KBA audit summary

In meetings of the Kansas Senate's Commerce Committee during winter and spring 2011, Sen. Susan Wagle, chair of the committee, made a number of allegations concerning the investments and operations of the Kansas Bioscience Authority, and called upon the authority to subject itself to a forensic audit. Later, Governor Sam Brownback joined Sen. Wagle in calling for such an audit.

In April, the KBA board of directors retained BKD, an international accounting firm with an extensive forensic audit practice, to conduct such an audit. The KBA directed BKD to include in the scope of the audit investigation any material or issues suggested by the governor's office, the Johnson County District Attorney, the Kansas Attorney General, and the leaders of both houses of the legislature. The Governor's office first expanded the scope on April 18, 2011, again on October 4, 2011, and again on November 13, 2011.

BKD also provided several means for any other interested person to suggest matters for investigation, including a dedicated email address for suggestions and publicized contact information and availability of the auditors at locations away from the KBA offices during the course of BKD's investigation.

BKD reports that "representatives of the KBA have been cooperative and have provided the information we requested" (p. iv).

The scope ultimately included

- all KBA transactions, expenditures, and operations since inception;
- all payments and contractual arrangements with any entity since inception;
- certain matters related to Tom Thornton, the KBA CEO who resigned in April;
- potential conflicts of interest by all current and past KBA management, employees, and board members;
- A number of the KBA's investments, as well as its investment processes and policies;
- and a number of other allegations raised by "concerned citizens."

The auditors were directed to interview all current and former KBA employees and board members.

A number of Sen. Wagle's questions and allegations had to do with one of the KBA-funded centers of innovation, the Center of Innovation for Biomaterials in Orthopaedic Research, or CIBOR. Because BKD has a separate business relationship with CIBOR, KBA contracted with Meara Welch Browne for a forensic audit of issues related to CIBOR.

BKD professionals spent 2,800 hours on the investigation, including 69 interviews, review of documents and data, forensic analysis of computers, and other investigative procedures. The final audit reports were received by the KBA board and released to the public on Jan. 23, 2012. KBA paid all costs associated with the audits.

In this document, the KBA summarizes the matters the audits cover. To read the full reports, download them from the KBA's website, www.kansasbioauthority.org.

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
Beginning on page 13	A number of people BKD interviewed told the auditors "that the KBA's investment strategy was not readily understandable; that it was not transparent" (p. 11). "Many individuals interviewed stated that they would look to KEGA to determine if their project was ... within KBA's mission. They would then be told by KBA that the intent of their project was not within KBA's scope, or in at least one instance KBA's [board]/management would rescind their support after a Letter of Support had been issued" (p. 11).	BKD reports that it discussed with interim CEO David Vranicar the "impression that over time, KBA had focused its investment dollars on specific areas ... rather than addressing all the areas of investment that could be construed to be allowed under KEGA. Vranicar stated that KEGA sets out the mission of KBA and describes various statutory programs that are to be available through KBA; however, the [board] and management strategically determine KBA's investment focus based on the goal of leveraging strengths in Kansas' bioscience community and research universities" (p. 14). KBA notes that the investment focus is addressed in each annual operating plan, and that the AOP is a public document available on the KBA website.
Beginning on page 13	BKD cites one example of this lack of transparency, involving a potential investment at K-State to match a grant from the National Science Foundation. In September 2008, KBA provided a letter of support pertaining to the match, but when K-State won the award in August 2009, the KBA declined to fund the match. In February 2011, it declined to fund a modified match proposal K-State had presented, writing that the project (here BKD quotes the KBA's letter to K-State) "'does not meet our current investment priorities'" (p. 14).	KBA notes that in the specific case of the K-State proposal, the 2008 letter of support was non-binding, and the potential investment had not been reviewed or approved by the investment committee or the board. The KBA provides binding letters of support only with the approval of the board. It continues to provide non-binding letters of support for projects and proposals it believes will benefit the state of Kansas and its citizens, with the non-binding nature of such letters clearly stated.
Beginning on page 17	BKD reviewed the KBA's investment process.	BKD concludes, "Based on information available to BKD through interviews and the review of investment committee minutes, it appears that opportunities that are presented to the investment committee receive adequate consideration" (p. 18).
Beginning on page 66	BKD reviewed "grants and equity investments made by KBA since its inception ... for adherence to the investment process, the adequacy of investment documentation, and monitoring and the payment of milestone applications" (p. 66).	BKD: "Overall, the investment process appeared to be followed. The multiple levels of due diligence, review, and approval required in KBA's investment process appear to significantly reduce the risk of improper grants or equity investments. In the approval process, the various rounds of review and approval ... would make it very difficult for an improper grant or investment to be 'railroaded' through" (p. 66). "In addition, the review of investment committee minutes indicated that the members of that committee are thorough in their review" (p. 66). *(continued on next page)*

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
		(continued from previous page) "Based on the information available for review, the investment process appeared to be sufficiently diligent to prevent the improper approval of a grant or equity investment" (pp. 66 and 67). "The investment documentation process appears to be adequately followed. ... Beginning in 2008, the grant agreements and documentation became more robust and standardized" (p. 67). "Emails and documents in [the KBA's database] suggest that KBA staff made efforts to ensure that milestones are met, appropriately documented, and approved" (p. 67).
On page 66	BKD reviewed the investment process and documentation for potential conflicts of interest.	The review "identified many associations among client companies, between client companies and KBA, and between KBA and its partnering organizations. However, given the investment process utilized, no obviously inappropriate grants or investments to client companies were identified which were in violation of KBA's conflict of interest policy or the conflict of interest requirements of KEGA" (p. 67). "BKD specifically asked Mr. Thornton if he held any personal investment in any company that received funding or services from KBA. Thornton indicated that he did not" (p. 67).
Beginning on page 67	In October 2008, the KBA made a $300,000 grant to Anoxa Corp. to assist the company in moving its operations from New York to Kansas. Beginning in August 2009, KBA began having difficulty contacting the company, and BKD reports "by January 2010 the company's business registration in Kansas had been forfeited due to failure to file an annual report" (p. 68). "On Aug. 3, 2011, KBA notified the company that it was in breach of its grant agreement ... [and] requested the immediate repayment of grant funds" (p. 68).	BKD reports that "Anoxa has since filed the required reports, and the Kansas Secretary of State website indicates that Anoxa is a company in good standing as of Aug. 22, 2011. ... [However] BKD questioned the presence of Anoxa's operations in Kansas given that an address could not be publicly located and there appears to be only one employee, who is a resident of New York. KBA's general counsel ... indicated KBA is in the process of investigating the presence of Anoxa's operations in Kansas. If it is determined that Anoxa does not have operations in Kansas, KBA will consider its right to enforce the claw back provision of the grant agreement" (p. 68).
Beginning on page 68	In May 2010, KBA made a $73,000 proof-of-concept grant to Aero Innovative Research, Inc., to fund the salary for a new president and CEO for six months to help the company strengthen its management team, raise capital, and build distribution capabilities. Aero hired as CEO a candidate that the KBA had helped to identify.	BKD reports that KBA indicates that "unbeknownst to [KBA], the company owed back taxes to the IRS. Therefore, much of the KBA funds that were to go for the CEO's salary were garnished. In addition, once the company sought ... assistance to put together a valid financial model, it became apparent that they could not produce their product profitably. Therefore, investors lost interest and the CEO left the company within a few months. At this point, the company has closed down its operations" (p. 66).

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
Beginning on page 69	In January 2010, KBA approved $1.5 million to match a Department of Energy grant won by Agco Corp. for an $11.7-million project related to supplying biomass feed stocks to cellulosic biofuels processors. The project was undertaken at Agco's Hesston, Kansas, facility.	BKD notes in its review of the pertinent investment committee minutes that committee member Bill Sanford "expressed his opinion that the KBA's contribution would likely not have much impact on a company the size of Agco, and that the KBA's funding is only a relatively minor part of a much larger project funded by DoE and Agco itself. A member of Agco's management ... in attendance ... acknowledged the validity of these points. However, he stated that Agco's involvement in the project was deemed to be a challenge and exposed Agco to a greater level of risk than other R&D projects it has undertaken. Incentives offered by the KBA and the federal government will help Agco to undertake this more risky R&D effort and product development" (pp. 69 and 70).
Beginning on page 70	In February 2011, KBA approved a $131,800 proof-of-concept grant to help Choco Finesse, LLC, to undertake pre-market work related to a low-calorie substitute for cocoa butter and other fats. The technology is owned by the National Institute for Strategic Technology Acquisition and Commercialization at K-State, which received the intellectual property as donation resulting from "merger integration and new priorities" (p. 71) of the companies that developed and subsequently owned the property. Some have alleged that "the company is managed by a schoolteacher and her husband" (p. 70).	BKD reviewed information "available from the grant application" about the key company personnel. KBA notes that none is a schoolteacher and all appear to be highly qualified. KBA also notes that one person has alleged that Choco Finesse is not a Kansas company, but BKD cites the company's Kansas certificate number, as reported on the Kansas Secretary of State's website, which supports the assertion that it is.
Beginning on page 71	In October 2008, KBA approved a $1 million R&D voucher award to ICM, Inc., for a bioenergy research project. In June 2010, ICM announced it would build and operate a new plant in St. Joseph, Missouri. Some have alleged that "KBA's funds were therefore spent in Missouri rather than Kansas" (p. 72).	BKD reports that "KBA's ... grant was for a specific purpose," namely to support a specific project that the KBA reports was performed at ICM's Colwich, Kansas, location. Tony Simpson, the KBA director of commercialization responsible for the grant, "indicated he had visited the ICM Colwich location a number of times and could verify that the research is being done at that location ..." (p. 72). BKD concludes that "based on the available information, it does not appear that KBA funds were used to construct or remodel ICM's pilot plant at its St. Joseph location" (p. 72).

