

**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME I

**For the Year Ended
June 30, 2018**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2018

Background

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

SSWAK - Volume I contains financial reporting information based on our audit of the CAFR. It includes the APA's opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements, the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and financial statement findings related to internal control and compliance.

SSWAK - Volume II will present elements required under the Uniform Guidance, including the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance*, and the Schedule of Findings and Questioned Costs.

Comprehensive Annual Financial Report

The CAFR, including our report thereon based on our audit and the reports of other auditors, has been issued under separate cover. We identified in our Independent Auditor's Report on the CAFR the percentages of various funds and component units audited by other auditors. The agencies and funds audited by our office and other auditors, as well as contact information, are presented in the Appendix of this report.

The scope of the CAFR audit included:

- An audit of the basic financial statements and combining financial statements;
- Limited procedures applied to required supplementary information;
- An audit of the SEFA sufficient to give an opinion in relation to the basic financial statements; and,
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants, and tests of internal controls where applicable.

**THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY VOLUME I
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Schedule of Expenditures of Federal Awards

The SEFA presented within this report is organized by federal grantor. The Catalog of Federal Domestic Assistance (CFDA) numbers and program names are listed under the federal grantor administering the program. The state agencies expending the federal funds are listed beside each CFDA number. The notes to the SEFA provide more detailed information on certain aspects of the expenditures. Clusters of programs are indicated in the SEFA by light gray shading. The identification of major federal programs and our report thereon will be presented in Volume II of the SSWAK.

For the fiscal year (FY) ended June 30, 2018, the total federal dollars expended by the Commonwealth of Kentucky were \$11,658,879,290 in cash awards and \$992,423,925 in noncash awards. For FY 2018, the total federal cash expenditures as reported on the SEFA increased by \$273,938,009 in comparison with the total for FY 2017.

Component Units

The Commonwealth of Kentucky reporting entity for the purposes of the CAFR includes various component units, including state universities and retirement systems, as identified in accordance with Governmental Accounting Standards Board Statements 14, 39, 61, and 80. However, except for CAFR reporting, the Commonwealth has elected to exclude component units from the statewide single audit. Thus, these component units, including state universities and retirement systems, are not included in the accompanying SEFA and reports on internal control over financial reporting and compliance. These entities are still required to have audits performed in accordance with the provisions of the Uniform Guidance, if applicable, based on their total federal expenditures. Separately issued reports of component units can be obtained by contacting the respective agencies. Contact information for these agencies is presented in the Appendix of this report.



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

February 6, 2019

Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the Fiscal Year ended June 30, 2018. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

We will subsequently report to you the required elements of Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards* in Volume II of this report upon completion of our audit of the Commonwealth's major federal programs.

On behalf of the staff of the Auditor of Public Accounts, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Farrah Petter, Assistant State Auditor.

Respectfully Submitted,

Mike Harmon
Auditor of Public Accounts



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

Independent Auditor's Report

Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated December 12, 2018 except as to Note 18 for the Supreme Court opinion, which is as of December 13, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Opinion

In our opinion, except for the effects of the application of a different basis of accounting, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the Commonwealth's basic financial statements as a whole.



Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

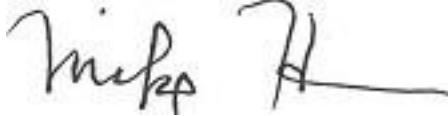
Emphasis of Matter

The Schedule of Expenditures of Federal Awards is prepared on the basis of cash disbursements as modified by the application of Kentucky Revised Statute 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed and not when incurred.

