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

If our invoices for this or any other engagement you may have with BKD are not paid within 30 days, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

OTHER ENGAGEMENT MATTERS AND LIMITATIONS

Our workpapers and documentation retained in any form of media for this engagement are the property of BKD. We can be compelled to provide information under legal process. In addition, we may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. You agree that we have no legal responsibility to you in the event we provide such documents or information.

You accept that these procedures are not a substitute for management's responsibility to ensure controls are in place to prevent and detect theft and all other forms of fraud and illegal acts. Therefore, you agree we are not responsible for the cost of damages or any liability arising from errors or irregularities, fraud, defalcations or any other form of noncompliance or theft, caused by current or former employees, directors, owners or third parties.

Limitation on Damages

UK agrees to be responsible for its own actions, the actions of its affiliates and its subsidiaries and its officers, agents and employees to the extent and in the manner provided for by applicable law. We agree to indemnify and hold harmless UK, its affiliates and subsidiaries and their officers, agents and employees from losses, claims, suites, actions expenses, damages, costs (including attorney fees of UK's choice and court costs), expenses and all liabilities of any nature or kind arising out of or relating to our negligence in performing hereunder.

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UK agrees that BKD, its subcontractors and their respective personnel shall not be liable to UK for any claims, liabilities or expenses relating to the engagement (Claims) for an aggregate amount in excess of three times the fees paid by UK to BKD pursuant to this engagement except to the extent finally judicially determined to have resulted primarily from the bad faith or intentional misconduct of BKD or its subcontractors.

In no event shall BKD, its subcontractors or their respective personnel be liable for any loss of use, data, goodwill, revenues or profits whether or not deemed to constitute direct Claims or any consequential, special, indirect, incidental, punitive and exemplary loss, damage or expense relating to this engagement. In circumstances where all or any portion of the provision of this paragraph are finally judicially determined to be unavailable, the aggregate liability of BKD, its subcontractors and their respective personnel for any Claim shall not exceed liability of BKD, its subcontractors and their respective personnel for any Claim shall not exceed an amount which is proportional to the relative fault their conduct bears to all other conduct giving rise to such Claim.

You agree that any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

Either of us may terminate these services at any time. Both of us must agree, in writing, to any future modifications or extensions. If services are terminated, you agree to pay us for time expended to date. In addition, you will be billed travel costs and fees for services from other professionals, if any, as well as an administrative fee of 4% to cover such items as copies, postage and other delivery charges, supplies, technology-related costs, such as computer processing, software licensing, research and library databases, and similar expense items.

If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected, and all other provisions remain in full force and effect.

This engagement letter, along with UK's General Terms and Conditions, Personal Services Contract, Request for Proposal and related addenda, along with BKD's complete and technical and financial proposal dated December 15, 2015, to RFP No. UK-1637-16 represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on heirs, successors and assigns of you and BKD.

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We may from time to time utilize third-party service providers, *e.g.*, domestic software processors or legal counsel, or disclose confidential information about you to third-party service providers in serving your account. We remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information. In the event we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider.

We will, at our discretion or upon your request, deliver financial or other confidential information to you electronically via email or other mechanism. You recognize and accept the risk involved, particularly in email delivery, as the internet is not necessarily a secure medium of communication as messages can be intercepted and read by those determined to do so.

You agree you will not modify these documents for internal use or for distribution to third parties. You also understand that we may on occasion send you documents marked as draft and understand that those are for your review purpose only, should not be distributed in any way and should be destroyed as soon as possible.

Any time you intend to reference our firm name in any manner in any published materials, including on an electronic site, you agree to provide us with draft materials for our review and approval before publishing or posting such information.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of **BKD, LLP** have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

We are an independent accounting firm allowed to use the name “Praxity” in relation to our practice. We are not connected by ownership with any other firm using the name “Praxity,” and we will be solely responsible for all work carried out by us on your behalf. In deciding to engage us, you acknowledge that we have not represented to you that any other firm using the name “Praxity” will in any way be responsible for the work that we do.

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BKD will provide waivers of subrogation related to its general liability and automobile insurance. UK's management agrees no waivers of subrogation are necessary for professional liability, workers' compensation or employer's liability.

As it relates to RFP No. UK-1637-16, Section 6.22, BKD requests the following alternative language:

- UK understands that workpapers resulting from services performed under this contract are the property of the auditor and may be made available upon reasonable request.

Client lists or other confidential or proprietary information confidentially disclosed as part of the solicitation process shall not be deemed as directly pertinent to the contract and shall be exempt from disclosure as provided by the *Kentucky Open Records Act*. Additionally, the contractor recognizes that any books, documents, papers, records or other evidence received during the financial audit or program review shall be subject to the *Kentucky Open Records Act*.