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
Beginning on page 72	In March 2009, KBA approved a $4.1 million grant to one of the centers of innovation, the Kansas Alliance for Biorefining and Bioenergy, or KABB. It has been alleged that Tony Simpson, who occupies a seat on KABB's board assigned to the KBA, tried to derail "an attempt by KABB to hire a president" (p. 73).	BKD reviewed a December 2009 email from Simpson to the other KABB board members indicating that he "believed the candidate in question was qualified but stated that KBA would support a compensation package up to a maximum of $250,000 for the first year. ... He ... indicated that KABB should pursue other candidates if that salary package was unacceptable. Therefore, it appears Simpson's concerns were salary-based rather than specific to the individual" (p. 73). KBA notes further that the cooperative agreement between KABB and the KBA required that any candidate hired as KABB's CEO had to be "mutually acceptable to [KABB] and the KBA."
On page 73	In April 2006, KBA approved a $3.5 million grant to help attract Quintiles to Overland Park. However, Quintiles had announced its planned move in February 2006. Some have alleged that the KBA grant was "unnecessary and was made in order to claim the outcomes" (p. 73).	BKD reports that a review of correspondence indicates that KBA's relationship with Quintiles predated the company's February 2006 announcement that it would move to Kansas, including a letter in December 2005 offering an additional $500,000 "in incentives in addition to the existing offer of $3 million" (p. 73). BKD notes public statements and correspondence from Quintiles executives citing the KBA grant as a factor in the company's decision to move to Kansas.
Beginning on page 73	In July 2007, KBA approved a $650,000 equity investment in Innovia Medical, LLC. Innovia was preparing to have its technology for the rapid detection of ear infections in the market later that year. BKD: "However, the ... product languished on retail shelves ... revenue generation stalled ... [and] many investors lost interest. The lead investor moved the company to Nebraska ... [and] KBA ... wrote the investment in Innovia down to $0" (p. 74).	BKD reports that KBA president and CEO "indicated that the equity investment carried with it a risk of loss. Therefore, there was no available avenue to try to recoup the investment funds" (p. 74).
Beginning on page 74	In May 2011, KBA approved a $650,000 grant to help attract the Abaxis Veterinary Research Laboratory to Kansas. However, Abaxis had announced its plan to build the lab in Kansas in January 2011. It has been alleged that "the grant was unnecessary and was made in order to claim the outcomes" (p. 74).	BKD notes that the grant "was sought by principals of AVRL prior to Abaxis' signing of the agreements that created the strategic alliance with KSU and that resulted in the announcement that AVRL would locate in Kansas and was based on an established business relationship [with the KBA] going back to June 2009. Therefore, the allegation that KBA offered funding for a done deal in order to claim the outcomes is false" (p. 75).

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
Beginning on page 75	In May 2009, KBA approved a $195,000 grant to Cydex Pharmaceuticals of Lenexa. In January 2011, Cydex was acquired by Ligand Pharmaceuticals of San Diego. BKD: "Allegations have been made that Ligand's goal is to reduce Cydex's operations and move it to California. ... The implied assumption is that the state of Kansas will therefore not realize the benefit of KBA's investment" (p. 75).	BKD: "In conjunction with the purchase of Cydex by Ligand, KBA waived its right under the grant agreement to require the repayment of its funds due to the change ... of ownership. ... However KBA reaffirmed its right under the grant agreement to require the repayment of its funds if Cydex's operations leave the state of Kansas" (p. 75). BKD notes that Tom Krol, one of KBA's directors of commercialization, reported that "rather than moving operations to California, Cydex is currently in the process of moving operations to Lawrence, Kansas, where it will lease space in the Bioscience and Technology Business Center at KU" (p. 76).
Beginning on page 76	In August 2010, KBA approved a $74,500 proof-of-concept grant to Enalaped, LLC, for regulatory and pre-market work for a new liquid formulation of a hypertension drug. BKD: "Enalaped contracted with Beckloff Associates to execute these efforts" (p. 76). Tom Thornton sat on the board of the Enterprise Center of Johnson County with Michael Beckloff, the president of Beckloff Associates and a principal in Enalaped.	BKD notes that the "investment recommendation sent to the investment committee does not mention" Thornton's association with Beckloff or Beckloff's with Enalaped. BKD: "As [proof-of-concept] grants less than $75,000 go through an abbreviated review process and do not require a discussion by the investment committee if there are no objections, there is no discussion of the approval of the Enalaped investment in the investment committee minutes. ... BKD noted no evidence of any potentially inappropriate influence on Mr. Thornton's part with regard to the Enalaped investment" (p. 72).
On page 77	In August 2009, KBA approved funding of $1.3 million to help attract Megastarter to Manhattan, Kansas. Ultimately, Megastarter located in Wamego, Kansas, and in June 2010, KBA reaffirmed $800,000 of the funding package. BKD: "During the interview process, one individual stated that he was unfamiliar with the Megastarter investment and questioned whether it was an actual operating entity" (p 72).	BKD recounts the details of the investment but makes no claims about whether Megastarter is an actual operating entity. KBA warrants that it is.

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
Beginning on page 77	The KBA is involved in the National Drug Development Accelerator, or NDDA, a marketing effort initiated in 2008 by Kansas Bio to build the Kansas City region's drug-development related companies and their services. Based on the KBA board's June 26, 2009, minutes, in which Tom Thornton is reported to have said that Kansas Bio was involved in the development of the NDDA, "questions have been raised regarding why this project was brought to Kansas by Kansas Bio rather than KBA and if Kansas Bio is successful at attracting projects, why is KBA needed?" (p. 77).	BKD: "Approximately a year and a half ago, [KBA staff members] perceived that the NDDA marketing effort had outpaced the actual identification of resources and determination of what services could be marketed to specific target markets. Therefore, they approached Kansas Bio and suggested the formation of a working group of interested parties to formally address these issues. Kansas Bio agreed and a working group was formed [including other organizations]. ... KBA is only providing the 'seed' funding to determine what resources are available and what can be done with them. The other involved organizations will be expected to participate in the funding of the marketing effort going forward" (p. 78).
On page 89	BKD: "It has been alleged that KBA funded a rising star award [to K-State] in the amount of $700,000" but that the award is not listed on KBA's annual financial audit reports and that "there is no record that the $700,000 was returned to KBA" (p. 89).	The candidate whose retention at K-State was intended to be secured by the rising star award chose not to remain at K-State. BKD notes that none of the $700,000 award was ever paid to K-State.
On page 90	"BKD reviewed the NAICS [North American Industry Classification System] codes assigned to companies receiving funding from KBA for compliance with the allowable codes under KEGA" (p. 90).	BKD: "We considered all commitments. ... First, for each commitment, we determined whether or not the commitment required a NAICS code. If funds were to be used internally by KBA, for Centers of Innovation, by universities or colleges located in the state of Kansas, or in relation to the Kansas Bioscience Growth Fund, a NAICS code was not deemed to be necessary" (p. 90). Of those that did require a code, BKD found all commitments either had an allowable code or that the KBA had received a waiver from the Department of Revenue, making the commitment allowable.
Beginning on page 90	BKD reviewed the operations and investments the KBA has made from its Kansas Bioscience Growth Fund, which is intended to attract venture capital investments to Kansas bioscience companies.	The Kansas Bioscience Growth Fund can invest as a limited partner in bioscience venture capital funds if they submit to a rigorous third-party evaluation of their investment strategy, management competence, and investment record and if they agree to certain requirements imposed by the KBA, including ▪ raising funds to match the KBA investment by at least four- or five-to-one; *(continued on next page)*

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
		(continued from previous page) ▪ opening an office in Kansas, with a managing director or equivalent employee spending significant time in the state; and ▪ making a good-faith effort to invest at least an amount equivalent to the KBA funding in Kansas bioscience companies. BKD describes the third-party review process and summarizes the investments made to date in three funds: MPM Capital, Open Prairie Ventures, and Cultivian Ventures. BKD notes "that the venture capital funds invested by KBA are not required to invest those funds in Kansas. [CEO David Vranicar] indicated that venture capitalists generally will not be restricted geographically; they need an attractive rate of return first and foremost. In order to attract syndicated deals for Kansas, venture capitalists must have good deals to look at not only in Kansas but in the region" (p. 93). KBA notes that In the past year, it has funded $6.8 million of the $20 million committed to MPM, Cultivian, and Open Prairie; these investments have so far resulted in about $35 million in new venture investments in Kansas bioscience companies.
On page 142	Some have alleged that Midwest Ventures, Inc., which was potentially to receive a $5 million investment as part of the KBA's venture capital attraction program, is not a venture capital firm at all as it had no venture fund. The implication is that Midwest Ventures was not therefore eligible to receive the KBA funding.	BKD makes no judgment about whether Midwest Ventures was a venture firm but does note that because Midwest Ventures failed to raise the required matching funds, the "KBA did not invest in Midwest Ventures" (p. 142).
Beginning on page 144	The KBA has made grants to two organizations associated with KBA board members: Nanoscale, whose board chair and part owner is KBA board member Bill Sanford ...	BKD notes that Nanoscale has received four KBA grants totaling $647,996 but that its "review of the Investment committee and [board] minutes, as well as interviews with current and former [board] members, indicate that Mr. Sanford recused himself from all discussions and votes on the Nanoscale grants" (p. 144). KBA management believes the investments in Nanoscale are appropriate uses of KBA funds.
Beginning on page 144	... and Kansas Bio, whose president is former KBA board member Angela Kreps.	BKD notes that KBA pays annual membership dues to belong to Kansas Bio, the state's bioscience trade organization, and that it has provided funding to support Kansas Bio's participation in the annual conventions of the national Biotechnology Industry Organization, or BIO. From 2006 through 2009, the KBA made the payments to Kansas Bio. Beginning in 2010, the KBA paid BIO or convention vendors directly for the convention participation. *(continued on next page)*