Other Information

This report is intended solely for the information and use of management, members of the General Assembly, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 12, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	AGR	\$ 518,925	\$	\$
		F&W			
10.028	Wildlife Services (Note 14)	F&W			
10.072	Wetlands Reserve Program	F&W	458,425		
10.093	Voluntary Public Access and Habitat Incentive Program (Note 14)	F&W			
10.153	Market News	AGR	2,537		
10.162	Inspection Grading and Standardization	AGR	14,249		
10.163	Market Protection and Promotion	AGR	65,000		
10.170	Specialty Crop Block Grant Program - Farm Bill	AGR	52,089		
10.351	Rural Business Opportunity Grants	KAC	5,086		
10.479	Food Safety Cooperative Agreements	CHFS	89,575		
10.537	Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E & T)				
	Data and Technical Assistance Grants	CHFS			
		DWI	153,018		
10.547	Professional Standards for School Nutrition Employees	EDU	50,731		
SNAP Cluster:					
10.551	Supplemental Nutrition Assistance Program (Note 2) (Note 10)	CHFS		890,852,457	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2)	CHFS	70,829,643		11,581,287
Total SNAP Cluster:			<u>70,829,643</u>	<u>890,852,457</u>	<u>11,581,287</u>
Child Nutrition Cluster:					
10.553	School Breakfast Program (Note 2)	EDU	94,037,481		94,035,997
		JUV			
10.555	National School Lunch Program (Note 2) (Note 10)	EDU	230,085,727		230,079,717
		AGR		28,427,188	
		JUV			
10.556	Special Milk Program for Children (Note 2)	EDU	19,086		19,086
10.559	Summer Food Service Program for Children (Note 2)	EDU	9,117,296		8,847,930
Total Child Nutrition Cluster:			<u>333,259,590</u>	<u>28,427,188</u>	<u>332,982,730</u>
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	CHFS	106,857,585		23,115,768
10.558	Child and Adult Care Food Program (Note 2)	EDU	44,199,554		43,650,326
10.560	State Administrative Expenses for Child Nutrition	EDU	3,198,952		164,984
		AGR	477,260		
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program (Note 10)(Note 11)	AGR	1,858,601	6,296,841	
10.568	Emergency Food Assistance Program (Administrative Costs)	AGR	1,505,971		
10.569	Emergency Food Assistance Program (Food Commodities) (Note 10)	AGR		9,946,530	
Total Food Distribution Cluster:			<u>3,364,572</u>	<u>16,243,371</u>	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	CHFS	127,216		
10.575	Farm to School Grant Program (Note 14)	AGR			
10.576	Senior Farmers Market Nutrition Program	AGR	278,298		
10.578	WIC Grants to States (WGS)	CHFS	34,818		
10.579	Child Nutrition Discretionary Grants Limited Availability	EDU	365,529		365,529
10.582	Fresh Fruit and Vegetable Program	EDU	2,359,538		2,359,538
10.589	Child Nutrition Direct Certification Performance Awards (Note 14)	EDU			
10.592	Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects	CHFS	656,683		
10.596	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP	CHFS	7,855,092		7,315,837
		DWI	1,676		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture (Continued)					
Direct Programs (Continued):					
10.598	Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants	CHFS	119,234		
		KSP	3,557		
10.652	Forestry Research	EEC	282,357		
10.664	Cooperative Forestry Assistance	EEC	2,209,626		471,051
10.674	Wood Utilization Assistance	EEC	1,064		
10.676	Forest Legacy Program	EEC	4,744		
10.678	Forest Stewardship Program	EEC	56,687		
10.771	Rural Cooperative Development Grants (Note 14)	AGR			
10.902	Soil and Water Conservation (Note 14)	COT			
		F&W			
		EEC			
10.912	Environmental Quality Incentives Program	EEC	48,327		
10.913	Farm and Ranch Lands Protection Program	AGR	4,150		
		F&W			
10.923	Emergency Watershed Protection Program	TC	61,397		
10.932	Regional Conservation Partnership Program	EEC	27,695		27,695
10.U01	Rural Rehabilitation Student Loan Program (Note 1) (Note 3) (Note 14)	AGR			
10.U02	HWA Participating Agreement with Daniel Boone National Forest (Note 1)(Note 15)	EEC	24,445		
Total U.S. Department of Agriculture			<u>\$ 578,118,924</u>	<u>\$ 935,523,016</u>	<u>\$ 422,034,745</u>
U.S. Department of Commerce					
Direct Programs:					
11.302	Economic Development Support for Planning Organizations	DLG	1,050,000		1,050,000
Economic Development Cluster:					
11.307	Economic Adjustment Assistance	KCNA	\$ 4,527	\$	\$
		DLG			
		DWI	55,466		
Total Economic Development Cluster:			<u>59,993</u>		
11.549	State and Local Implementation Grant Program	COT			
		KSP	137,286		
Total U.S. Department of Commerce			<u>\$ 1,247,279</u>	<u>\$</u>	<u>\$ 1,050,000</u>
U.S. Department of Defense					
Direct Programs:					
12.106	Flood Control Projects	F&W	\$ 7,665	\$	\$
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	EEC	141,092		
12.217	Electronic Absentee Systems for Elections	SOS	50,567		
12.400	Military Construction, National Guard	MIL	38,009		
12.401	National Guard Military Operations and Maintenance (O&M) Projects	MIL	24,438,869		
12.404	National Guard ChalleNGe Program	MIL	5,195,152		
12.617	Economic Adjustment Assistance for State Governments	CMA	328,475		
12.700	Donations/Loans of Obsolete DOD Property (Note 10)	EEC		219,900	
		KSP			
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities (Note 1)(Note 15)	EEC	1,050,198		63,139
12.U02	Teacher and Teacher's Aide Placement Assistance Program (Note 1)(Note 14)	EPSB			
Total U.S. Department of Defense			<u>\$ 31,250,027</u>	<u>\$ 219,900</u>	<u>\$ 63,139</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Housing and Urban Development					
Direct Programs:					
Community Development Block Grants-State-Administered Small Cities Program					
14.228	Community Development Block Grants/State's Program and Non- Entitlement Grants in Hawaii (Note 8)	DLG MIL	\$ 24,866,813	\$	\$ 24,551,365
14.262	Homeless Prevention and Rapid Re-Housing Program Technical Assistance (Note 14)	DLG			
14.270	Appalachia Economic Development Initiative	DLG	92,819		89,149
14.401	Fair Housing Assistance Program State and Local	HRC	120,564		
Total U.S. Department of Housing and Urban Development			\$ 25,080,196	\$	\$ 24,640,514
U.S. Department of the Interior					
Direct Programs:					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	EEC	\$ 10,945,235	\$	\$ 146,005
15.252	Abandoned Mine Land Reclamation (AMLR)	EEC	19,107,043		2,829,285
15.255	Science and Technology Projects Related to Coal Mining and Reclamation	EEC	46,269		
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration (Note 7)	F&W	4,722,542		
15.611	Wildlife Restoration and Basic Hunter Education (Note 9)	F&W	8,803,416		
Total Fish and Wildlife Cluster:			13,525,958		
15.608	Fish and Wildlife Management Assistance	F&W	280,608		
15.614	Coastal Wetlands Planning, Protection and Restoration (Note 14)	F&W			
15.615	Cooperative Endangered Species Conservation Fund (Note 7)	F&W	203,043		
		EEC	34,890		
15.616	Clean Vessel Act (Note 14)	F&W			
15.622	Sportfishing and Boating Safety Act	F&W	92,354		
15.623	North American Wetlands Conservation Fund (Note 14)	F&W			
15.626	Enhanced Hunter Education and Safety (Note 14)	F&W			
15.632	Conservation Grants Private Stewardship for Imperiled Species	F&W	63,100		
15.634	State Wildlife Grants (Note 7)	F&W	927,826		
15.656	ARRA-Recovery Act Funds - Habitat Enhancement, Restoration and Improvement (Note 13) (Note 14)	F&W			
15.657	Endangered Species Conservation - Recovery Implementation Funds	F&W	66,142		
		EEC	12,689		
15.809	National Spatial Data Infrastructure Cooperative Agreements (Note 14)	COT			
15.904	Historic Preservation Fund Grants-In-Aid	KHC	863,464		84,688
15.916	Outdoor Recreation Acquisition, Development and Planning (Note 6)	DLG	528,482		528,482
15.945	Cooperative Research and Training Programs - Resources of the National Park System (Note 14)	EEC			
15.981	Water Use and Data Research	EEC	25,929		
15.U01	Clark River NWR Fish Survey (Note 1)(Note 14)	F&W			
15.U02	Ohio River Survey (Note 1)(Note 14)	F&W			
Total U.S. Department of the Interior			\$ 46,723,032	\$	\$ 3,588,460
U.S. Department of Justice					
Direct Programs:					
16.017	Sexual Assault Services Formula Program	JUST	\$ 382,953	\$	\$ 382,953
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry) (Note 14)	CORR			
16.320	Services for Trafficking Victims	OAG	253,362		
16.523	Juvenile Accountability Block Grants	JUV	29,348		
16.540	Juvenile Justice and Delinquency Prevention	JUV	553,389		488,686
16.543	Missing Children's Assistance	KSP	225,223		
16.550	State Justice Statistics Program for Statistical Analysis Centers	JUST	207,000		
16.554	National Criminal History Improvement Program (NCHIP)	KSP	183,852		
		JUST			