As it relates to UK's General Terms and Conditions Section 32 (c), (e) and (f), BKD requests the following alternative language:

- Upon UK's request, service provider will provide UK with a copy of its Information Security Program overview and make the service provider's information security office available to UK for questions.
- Service provider shall defend, indemnify and hold harmless UK, its agents, officers, board members and employees from and against any and all claims, damages, losses and expenses, including reasonable attorney's fees, for any claims arising out of or in any way relating to any allegations of security breaches, violations of the Safeguard Rule, to the extent caused by service provider.
- Service provider shall reimburse UK for any reasonable damages, including but not limited to, any costs it may incur required to reconstruct lost or altered information, resulting from any security breach, loss or alteration of customer information.

We will be pleased to discuss this letter with you at any time and look forward to the opportunity of serving you. If the above arrangements are acceptable to you, please sign the enclosed copy of this letter and return it to us. If the signed copy you return to us is in electronic form, you agree that such copy shall be legally treated as a "duplicate original" of this agreement.

BKD, LLP

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The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

UNIVERSITY OF KENTUCKY

DocuSigned by:
Penny D. Cox
BY CCA656AC656E7406...
Penny Cox
Treasurer

DATE 3/10/2021

DEPARTMENT FOR BEHAVIORAL HEALTH DEVELOPMENT INTELLECTUAL
DISABILITIES

DocuSigned by:
Stephanie Craycraft
BY E01D670782D145F...

DATE 3/15/2021

Attachment

University of Kentucky
Agreed-Upon Procedures
Attachment to Engagement Letter Dated March 10, 2021

Eastern State Hospital General Procedures

1. We will obtain the budget-to-actual schedule related to the University of Kentucky HealthCare's management of Eastern State Hospital (ESH), as prepared by the administration of the University of Kentucky (UK) (Statement) for the year ending June 30, 2021. We will compare the amounts disclosed in the Statement to UK's general ledger and note whether the activity has been billed to the Department for Behavioral Health, Developmental and Intellectual Disabilities (DBHDID).
2. We will compare the amount of the operating expense categories reported in the Statement for the year ending June 30, 2021, to the budgeted amounts within the Commonwealth of Kentucky contract, Document ID No. PON2-729-2000002942 1 for the period from July 1, 2020, through June 30, 2021. We will obtain and document an understanding of any significant variances (10% of the contract fee revenues and 10% change).
3. We will compare the sum of the ESH contract amount for personnel and operating costs, plus the management fee (fixed amount per the contract, less the amount at risk, based on certain performance metrics) per UK's detail for the year ending June 30, 2021, and agree it to the Statement.
4. We will obtain a listing of all the equipment, furniture or fixtures purchased for ESH for the year ending June 30, 2021. We will select a sample of three items exceeding a purchase price of \$500. We will agree the three items selected to invoices and quotes received. We will compare the number of quotes received to the contract requirements as noted, per contract Section 2.06B.
5. We will obtain three payroll registers for the year ending June 30, 2021. For the three selected pay period payroll registers, we will select a sample of 10 individuals, 30 in total. We will note the job titles of those individuals and their pay rates and compare data per timecards to the payroll register.
6. On the June 30, 2021, Statement, for the four largest expense lines and miscellaneous (total of five categories), other than personnel/fringe and furniture and equipment, we will obtain detail of the expenses included. We will select a sample of five items and agree those expenses to supporting documentation.

University of Kentucky
Agreed-Upon Procedures
Attachment to Engagement Letter Dated March 10, 2021

Central Kentucky Recovery Center General Procedures

7. We will obtain the budget-to-actual schedules related to the University of Kentucky HealthCare's management of Central Kentucky Recovery Center (CKRC), as prepared by the administration of UK (Statement) for the year ending June 30, 2021. We will compare the amounts disclosed in the Statement to UK's general ledger and note the amounts advanced to UK by the DBHDID.
8. We will compare the amount of the operating expense categories reported in the Statement for the year ending June 30, 2021, to the budgeted amounts within the Commonwealth of Kentucky contract, Document ID No. PON2-729- 2000002872 1 for the period from July 1, 2020, through June 30, 2021. We will obtain and document an understanding of any significant variances (10% of the contract fee revenues and 10% change).
9. We will compare the sum of the CKRC contract amount for personnel and operating costs, plus the management fee (fixed amount per the contract, less the amount at risk, based on certain performance metrics), plus rental revenue for CKRC for the year ending June 30, 2021, and agree it to UK's supporting detail and to the Statement.
10. We will obtain three payroll registers for the year ending June 30, 2021. For the three selected pay period payroll registers, we will select a sample of 10 individuals, 30 in total. We will note the job titles of those individuals and their pay rates and compare data per timecards to the payroll register.
11. For the June 30, 2021, Statement, for the three largest expense lines, other than personnel/fringe and furniture and equipment, we will obtain detail of the expenses included. We will select a sample of three items from the Statement and agree those expenses to supporting documentation.