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
		(continued from previous page) BKD: "Ms Kreps did not become [a KBA board] member until June 8, 2007," after the approval of the convention funding for 2006 and 2007 (p. 144). "The payments for the BIO 2008 and BIO 2009 conventions were approved as part of" the KBA's annual operating plans for those years (p. 144). "However, BKD identified no disclosure or recusal by Ms Kreps with regard to the approval of the sponsorships of the BIO conventions in those plans," concluding that Kreps therefore "may have been in technical violation of the KBA's Conflict of Interest and [Disclosure] Policy" (p. 144). KBA management believes the KBA's membership in Kansas Bio and support for Kansas Bio's activities related to Kansas' participation at annual national BIO conventions are appropriate uses of KBA funds. KBA management believes the KBA's membership in Kansas Bio and support for Kansas Bio's activities related to Kansas' participation at annual national BIO conventions are appropriate uses of KBA funds. KBA believes, too, that Kreps did not violate the Conflicts of Interest and Disclosure Policy. Note that the pertinent section of KEGA, quoted by BKD on page 135, specifically notes that a KBA board member who is employed by an organization involved in a contract or transaction with the KBA is not conflicted in decisions regarding that contract or transaction simply by the fact of that employment.
Beginning on page 144	Some members of the legislature have called into question the appropriateness of the Nanoscale grants and Kansas Bio expenditures based on a portion of the KEGA statute that says no part of the KBA funds "shall inure to the benefit of, or be distributed to, its employees, officers, or members of the board..."	BKD reports that KBA management and its board "believe the grants are allowable under" another section of KEGA, which sets forth disclosure and recusal requirements for "any member of the board ... who has ... [an interest] in any contract or transaction with the authority ..." (p. 145). BKD concludes that if the provisions of this section of the statute "are deemed to apply, it would appear that the action taken by KBA with respect to Nanoscale meets the statutory standard. However, regardless of whether the standard required is met, the [board] should consider issues pointing to the appearance of impropriety with respect to all investment decisions" (p. 145).
Beginning on page 147	BKD notes that the KBA has reported that through June 2011, the KBA's investments "have helped create 1,347 new jobs; $278.5 million in capital expenditures; $104.9 million in new research funding; and $78.9 million in equity investments" (p. 147).	BKD: "This information was supplied by KBA. KBA has taken some steps to verity this information. For example, although KBA relies on the client company CFO to certify these outcomes, to some extent, KBA now requires substantiating information such as financial statements, capital charts, and payroll. In addition, in FY2010, KBA began a client company audit process through which client companies outcomes are periodically validated" (p. 148). BKD's recommendation states "Outcome verification can take a number of different forms depending upon the nature and level of the assurance that is sought by virtue of the verification process. ... With respect to past results and outcomes that have been reported, management should take into account the costs of additional verification in assessing whether this is an appropriate expenditure of funds. ... *(continued on next page)*

Issues related to KBA investments and investment processes

Audit location	Issue/Question	Summary
k		*(continued from previous page)* With respect to reporting on future outcomes, the [board] should hire an independent third party to verify such outcomes. ... The [board] should seek input from various stakeholders in evaluating this process and the verification options that are available." (pp. 148 and 149). KBA management will discuss with the board the possibility of engaging a qualified third party to review the outcomes methodology and make recommendations for any revision of metrics, definitions, documentation, and audit procedures. Management is determined that the data collected and procedures for reporting outcomes be completely accurate and reliable.
On page 149	BKD noted that "newly received information from or regarding a client company may be loaded into" the KBA's project tracking database without the KBA "staff responsible for that client company being made aware of the new information" (p. 149).	BKD recommends that management consider "instituting a practice whereby ... staff are notified when new information is added to" the database (p. 149). KBA will consider this or other procedure changes to address the issue BKD identifies.
Beginning on page 149	BKD reports that it has been alleged that "some investments are inappropriately denied appropriate consideration" during the KBA's weekly deal flow meeting, which is held to "internally vet the investment opportunities ..." (p. 192). BKD notes further that "no minutes of these meetings are maintained to document how often they are held, who is in attendance, and what is discussed" (p. 149).	BKD recommends that the KBA board "consider requiring that minutes of deal flow meetings be maintained" and that the board consider requiring "the maintenance of agendas, attendance at the meetings, and written documentation of why an investment opportunity was not recommended for advancement to the investment committee" (p. 150). KBA will consider these recommendations and change practices if appropriate. The KBA notes that an internal staff meeting such as the weekly deal flow meeting is not subject to the provisions of the Kansas Open Meetings Act and that the KBA's practice for internal staff meetings has never been to publish agendas, minutes, etcetera.

Alleged or Potential Conflicts of Interest

Audit location	Issue/Question	Summary
Beginning on page 44	BKD reports that the resignation of the KBA's first board chair, Clay Blair, was connected to "accusations … related to potential conflicts of interest caused by Mr. Blair's hiring of family members to perform work for KBA …	BKD reports that Blair said he "hired the law firm of Stinson Morrison Hecker through his cousin Allen Blair" to perform work on KBA's behalf (p. 45) and "hired his son-in-law Dennis Patterson to oversee the Kansas Bioscience Park project as Patterson was an experienced project manager …" (p. 45). Blair told BKD that he hired these family members "not because they were family members but because he knew them to be competent from previous experience and knew that they would provide quality work at a fair price" (p. 45).
	… and the potential personal financial benefit related to the siting of the Kansas Bioscience Park" (p. 45) in Olathe, near land that Blair owns.	Blair told BKD that "it would be difficult to develop a 100-acre parcel in Johnson County that was not near one or more of his land holdings" (p. 45). Blair added that the "allegations against him were false, but given the publicity surrounding them, he believed it was in the best interest of KBA to resign" (p. 46) and that he had asked the Kansas Governmental Ethics Commission to investigate the allegations against him (p. 46). A KGEC representative told BKD that the commission would confirm or comment on the existence or results of an investigation "only if that investigation had resulted in a public hearing; however, there was no record of a public hearing regarding Mr. Blair" (p. 46). BKD reports that based on email and other records, it "believes an investigation did occur" but that it "could locate no public findings related to the investigation and could not determine if the investigation was initiated by Mr. Blair, or was on-going when Mr. Blair requested an investigation" (p. 46).
Beginning on page 46	BKD reports that in October 2007, a former KTEC official contacted the chair of the KBA board's audit committee to "report possible ethics violations involving Mr. Blair" (p. 46). The committee hired "the law firm of Polsinelli Shalton Flanigan Suelthaus … to investigate the … allegations. The result of the investigation was a March 26, 2008, letter to the Kansas Governmental Ethics Commission self-reporting a potential violation related to the possible acceptance of an inappropriate payment from a vendor to KBA for entertainment of KBA personnel" (p. 46).	BKD: "It appears there were two issues under review: the payment of expenses associated with a cocktail party and dinner by UBS for KBA [board members] in Washington, DC, in the late winter [or] early spring of 2007, and whether KBA's relationship with UBS had resulted in any benefit to Clay Blair in connection with his own personal and related business relationships with UBS. …[In its letter to the KGEC], KBA reported the possibility that all or a substantial part of the costs associated with a KBA [board] dinner meeting in Washington, DC, on March 12, 2007, may have been paid for by UBS. Under Kansas ethics laws, directors and officers of KBA are prohibited from either soliciting or accepting free or special discount meals from a source outside of state government except under specific circumstances. KBA's internal investigation found that Clay Blair may have made the arrangements with UBS without the knowledge of any other [board] member. However, KBA did not interview Blair to attempt to confirm that allegation. … [T]he catering invoice for the dinner was paid by Mr. Thornton on his personal credit card, for which he was reimbursed by KBA. … By letter dated February 27, 2008, UBS indicated that it did not host, sponsor, or pay for the event. … However, UBS did make a $6,000 donation to KBA [about $1,700 more than the dinner cost] but that the donation was unconditional. … As a result of the possible violation of Kansas ethics laws, KBA returned the $6,000 to UBS. … BKD did not locate any information regarding the outcome of the internal investigation by UBS into allegations that Mr. Blair personally benefitted from the KBA's relationship with UBS" (pp. 47 and 48).

Alleged or Potential Conflicts of Interest

Audit location	Issue/Question	Summary
Beginning on page 48	BKD "received information via email … and through a follow-up interview" reiterating the conflict-of-interest charges related to the siting of the park and indicating "that there were potentially illegal acts by Clay Blair and John Wefald [the president of Kansas State University and a member of the KBA's Research and Development Advisory Council] in negotiating the donation of land by Olathe" for the bioscience park (p. 48).	BKD quotes a KEGA "prohibition to KBA board members from engaging in the authorization of KBA transactions in which they have a direct or indirect financial interest" (p. 48). The emailed allegation "relates in part to the previously discussed fact that Mr. Blair owns development property in close proximity" to the bioscience park (p. 48) but went further "by stating that the fact that Mr. Blair is personally involved in real estate development is at issue as he would have had 'first knowledge' of bioscience companies relocating to or within the area, and could assumedly have steered them towards land he owns or that could somehow benefit the value of land he owns" (p. 48). BKD investigated and recounts in detail the history and process of the siting of the park but the documentation available and the differing recollections of persons involved are insufficient for BKD to make a determination of whether Blair was in violation of the pertinent section of KEGA.
Beginning on page 78	Terry Osborn was a director of commercialization for the KBA until May 2011, when he resigned to become the CEO of KCAS, LLC. BKD: "Dr. Osborn had been working with KCAS prior to his resignation and allegations have been made regarding a potential conflict of interest related to Dr. Osborn and his work on behalf of KCAS prior to his resignation from KBA" (p. 78). It has been alleged that in 2010 the KBA awarded a contract to KCAS for services related to the National Drug Development Accelerator, or NDDA, project, and that Osborn was involved in the making of that contract.	The KBA has made no contract of any kind with KCAS. BKD recounts that in 2009, KCAS's parent company notified it that it would put KCAS up for sale. Management approached the KBA for partial funding of a buyout effort intended to keep the company in the area. Osborn proposed that the KBA provide some funding, but the investment committee declined to make the investment. When Osborn became CEO of KCAS, the company became involved in the NDDA project—but not through any contract with the KBA. BKD: "Dr. Osborn indicated that KCAS has received no payment from KBA in relation to the initiative, and in fact has received no funding of any sort from KBA. A review of KBA's [accounts] indicates that KBA has made no payments to KCAS. Therefore, BKD finds the allegations to be false" (p. 79).
Beginning on page 82	In October 2009, then-CEO Tom Thornton began an intimate personal relationship with the KBA's then-director of special projects, Lindsay Holwick. They married in January 2011. Some have alleged that Lindsay Holwick Thornton received preferential treatment as an employee because of the relationship.	BKD reports that Holwick's line of reporting was switched from Thornton to the CFO in spring 2010, but board members were not advised of the relationship until they were invited to the Thorntons' January 2011 wedding. BKD: "In hindsight, management's handling of this matter should likely have been more in a open and forthright manner" (p. 84). KBA management agrees; while management believes that Lindsay Holwick Thornton received no preferential treatment, the relationship created the potential for and perception of preferential treatment. Management will recommend the KBA board update the policies governing the handling of any similar situations to ensure transparency in the future.
On page 135	BKD was asked to review any payments by outside entities to any current or past KBA employees or board members including compensation and travel and entertainment.	BKD found no instances of "payments by outside parties that were passed on to current or past KBA management, employees, and [board] members with voting rights" (p. 135).

Alleged or Potential Conflicts of Interest

Audit location	Issue/Question	Summary
Beginning on page 135	BKD reviewed instances of potential conflicts of interest with regard to KBA's employees and board members and "client companies, vendors, and collaborating organizations" (p. 135).	BKD notes that "in an industry sector as narrow as bioscience companies in the state of Kansas, the [KBA board] should consider the need to manage the perception of conflicts of interest based on previous associations between the KBA and its employees and [board members] and those of the bioscience companies and vendors" (p. 143). BKD recommends that any board member who has a financial interest (or who has an immediate family member with such an interest) in an entity seeking KBA support "should recuse themselves and ... physically remove themselves from any and all discussion and authorization of the project" (p. 143). BKD also recommends that all investment recommendations submitted for consideration to the investment committee should explicitly describe any relationships (or the lack of them) subject to the conflict of interest disclosure policy (p. 143). KBA believes, based in part on BKD's investigation of a number of alleged or potential conflicts of interest (as summarized in the following sections) that there have been no violations of its Conflicts of Interest and Disclosure Policy. BKD concludes that there may have been a "technical violation" in one case — addressed beginning on page 144 and involving former KBA board member Angela Kreps — but the KBA notes that the pertinent section of KEGA, quoted by BKD on page 135, specifically notes that a KBA board member who is employed by an organization involved in a contract or transaction with the KBA is not conflicted in decisions regarding that contract or transaction simply by the fact of that employment.
Beginning on page 136	A potential conflict of interest existed involving Jan Katterhenry, KBA's then-CFO, because the KBA awarded a $375,000 grant to Pinnacle Technology, Inc., which two years later hired Katterhenry's son, who graduated from KU in 2010 with a degree in biochemistry. Pinnacle paid him with some funds from the grant. Then, in April 2011, the KBA awarded another grant, for about $425,000, to Pinnacle while Katterhenry's son still worked there.	BKD found that Katterhenry properly disclosed her son's employment at Pinnacle on her annual Conflict of Interest Disclosure form on Dec. 1, 2010, and at meetings where the investment committee and board considered and approved the April 2011 grant. BKD reports that "Katterhenry disclosed this potential issue in writing in a timely manner and did not participate in the review or analysis of the proposed investment" (p. 138), which the investment committee and board ultimately approved. However, BKD notes that "additional judgment should have been given to the potential perception of a conflict posed by this situation" (p. 138). Katterhenry's son no longer works for Pinnacle. KBA believes that there was no violation of its Conflicts of Interest and Disclosure Policy.
Beginning on page 138	Tom Thornton sat on the board of Advanced Life Sciences with Terry Osborn, with whom the KBA contracted in June 2008 for consulting services. Osborn became a full-time KBA employee in June 2010. Some alleged that Thornton was conflicted in these actions because of his existing relationship with Osborn.	"BKD identified no evidence that Thornton's existing relationship with Dr. Osborn was formally disclosed" to the KBA board (p. 139), but board members "interviewed by BKD ... consistently indicated that it would not have been a red flag or concern as Dr. Osborn was qualified and they believed that he did quality work" (p. 139).

Alleged or Potential Conflicts of Interest

Audit location	Issue/Question	Summary
On page 139	One person has alleged that while he was working for the KBA, Terry Osborn had "two other full-time jobs" and that he made a total of $450,000 a year.	"BKD interviewed Dr. Osborn regarding his employment history. Dr. Osborn stated that he had no other employment while working for KBA" (p. 139).
On page 140	Before coming to work for the KBA, Tom Thornton worked for the Illinois Technology Development Alliance, where Cary Nourie also worked at the same time. In January 2009, the KBA contracted with Nourie for consulting services. Nourie became a full-time KBA employee in June 2010.	BKD reports that "it does not appear that disclosures were required under [Kansas statute} or the KBA's Conflict of Interest and [Disclosure] Policy as Thornton had no direct or indirect interest in Mr. Nourie's contract and received no form of compensation from Mr. Nourie" (p. 140).
On page 140	In June 2008, KBA contracted with K&L Gates for legal services. Some have alleged that Thornton was conflicted in making this contract because K&L Gates employed a lawyer, Jude Sullivan, who had worked with Thornton at Divine Interventures, Inc., from 1999 to 2001.	BKD reports that Thornton told them that he disclosed his relationship with Sullivan during the contracting process (p. 140).
On page 140	In September 2009, the KBA contracted with the firm Dickstein Shapiro for assistance in getting Kansas selected as the site for the National Bio- and Agrodefense Facility. Some have alleged that Thornton was conflicted in making this contract because his one-time employer, former Congressman Dennis Hastert, worked for Dickstein Shapiro.	BKD notes: "Mr. Thornton's existing relationship was disclosed in the contracting process" (p. 140).
Beginning on Page 140	Thornton sat on the board of the Enterprise Center of Johnson County along with Michael Beckloff, the president of Beckloff Associates. Beckloff Associates has provided services to 10 companies that have received KBA funding. Beckloff also partly owns or has debt holdings in three KBA-funded companies, and Beckloff Associates is a part owner of another. Some have alleged that Thornton was conflicted because of his existing relationship with Beckloff.	BKD "identified no evidence of Thornton's disclosure of his relationship with Mr. Beckloff at any stage" (p. 141) of the consideration of one investment, to a company that planned to use the $74,500 grant to engage Beckloff Associates for services. However, "the grant went through the standard KBA investment process" for such grants (p. 141), and BKD "noted no evidence of any potentially inappropriate influence on Mr. Thornton's part with regard to" the investment (p. 141). BKD reports that "it does not appear that disclosures were required under either [Kansas statute] or KBA's Conflict of Interest and [Disclosure] Policy as Thornton had no direct or indirect interest in Beckloff Associates and received no form of compensation from Mr. Beckloff" (p. 141).

Alleged or Potential Conflicts of Interest

Audit location	Issue/Question	Summary
On page 141	Thornton sat on the board of Advanced Life Sciences, Inc., with the CEO of Cydex, a company that received a $195,000 KBA grant in 2009. Some have alleged that Thornton was conflicted because of the existing relationship with the Cydex CEO.	BKD "identified no evidence of Thornton's disclosure of his relationship" with the CEO (p. 141) but noted that "the Cydex grant went through the standard KBA investment process. BKD noted no evidence of any potentially inappropriate influence on Mr. Thornton's part with regard to" the investment (p. 141) that was approved by the investment committee and board.
On page 142	Thornton sat on the board of Bio Angels with Tom Churchwell, the general partner of Midwest Ventures, Inc., a venture capital firm that was slated to potentially receive $5 million from the KBA's Kansas Bioscience Growth Fund. Some have alleged that Thornton was conflicted because of the existing relationship with Churchwell.	BKD reports, "Although Mr. Thornton had an existing relationship with Mr. Churchwell, the fact that Midwest Ventures went through the review and approval process" for the KBA funding "...mitigates any potentially inappropriate influence on Mr. Thornton's part" (p. 127). BKD notes that "it does not appear that disclosures were required under either [Kansas statute] or KBA's Conflict of Interest and [Disclosure] Policy as Thornton had no direct or indirect interest in Midwest Ventures and received no form of compensation from Mr. Churchwell" (p. 142). While the investment committee and board approved the potential investment in Midwest Ventures, no payment was ultimately made because Midwest Ventures failed to raise the required matching funds.
On page 142	Thornton sat on the board of the Enterprise Center of Johnson County with Jeff Reene, the COO of the KU Cancer Center; the KBA has made multiple investments intended to help the cancer center build toward National Cancer Institute designation. Some have alleged that Thornton was conflicted because of his existing relationship with Reene.	"BKD identified no evidence of Thornton's disclosure of his relationship with Mr. Reene" (p. 142) but "noted no evidence of any potentially inappropriate influence on Mr. Thornton's part with regard to" the cancer center investments (p. 142), all of which were approved by the investment committee and board. BKD notes that "it does not appear that disclosures were required under either [Kansas statute] or KBA's Conflict of Interest and [Disclosure] Policy as Thornton had no direct or indirect interest in [the KU Cancer Center] and received no form of compensation from Mr. Reene" (p. 142).
Beginning on page 142	Tom Krol, a director of commercialization for the KBA, was employed by Cydex from 2001 to 2005. Cydex received a KBA grant in 2009, and Krol is now the KBA lead for Cydex.	BKD notes that Krol "was employed by the KBA in January 2010" and therefore "was not a KBA employee when the grant to Cydex was awarded" (p. 142). BKD notes that "the fact that any future milestone applications or grant applications will go through the standard review and approval process mitigates any potentially inappropriate influence on Mr. Krol's part" (p. 142).
On page 143	In a previous job, Tony Simpson, a director of commercialization for the KBA, reported to someone who is now a member of the management team for ICM, which received grants from the KBA in 2008 and 2009. Simpson is now the KBA lead for ICM.	BKD notes that Simpson "was not employed by KBA until October 2009" and therefore "was not a KBA employee when the grants to ICM were awarded" (p. 143). BKD notes that "the fact that any future milestone applications or grant applications will go through the standard review and approval process mitigates any potentially inappropriate influence on Mr. Simpson's part" (p. 143).

Alleged or Potential Conflicts of Interest

Audit location	Issue/Question	Summary
Beginning on page 144	The KBA has made grants to two organizations associated with KBA board members: Nanoscale, whose board chair and part owner is KBA board member Bill Sanford ...	BKD notes that Nanoscale has received four KBA grants totaling $647,996 but that its "review of the Investment committee and [board] minutes, as well as interviews with current and former [board] members, indicate that Mr. Sanford recused himself from all discussions and votes on the Nanoscale grants" (p. 144). KBA management believes the investments in Nanoscale are appropriate uses of KBA funds.
	... and Kansas Bio, whose president is former KBA board member Angela Kreps.	BKD notes that KBA pays annual membership dues to belong to Kansas Bio, the state's bioscience trade organization, and that it has provided funding to support Kansas Bio's participation in the annual conventions of the national Biotechnology Industry Organization, or BIO. From 2006 through 2009, the KBA made the payments to Kansas Bio. Beginning in 2010, the KBA paid either BIO or convention vendors directly for the convention participation. BKD: "Ms Kreps did not become [a KBA board] member until June 8, 2007," after the approval of the convention funding for 2006 and 2007 (p. 144). "The payments for the BIO 2008 and BIO 2009 conventions were approved as part of" the KBA's annual operating plans for those years (p. 144). "However, BKD identified no recusal by Ms Kreps with regard to the approval of the sponsorships of the BIO conventions in those plans," concluding that Kreps therefore "may have been in technical violation of the KBA's Conflict of Interest and Disclosure Policy" (p. 144). KBA management believes the KBA's membership in Kansas Bio and support for Kansas Bio's activities related to Kansas' participation at annual national BIO conventions are appropriate uses of KBA funds. KBA believes, too, that Kreps did not violate the Conflicts of Interest and Disclosure Policy. Note that the pertinent section of KEGA, quoted by BKD on page 135, specifically notes that a KBA board member who is employed by an organization involved in a contract or transaction with the KBA is not conflicted in decisions regarding that contract or transaction simply by the fact of that employment.
Beginning on page 145	The KBA has been a "significant financial supporter of Kansas Bio through its support and contributions to the annual BIO conventions" (p. 146), and "a high percentage of client companies receiving grants or investments from the KBA are Kansas Bio members" (p. 134). Some have alleged various conflicts because Angela Kreps, president of Kansas Bio, was a member of the KBA board from 2007 to 2010.	BKD notes again that Kreps "was not a member of KBA's [board] when the BIO 2006 and BIO 2007 sponsorships were approved. However, the BIO 2008 and BIO 2009 sponsorships were addressed in the [KBA's annual operating plans] for those fiscal years, and it appears that Kreps voted affirmatively for those AOPs with no mention of the fact that funds were designated in those AOPs for payment to Kansas Bio in support of the annual BIO conventions. This appears to be a technical violation of [Kansas statute] and KBA's Conflict of Interest and [Disclosure] Policy" (p. 146). However, "During her tenure on the [board], Ms Kreps frequently noted her association with various client companies seeking funding from KBA given her responsibilities with Kansas Bio. However, she indicated that neither she nor Kansas Bio had a financial interest in any client company. Therefore, she participated in the discussion of and voting on the relevant investment recommendations" (p. 147). BKD notes that "A high percentage of client companies receiving grants or investments from KBA are Kansas Bio members. However, interviews with current *(continued on next page)*

Alleged or Potential Conflicts of Interest

Audit location	Issue/Question	Summary
		(continued from previous page) and former KBA management and [board members] indicate that there is no requirement or recommendation that a client company be a member of Kansas Bio in order to receive funding or services from KBA. ... The missions of Kansas Bio and KBA are closely aligned. ... Therefore, it is natural that the president of Kansas Bio will have relationships with many of the client companies seeking funding from KBA. However, these relationships can result in the perception of a conflict of interest if the president of Kansas Bio is serving on the [board] of KBA. ... Therefore, the appointing authorities to KBA's [board] should consider the appearance of this conflict when considering future appointments that may link Kansas Bio and KBA too closely" (p. 147).

Issues Related to Former President and CEO Tom Thornton

Audit location	Issue/Question	Summary
Beginning on page 15	BKD interviewed many people about the nature of Thornton's leadership style and the KBA culture under his leadership.	BKD: "Mr. Thornton was described by many individuals ... as obviously intelligent, a strategic thinker, and a gifted speaker. However, just as often comments were made regarding his arrogance and the self-aggrandizing manner in which he took credit for the work of others. ... His behavior was often described as erratic by some who sought funding from KBA and some who worked for KBA" (p. 15). BKD enumerates specific reported instances of such behaviors and notes that "these issues, whether real or perceived, had a significant impact on the morale of some KBA employees. ... Based on the totality of comments shared with BKD by current and former employees and many individuals interacting with KBA from outside the organization, it appears that Mr. Thornton's leadership style was problematic and overall did not garner the type and level of respect that is expected for someone leading the KBA" (pp. 15 and 16). Thornton resigned as CEO in April 2011.
Beginning on page 35	Did Thornton lie about his employment history while being interviewed for the KBA's CEO position – particularly the nature of his job in the office of former Congressman Dennis Hastert?	No. BKD concludes that Thornton did not misrepresent his employment history.
Beginning on page 38	BKD investigated allegations "that Thornton was integrally involved in the financial decline of [his former employer] Divine Interventures" (p. 38), which declared bankruptcy in February 2003.	BKD reviewed the filings associated with the bankruptcy and interviewed Divine's former secretary and general counsel, Jude Sullivan. BKD reports that Sullivan's "recounting of what led to the downfall of Divine Interventures closely approximated that detailed in the bankruptcy filings" (p. 39) and that "Sullivan indicated that everything that Divine did that mattered as far as its demise happened long after Thornton left" (p. 40).
Beginning on page 40	BKD: "A few days into the forensic audit ... Thornton resigned [as KBA CEO] and accepted the position of general manager of alliances with Cleveland Clinic Innovations ..." (p. 40). BKD looked into allegations "that Mr. Thornton called in a few favors to obtain the job with Cleveland Clinic Innovations after the announcement of the forensic audit" (p. 41).	Two connections of Thornton's are brought up in these allegations: Bill Sanford, a KBA board member who is also a member of the board of the Cleveland Clinic and a member of the advisory board of Cleveland Clinic Innovations; and Baiju Shah, the CEO of Bio Enterprise. "Both Messrs. Sanford and Shah deny assisting Thornton in his move to Cleveland Clinic Innovations" (p. 41) and "BKD saw no direct indication in Thornton's emails of any involvement by Messrs. Sanford or Shah" (p. 43). BKD reports that the senior counsel of Cleveland Clinic Innovations "indicated that Thornton had been known to the management of Cleveland Clinic Innovations since the mid 1990s and no one associated with KBA, inclusive of Mr. Sanford and Mr. Shaw, assisted Thornton in securing his employment with Cleveland Clinic Innovations" (p. 43). BKD notes, too that "Thornton's email indicates that he was first contacted by ... the executive director of Cleveland Clinic Innovations regarding a possible employment opportunity on December 7, 2010" (p. 41), weeks before the Senate Commerce Committee hearings on the KBA or the launch of the forensic audit they led to.

Issues Related to Former President and CEO Tom Thornton

Audit location	Issue/Question	Summary
Beginning on page 84	BKD: "Allegations have been made that Tom Thornton was acquainted with Lindsay Holwick ... [whom he hired as director of special projects and later married] prior to her hiring and created a position for her that did not exist and was not needed due to his personal interest in her" (p. 84).	BKD takes no position on the question of whether Tom Thornton and Lindsay Holwick Thornton were acquainted before he recruited her for the position of director of special projects. But BKD reports that Holwick Thornton's calendar indicates "she interviewed for employment with KBA on three occasions between June and September of 2008" and that "both Mr. Thornton and Lindsay Holwick Thornton have stated that they were not acquainted with one another prior to the first interview" (p. 85). BKD reports that its review of the annual operating plan for the year during which Holwick Thornton was hired "did not reveal the existence of the director of special projects position" (p. 85) but that on at least one other occasion a position was created and filled during a year when the position was not outlined in the annual operating plan. "Therefore," BKD concludes, "it appears that positions that were not specifically approved in an AOP were created and filled during a fiscal year. Interviews with the [board] confirmed that Thornton was within his authority ... to create and fill any necessary position for the KBA as long as the budget dollars were available to fund the position" (p. 85).
Beginning on page 100	BKD: "On April 13, 2011, Tom Thornton was notified [by the KBA] that BKD had formally requested his KBA-owned computer for forensic imaging and analysis" (p. 100). Thornton returned the computer to the KBA on April 26, and BKD imaged it the same day.	BKD: "Forensic analysis of Thornton's KBA-owned computer indicated that information had been removed from the computer, essentially all of the user-created content had been deleted, and that the free space had been wiped, making the recovery of deleted items impossible. ... While some evidence has been recovered that illustrates the former existence of files and folders on the laptop, a typical characteristic of wiping tools is that they do not provide a log of exactly what was erased or cleaned. Therefore, a complete quantification of what activities, files, and folders existed on the computer ... is not possible. Importantly, BKD cannot determine whether or not Thornton's KBA-owned computer held any possible evidence of misuse or abuse of KBA assets or funds" (p. 101). "Mr. Thornton's computer would synchronize or 'back up' to the server when connected ... [but] the user could define or select which folders and files would automatically back up when connected to the server. BKD reviewed the information stored on the KBA server from the last back up of Mr. Thornton's KBA computer. The folders and files contained information related to various KBA operations and initiatives, none of which were determined to be of an inappropriate nature given their content. However, there is evidence on Thornton's KBA computer of files that once resided on the computer that are not found to be present on the server. ... It remains possible that files containing information important to the results of the forensic audit were never backed up to the server and were wiped from Thornton's computer" (p. 102). Finally, "Based on BKD's computer forensic procedures, we discovered certain file remnants and file descriptions that could be consistent with files containing pornography. However, no pornographic images were found on the computer" (footnote on page 102). KBA notes that its outside counsel is reviewing whether KBA may have claims it might assert against Mr. Thornton. KBA management is not aware at this time of any quantifiable damages to the KBA as a result of Mr. Thornton's actions.

Issues Related to Former President and CEO Tom Thornton

Audit location	Issue/Question	Summary
On page 103	Thornton's KBA executive assistant told BKD on April 15, 2011, that she had noticed between March 11 and 14, 2011, "Thornton had gone through the files and 'cleaned up' files and folders" (p. 89) on a secure server drive accessible only to Thornton and three other staff members. The drive "holds information that other KBA staff are not privy to, such as personnel files, unapproved [board minutes], confidential company information, and the like" (p. 103).	BKD interviewed David O'Dell of Summit Computing Solutions, the KBA's IT support provider, to see if a back-up of the drive from the time period in question was available. "O'Dell indicated that KBA used a standard 30-day rolling back-up schedule, meaning that information more than 30 days old was unavailable" (p. 103).
On page 104	The executive assistant also told BKD that around the same time, "Mr. Thornton started doing a lot of cleaning in his office. It appeared to her that he was readying to step down. He started to take his office knick knacks home. He cleaned out file cabinets that he kept locked. ... Thornton cleaned a lot, but nothing was ever in his wastebasket" (p. 104). The executive assistant said that "Thornton kept a big box under his desk for two [or] three weeks that he kept taped shut, and then it was gone" (p. 104).	"BKD notes that the approximate March 11 date on which [the executive assistant] started noticing Thornton's alleged cleaning of his office and files coincides with the date on which it appears he may have accepted the offer of employment from Cleveland Clinic Innovations" (p. 104).
Beginning on page 107	BKD reviews payments the KBA made to or on behalf of Thornton by the KBA other than his compensation; these included payments to a qualified retirement plan, payments for health care insurance for Thornton and his family, payments for insurance on Thornton's life, reimbursements for up to $1,000 in legal fees for a review of his employment agreement, a car allowance, reimbursements for service and maintenance on his car, moving expenses when he accepted the KBA job, and reimbursements for (here, quoting KBA's expense reimbursement policy) "'all ordinary and necessary out-of-pocket expenses incurred and paid by [Thornton] in the course of the performance of [his] job'" (p. 108).	BKD notes that "Tom Thornton resigned from KBA on April 13, 2011, but was paid the car allowance [of $625] for the entire month of April 2011. Therefore, he should not have been paid a car allowance for 17 of the 30 days in April 2011" (p. 109). BKD calculates the overpayment of the allowance to be $354.17 (p. 110). KBA notes that it has made a written demand to Mr. Thornton for reimbursement of $4,679.88, which is the total of the overpayment of the car allowance and, as discussed in other sections of the audit report, personal use of KBA-owned artwork, repayment of inappropriate reimbursements for personal travel expenses, and the inadvertent double reimbursement for some business travel expenses. Thornton has repaid this amount in full.

Issues Related to Former President and CEO Tom Thornton

Audit location	Issue/Question	Summary
On page 110	BKD reports that Thornton kept a KBA-owned piece of art at his house and improperly disposed of it after his resignation.	BKD notes that Thornton had bought the painting for $427.38 and was reimbursed by KBA for the purchase price. It was displayed in his house, and Thornton's executive assistant told BKD that it "appeared in Thornton's office over a weekend sometime after his resignation from KBA but before KBA moved to its new facility on May 14, 2011" (p. 96). "After some time, [the executive assistant] asked Thornton what he wanted done with his personal items that were still at the KBA, including the print. Thornton directed [her] to give his personal items to Brad Kemp, another KBA employee and friend of Thornton's, so Kemp could deliver the items to Thornton. Kemp indicated that he delivered Thornton's personal belongings to him on May 12, 2011, but, according to Kemp, Thornton did not want the print. Thornton offered the artwork to Kemp, who accepted it [and] subsequently donated it" to a charity auction (p. 96). "Kemp indicated he was not aware that the artwork had been purchased with KBA funds" (p. 96). BKD recommends that the KBA board "determine whether legal action should be taken against Thornton related to the artwork and should seek reimbursement for the cost of the artwork" (p. 97). KBA notes that it has made a written demand to Mr. Thornton that he reimburse the KBA for various items noted in the BKD report, including the cost of the artwork, that he has done so, and that outside counsel is reviewing whether KBA may have claims it might assert against Mr. Thornton.
On page 111	BKD: "While employed by KBA, Mr. Thornton regularly used his executive assistant to perform personal tasks for him such as paying his personal bills with his personal funds ... and the like" (p. 111). The executive assistant's job description included such responsibilities.	BKD: Thornton told BKD "that his use of the executive assistant in this matter was known and approved by the [board]. [Board] members interviewed were not concerned that he used the executive assistant for personal tasks, but some were of the opinion that the level was excessive" (p. 97). BKD recommends that the board consider the propriety of this practice. KBA management agrees that the executive assistant's time should not be used for the personal tasks of the CEO or other executives, and the job description has been revised to reflect this.
On page 112	BKD: "KBA paid for Tom Thornton's personal airfare and parking for a trip to Cleveland, Ohio, January 6 through 7, 2011" (p. 112).	BKD concludes that "the purpose for this trip was for Thornton to interview at Cleveland Clinic Innovations, where he subsequently obtained employment. ... The airfare totaled $723.40 and the parking totaled $35.00. ... Thornton has not reimbursed KBA for these personal charges" (p. 112). The KBA notes that it has demanded payment from Thornton for these expenses and others described in the BKD report and he has paid them.
Beginning on page 112	BKD: "There was an allegation that approximately $17,000 of expenses related to Tom Thornton's wedding was paid with a KBA American Express Card" (p. 112).	"BKD searched for payments to [the wedding vendors] by either KBA American Express card or by check and noted none. Further, BKD reviewed KBA American Express card statements and supporting documentation from December 2010 through April 2011 and noted no transactions that appeared to be wedding related" (p. 113).

Issues Related to Former President and CEO Tom Thornton

Audit location	Issue/Question	Summary
Beginning on page 113	BKD reports that several staff members brought to its attention an "October 21, 2009, dinner at the Fogo de Chao restaurant [that cost] $501.06 [and] was charged by Tom Thornton on his KBA credit card" (p. 113).	BKD found that Thornton told his executive assistant "the expense was related to an SSTI dinner and he could not remember who all was there. ... [She reported that he instructed her to] get the names of 12 or 13 people from the conference and list them as attendees. ... [She] later learned that the dinner was in fact a farewell dinner for [a staff member leaving the KBA's employ] ... and was only attended by KBA staff" (p. 113). When the matter was brought to the attention of the CFO, she "indicated she would take care of it" (p. 113). When the executive assistant had occasion to refer to that particular expense report again, she "saw that the purpose of the expense had been changed to staff dinner" (p. 113). The CFO told BKD that she had discussed the matter with Thornton and "he agreed that it was more of a staff event, so the purpose on the expense report was changed. However, [the CFO] did not recall whether the revised version of the expense report was sent through the full approval process again" (p. 113).
On page 114	BKD notes that Thornton's expense report "includes a dinner for seven individuals on May 5, 2010, in the amount of $1,009.06 at China Grill in Chicago" (p. 100).	"The purpose of this meeting was reportedly to discuss a technology transfer partnership with the University of Illinois," two representatives of which were in attendance (p. 114). KBA "management indicated that this expense was reasonable given the attendees and resulting business connections that resulted from this dinner" (p. 114). BKD makes no independent judgment on the matter.
Beginning on p. 114	BKD notes that KBA paid for airfare, one day's meals, and four days' car rental for a four-day October 2010 trip to Wisconsin for Tom Thornton and Lindsay Holwick. It has been alleged "that the purpose of the trip was more personal than business. Furthermore, the necessity of the attendance of Lindsay Holwick ... at the event was questioned" (p. 115).	Thornton and Holwick attended "a Wisconsin Economic Development Association conference at which Thornton made a lengthy presentation. In addition, they spent the weekend in Madison ... and attended a University of Wisconsin Engineers Day dinner and the homecoming football game" (p. 114). "Thornton indicated that Lindsay Holwick Thornton's attendance was appropriate based on the outreach responsibilities of her job ... and that he personally paid" all trip expenses not charged to the KBA, including the entire hotel bill (p. 115). The KBA's then-CFO told BKD the expenses charged to KBA were "appropriate as KBA was not charged for any hotel stay, and at least one night of hotel and two days of rental car could have been charged if the trip had been for business only" (p. 115).

Other Issues

Audit location	Issue/Question	Summary
On page 44	BKD: "On October 8, 2011, the employment status of CFO/COO Jan Katterhenry changes. Because of this change in status, BKD evaluated two issues: 1. Was the change in status motivated by issues related to the forensic audit? [and] 2. Did the change in status interfere with the auditors' ability to perform the forensic audit?" (p. 44).	BKD: "As to the first issue, BKD did not find any evidence indicating that the change in status was motivated by issues related to the forensic audit. As to the second issue, BKD does not believe that the change in status interfered with the auditors' ability to perform the forensic audit" (p. 44).
Beginning on page 53	BKD reports that "to determine an appropriate size for the [Kansas Bioscience Venture Accelerator], the KBA reviewed and took recommendations from a variety of market demand studies that had been performed for bioscience incubators" (p. 50).	BKD reports that "it appears some due diligence was performed relating to the market demand for incubator space. ... The projections of demand, however, appear to have underestimated the supply of incubator space in the current market" (p. 55).
Beginning on page 55	BKD reviewed the budget and actual costs for the construction of the Venture Accelerator.	BKD: "A $12 million preliminary budget for a 25,000 sf building program was brought before the [board] in October 2008. ... Based on the market demand studies ... KBA management and the [board] decided that a larger building was necessary. ... The actual size of the building is 38,773 sf. ... The total cost to construct the Venture Accelerator was $14,934,654 [which includes a contingency that has not yet been spent]. ... As of the date of our analysis, the total incubator project cost paid was $13,419,000 with anticipated additional costs of [up to] $1,516,000. ... Construction cost is currently $11,045,000. ... BKD reviewed the pay applications for the amounts paid through the end of our fieldwork. We were able to find support for all expenses, and the classification of the expenditures appeared appropriate" (p. 56). KBA notes that the final cost of the venture accelerator was under budget and that its cost per-square-foot compares favorably to similar buildings, including K-State's adjacent Olathe Innovation Campus building. KBA notes, too, that the financing for the venture accelerator is through the issuance of industrial revenue bonds. There is no penalty for prepayment of the debt.
Beginning on page 62	BKD recounts the history of the establishment of Heartland BioVentures, the KBA's commercialization arm.	BKD: "... KBA looked to other established organizations with a similar set of service offerings to those KBA envisioned offering. KBA hired Bioenterprise of Cleveland, associated with KBA director Bill Sanford through his position as [chair] of Bioenterprise, and paid $200,000 under an affiliation agreement for start-up operational advice, assistance with recruitment of staff and introduction to useful contacts in the areas of technology transfer and funding. BKD identified no evidence of purposeful partnering between the two organizations, and the affiliation agreement has terminated" (p. 64).

Other Issues

Audit location	Issue/Question	Summary
On page 80	In 2010, *Business Facilities* magazine ranked Kansas No. 5 on its list of states with biotechnology strengths. BKD: "Allegations were made that KBA 'bought' its ranking through the purchase of advertising" in the magazine (p. 76).	BKD reports that when the ranking was disputed during spring 2011 hearings of the Kansas Senate Commerce Committee, Jack Rogers, editor in chief of *Business Facilities,* wrote to KBA to describe the magazine's process for compiling the rankings. BKD: "Mr. Rogers indicated that the statistics are gathered from several sources ... [and include] more than two dozen criteria. ... A proprietary point scale and location quotient are applied. ... The evaluation of the growth potential of a state's biotech initiative and the state's execution of its economic development strategy were the most important factors considered ..." (p. 80). "Mr. Rogers stated that the states and municipalities that are ranked are not involved in the preparation or evaluation of the rankings. ... The rankings are not influenced in any way by the purchase of advertising space in the publication. According to Rogers, any suggestion of a *quid pro quo* relating to advertising ... is 'absolutely false and defamatory'" (p. 80).
Beginning on page 80	Has the KBA board violated the Kansas Open Meetings Act? Sen. Susan Wagle, chair of the Senate Commerce Committee, has written to Attorney General Derek Schmidt requesting that he address three issues: First, does state statute allow the KBA board to enter executive session "solely for the virtually all-encompassing purpose of discussing 'marketing or operational strategies'?" and second Where statute allows the board to enter executive session for the purpose of discussing "contracts for bioscience research, bioscience product manufacturing or commercialization, construction and renovation of bioscience facilities, and marketing or operational strategies," do the words *contracts for* bear on each item in the series or only the first? ... *(continued on next page)*	BKD notes that as of the date of its report, Attorney General Derek Schmidt had not yet given an opinion on the question. BKD reports that KBA management told it the board often "will require a closed discussion of sensitive information that would hurt the KBA or person or entity being discussed if discussed in an open meeting. Executive session is often used to discuss, among other things, confidential details of companies pertaining to their technology, intellectual property, trademarked or patented matter, finances, business plans, etc.; the development of the KBA's annual operating plan prior to its completion and public release; a company's potential merger, acquisition or other restructuring; the [structuring or restructuring] of an equity investment or note; the status of a company's potential move to Kansas; marketing strategies to attract companies from outside Kansas. ... Limiting KBA's ability to discuss these items in executive session would chill the desire of a company to work with KBA and thereby diminish its ability to fulfill its mission to advance bioscience in the state of Kansas" (p. 81). BKD concludes: It is apparent "that there is an on-going dialog regarding and disagreement with KBA's application of KOMA and its use of executive session. KBA's [board] should exert care to ensure that KBA's [board's] and committees' use of executive session is necessary and appropriate and should pursue and comply with the determination by the attorney general's office" (p. 78). KBA notes that on Dec. 28, 2011, Attorney General Derek Schmidt issued an opinion concluding that the statute "authorizes the KBA to close an open meeting and have an executive session to discuss or otherwise consider marketing or operational strategies absent a 'contract for' such topics if the KBA finds disclosure of such information would be harmful to its competitive position."

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Audit location	Issue/Question	Summary
Continuing on page 80	*(continued from previous page)* ... and, last, whether an analysis from the attorney general's office in 2007 regarding the conditions under which a state entity such as the KBA may hold meetings outside the state is "still correct."	BKD notes that as of the date of its report, Attorney General Derek Schmidt had not yet given an opinion on the question. BKD: "The KBA generally holds one meeting a year outside the state of Kansas. These meetings have generally been held in Washington, DC, or in the location of the annual BIO conventions. The 2007 attorney general's opinion was that meetings held outside ... Kansas are appropriate" (p. 82) if five specific conditions are met. BKD reports that KBA management told it "that the KBA has no issue with the 2007 attorney general's opinion and has fully complied with the elements in that [opinion] when holding meetings outside of Kansas" (p. 82). KBA notes that on Dec. 28, 2011, Attorney General Derek Schmidt issued an opinion reaffirming the 2007 opinion: "Because the legislature has not changed the statutes upon which the [2007] opinions are based, we cannot discern any reason to change our conclusions. ... A public entity subject to KOMA may conduct meetings outside of Kansas or by teleconference or videoconference if it complies with all the requirements of KOMA."
On page 86	BKD: "Allegations have been made that the director of special projects' responsibilities were already being fulfilled by others in the marketing and communications department" (p. 86) before Tom Thornton hired Lindsay Holwick as director of special projects.	BKD: "There was overlap to a degree. ... However, Mr. Thornton drew a distinction between the outreach done by the marketing and communications department and the director of special projects. He indicated that the marketing and communications personnel were not asked to attend and monitor legislative meetings or to perform outreach to or to promote the KBA with state and national government officials. According to Thornton, these activities were either performed by him personally or by the director of special projects" (p. 86).
Beginning on page 86	BKD: "Tom Thornton testified at the ... Commerce Committee meeting that Melissa Lynch [his executive assistant at the KBA] had been terminated for just cause. Ms Lynch disputes Thornton's statement and indicated to BKD that she had resigned" (p. 86).	BKD reviewed pertinent emails and other records, including an internal investigation conducted by the KBA in March 2011 that found Lynch had been terminated for cause, but BKD takes no independent position on the question.
On page 88	BKD: "... We received information relating to at least one other employment decision by Mr. Thornton. We were asked to investigate whether this employment decision was made in an effort to cover up alleged inappropriate behavior between Mr. Thornton and Lindsay Holwick Thornton in KBA's office" (p. 88).	BKD: "Based on our review of computer forensic records and evidence and an evolution of the relevant timetable, our assessment is that the most likely scenario is that the decision was made for work performance related issues" (p. 88).

Other Issues

Audit location	Issue/Question	Summary
Beginning on page 88	BKD: "It has been alleged that it is inappropriate for KBA to use non-attorney personnel in the position of contract administrator" (p. 88).	BKD consulted with KBA's general counsel, who "indicated that there is no requirement that the contract administrator be an attorney" and that "he reviews all contracts prior to their execution" (p. 88). BKD reviewed the work history of the current contracts administrator and found that "she has significant contract administrator experience dating back to 1989" (p. 89). BKD takes no independent position on the employment of a contracts administrator who is not an attorney.
On page 89	BKD: "It has been alleged that it is an inappropriate use of KBA funds to hire outside consultants to review eminent scholar applications. The implication is that KBA personnel should be qualified to make determinations on their own" (p. 89).	BKD reports that president and CEO David Vranicar told them "that KBA hires qualified outside consultants, when necessary, to perform peer reviews for eminent scholar and rising star applications where very specialized and specific scientific and technical knowledge is required" (p. 89). BKD takes no independent position on the matter.
Beginning on page 89	BKD: "It has been alleged that in late February 2011, after the first Commerce Committee meeting, KBA had the hard drives on the server replaced in an effort to destroy information" (p. 89).	BKD "interviewed David O'Dell of Summit Computing Solutions [the firm that provides IT support to the KBA]. Mr. O'Dell indicated that one of the two hard drives in the server had failed and the other was indicating 'predicted failure.' Therefore, it was necessary to replace the hard drive as soon as possible. ... BKD found no indication that the replacement of the server was for other than maintenance reasons" (pp. 89 and 90).
Beginning on page 95	BKD reviewed "expenses paid by KBA for the benefit of state and federal government agency representatives related to events organized by KBA" (p. 95).	BKD identified expenditures of about $45,200 since 2008 for four annual Washington, DC, trips that each included a KBA board meeting, a stakeholders reception, and a briefing on KBA goals, NBAF, and federal bioscience priorities. The auditors identified about $14,400 in expenditures for legislative tours in 2008, 2009, and 2010, when "legislators were invited on a bus tour to see firsthand the various investments KBA had made" (p. 96). BKD provides a detailed exhibit demonstrating in as complete a form as possible given the available records which federal and state officials participated in these events. BKD expresses no independent judgment about these expenditures.
On page 97	BKD investigated one particular allegation related to the bus tours for state legislators: "Early in the Forensic Audit, we were made aware of an allegation that KBA was renting limousines to transport state or federal government agency representatives for various purposes" (footnote on p. 97).	BKD: "We searched for payments fitting this description and found none. We did find, however, that the name of the company which rented the buses to KBA for the Legislative Bioscience Innovation Tours was 'Executive Limousine,' which is a company that rents both buses and limousines. However, we reviewed all invoices from this company and all were for buses, not limousines" (footnote on p. 97).

Other Issues

Audit location	Issue/Question	Summary
Beginning on page 97	In April 2005, before the KBA had any staff of its own, the KBA contracted with KTEC to provide various management, operational, and administrative services. The one-year contract was not renewed. KTEC was focused on accelerating the research, development, and commercialization of new technologies in Kansas, and made investments in some bioscience companies that also received investments from the KBA .	BKD notes that in fulfilling its purpose, "KTEC made investments in some bioscience companies that also received investments from KBA. However, KBA management and [board members] indicate that there was no program or agreement in place by which the two organizations would cooperate or coordinate investments" (p. 98). BKD reports that this "lack of purposeful syndication appears to be further supported by the 2009 Kansas, Inc., evaluation of KTEC" (p. 98). BKD notes one exception, when KTEC and the KBA, along with other state partners, developed a package of incentives to attract a Virginia bioscience company to Kansas. Also, "In April 2010, KBA and KTEC jointly hired a federal research funding specialist ... [to assist] with the writing of proposals for federal funding and [provide] professional management counseling and technical assistance to early stage companies. Until KTEC's recent dissolution, this position was paid for jointly by KBA and KTEC ... [and] continues to be funded by KBA" (p. 99).
Beginning on page 104	In 2009, the KBA contracted with Buck Consultants to develop an executive "compensation philosophy, the creation of a comparison group, benchmarking KBA executive compensation against a comparison group, and provision of compensation plan recommendations" (p. 105).	BKD reports that Buck found the total cash compensation (base salary plus bonus opportunity) of the KBA CEO was at the 75th percentile of the market, the CFO/COO's below the 75th percentile, and the president of KBA's HBV division slightly above the median. The CEO's total remuneration (cash compensation plus benefits and expenses) was at the 75th percentile of the market, the CFO/COO's between the 50th and 75th percentiles, and the president of HBV's between the 25th and 50th percentile. Buck made recommendations concerning the salaries to the board's executive committee, which used them in making recommendations to the board, which set the CEO's compensation. BKD notes that "it is unclear if Thornton utilized the Buck Consultants study in setting compensation for the other executive officers" (p. 106). "In May 2010, the [board] requested that Buck Consultants provide additional recommendations on Mr. Thornton's compensation arrangement" (p. 106) because Thornton's annual salary review was being moved from the month of his original hire to coincide with the KBA's fiscal year. At this time, Buck recommended a 4 percent increase in the CEO's salary for fiscal 2011, to $260,000, and an increase in the bonus opportunity for the CEO to 60 percent of base salary, "which would result in total cash compensation of $416,000, which would exceed the ... 75th percentile by $28,000" (p. 106). Buck "also recommended a revised structure for determining the bonus pay-out, utilizing a combination of [board] discretion and measurable performance against the KBA's [annual operating plan]" (p. 106). The actual fiscal 2011 employment agreement "for Tom Thornton had a base salary of $265,000 and provided for a total bonus opportunity of 60 percent of base salary, 42 percent at the discretion of the [board] and 18 percent" tied to various performance metrics (p. 107). "Therefore, Tom Thornton's total cash compensation for fiscal year 2011 could have totaled $424,000. BKD verified that Mr. Thornton did not receive any bonus payout for fiscal year 2011 upon his resignation" (p. 107). BKD recommends that the KBA board "consider the review of the salary structure for all employees on a periodic basis and ensure that appropriate performance metrics are established for all positions" (p. 107). *(continued on next page)*

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Audit location	Issue/Question	Summary
		(continued from previous page) KBA notes that Buck reviewed and confirmed that the compensation package offered to Mr. Thornton for fiscal 2011 was consistent with its recommendations to the board. KBA notes that while a bonus of up to 42 percent was potentially available to Mr. Thornton under his employment agreement at the discretion of the board, it was nevertheless tied to an assessment by the board of the overall efforts by Mr. Thornton to promote and support KBA strategic and operations goals as set forth in the fiscal 2011 annual operating plan. Mr. Thornton resigned his position and received no bonus in 2011.
On page 112	BKD: "There was an allegation that a KBA employee ... had inappropriately tried to influence the KBA to use Staples as the supplier for certain business supplies in mid-2011 to benefit [the employee's spouse], who is employed by Staples" (p. 112).	BKD found that "...an account was established with Staples by KBA, and that [the KBA employee's spouse] was providing customer service to KBA" but that [the spouse] is no longer the account manager and "only one order has been placed with Staples since the establishment of the account," a transaction ultimately totaling $43.72 (p. 112). KBA told BKD it had no plans to transact business with Staples in the future.
Beginning on page 111	BKD reviewed reimbursements to KBA employees for business travel and other expenses. BKD reviewed "all expense reports for current and former KBA employees and board members from inception through April 2011 ... for adherence to statutory requirements and KBA's travel-related policies" (p. 111).	While some payments may have violated the KBA's policy regarding the provision of itemized receipts or pre-approval for certain expenses, BKD notes "that the current policy appears to be closely adhered to [by current and recent staff members] but was less so by Tom Thornton ..." (p. 116). BKD notes that during the KBA's start-up phase from April 2004 through October 2006,"the expense reports were not as well documented as they are currently. KBA has improved its expense reimbursement process over time and supporting documentation in recent years was generally good. However, the process could be improved by ensuring that the business purpose for all expenses is clearly stated" (p. 111). Some particular expenses incurred by Tom Thornton are addressed in the section of this summary headed Issues Related to Former President and CEO Tom Thornton.
On page 115	BKD reports that one of the KBA's former directors of commercialization booked "his own flights and primarily used one particular carrier, for which airfare appears to have been high" (p. 115). "BKD considered the fact that [he] may have been selecting flights with a particular airline in order to accumulate frequent flier miles for personal benefit" (p. 115).	BKD determined "that he often booked flights only a few days in advance ... which caused airfare to be much higher than a ticket purchased weeks or months in advance. It was also determined that the regional airport out of which he flew charged higher rates than larger airports. BKD searched for flights similar to those taken ... and noted that all airlines charged similar prices. Therefore, it does not appear that a more expensive airline was chosen ... to accumulate frequent flier miles for personal benefit. It appears that [the employee] was in compliance with the portion of the travel policy that dictates an employee is to select the lowest possible fare regardless of airline" (p. 115).

Other Issues

Audit location	Issue/Question	Summary
On page 115	BKD noted "various events for the benefit of the staff, such as holiday parties and team-building events" from 2007 through December 2010, with a total cost of about $5,000 (p. 115).	BKD makes no independent judgment on these expenditures but does note that "the purpose of expenses charged to the American Express card was not always clearly noted ... so BKD considers [the approximate $5,000] figure to be a minimum" (p. 115).
On page 116	BKD summarizes its findings related to entertainment expenses for Washington, DC, meetings, industry conventions, and board meetings.	BKD notes that "in general, ... KBA spent money to entertain guests in a manner management felt was appropriate given the circumstances but others might find extravagant. ... BKD did not identify any expenses for which there clearly was not an appropriate business purpose" (p. 116).
Beginning on page 116	BKD reviewed reimbursements to KBA board members for business travel other expenses.	Some reimbursements for airline upgrades and excessive tips, BKD notes, "may have violated the policy" (p. 117) but they all occurred "in 2006 or prior, when the current travel policy was not yet in place" (p. 103). BKD also notes that "instances of the payment of expenses without all the required documentation were not significant" (p. 117).
Beginning on page 117	Staff members used KBA credit cards occasionally for personal purchases.	BKD found "that the cards were used for personal expenses on a few occasions, but that all occasions of personal use were reimbursed to KBA" (p. 117). BKD continues: "These instances primarily took place prior to the implementation of the current policy" (p. 117). BKD recommends management "ensure that KBA staff know the requirements for the use of the cards and enforce those requirements" (p. 118). KBA management has taken BKD's recommendation a step further: KBA credit cards are held only by the president and the CFO. Under the direction of the president or CFO, travel and other approved expenses for staff members may be charged to these cards. The policy forbidding the use of the cards for personal purposes is enforced.
Beginning on page 118	Some expenses were reimbursed to KBA employees or board members twice.	BKD identified eight instances of expenses being reimbursed twice, for a total of $4,292.04 overpaid to employees and board members. BKD describes the circumstances and notes that most of these instances happened inadvertently due to extenuating circumstances described in the audit report on page beginning on page 118. BKD makes recommendations to strengthen policies and procedures to prevent this and recommends that the KBA board "consider requesting reimbursement for any verified instances of duplicative expense reimbursements" (p. 120). The KBA has made such requests of the five people involved in the eight instances of inadvertent double payments; as of Jan. 20, 2012, four have repaid the amounts requested, totaling $3,983.04.

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Audit location	Issue/Question	Summary
Beginning on page 121	BKD reviewed KBA contracting policies and procedures, along with 104 contract files "to determine with whom and for what large sums of money were spent" and "to determine the appropriateness of the vendor contracting, contract authorization, and vendor payment processes" (p. 121).	In the files for about a third of the vendors, BKD found instances where contracts did not completely conform to the KBA's policies or, before the pertinent policies were adopted, there was some other "lack of appropriateness" (p. 132). This included instances where contracts could not be found or were not properly executed or where the vendor's work continued beyond the term of the contract. BKD noted some instances of inadequate documentation for the reimbursements to vendors for expenses, of lack of adherence to policies governing RFPs and sole-source contracts, and of the inappropriate use of electronic signatures. BKD noted that "the early years [of the KBA's operations] contained a majority of [their] findings" (p. 132) and that "the level of documentation, organization, and completeness of the files improved over the years" (p. 132). KBA management will consider revisions to further improve documentation and practices in the areas of RFPs and sole-source contracts, vendor and consulting contracts, vendor expense reimbursement, the use of electronic signatures, and invoice pre-approval.
On page 150	In 2009 , the KBA's commercialization unit, Heartland BioVentures, established an advisory board whose members included industry experts and executives. BKD reports that one member of that board said the board "was disbanded 12 to 18 months ago" and that KBA management said the board "had not formally been disbanded but agreed that it no longer is a functioning entity" (p. 150). BKD notes that the KBA's website continued to list the advisory board.	BKD: "The listing of the HBV advisory board on KBA's website is misleading. It could imply that HBV has access to expertise and a level of oversight that in reality is not available. The website should be taken down" (p. 150). The page has since been removed as BKD recommended.

Issues related to the Center of Innovation for Biomaterials in Orthopaedic Research (CIBOR)

This section summarizes the findings of the investigation of the KBA's commitments to CIBOR conducted by Meara Welch Browne.

Audit location	Issue/Question	Summary
On page 22	Various parties, including state Sen. Susan Wagle and CIBOR officials, have alleged that the KBA made and then reneged on a commitment to provide CIBOR with $20 million in funding over five years.	Meara Welch Browne conducted multiple interviews with current and former KBA employees and board members, CIBOR employees and affiliates, and others, including Sen. Wagle and officials at another of the centers of innovation. They examined more than 450 documents provided by the KBA and by CIBOR. MWB: "Our forensic procedures did not identify any documents, records, or correspondence where the KBA made or appeared to make a firm economic commitment of a $20 million award to CIBOR. Additionally, no one we spoke with from CIBOR and its affiliates indicated that oral representations of a firm commitment of $20 million were made directly to them" (p. 13).