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	KSP			
		CORR	36,251		
16.575	Crime Victim Assistance	JUST	16,617,355		15,701,667
		UPS	727,669		
16.576	Crime Victim Compensation	PPC	321,200		
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants	CORR	29,390		
16.582	Crime Victim Assistance/Discretionary Grants	JUST	7,648		
		OAG	1,189		
		UPS	32,652		
16.585	Drug Court Discretionary Grant Program (Note 7)	AOC	578,518		
16.588	Violence Against Women Formula Grants	JUST	1,897,363		1,605,583
		AOC	48,861		
		UPS	52,477		
		KSP			
		CHFS			
16.593	Residential Substance Abuse Treatment for State Prisoners	CORR	224,220		
		JUV			
		JUST			
16.606	State Criminal Alien Assistance Program	CORR	25,505		
16.607	Bulletproof Vest Partnership Program (Note 14)	JUST			
16.610	Regional Information Sharing Systems (Note 14)	COT			
16.710	Public Safety Partnership and Community Policing Grants	KSP	443,913		
16.727	Enforcing Underage Drinking Laws Program (Note 14)	KSP			
16.735	PREA Program: Strategic Support for PREA Implementation	JUST	945		
		JUV	11,054		
		CORR	29,155		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	JUST	470,967		395,713
		KSP	18,109		
		PUBAD	52,723		
		CORR	18,361		
16.741	DNA Backlog Reduction Program	KSP	1,052,156		
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	KSP	48,845		
		JUST	11,458		
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program (Note 7)	AOC	27,061		
16.746	Capital Case Litigation Initiative (Note 14)	JUST			
16.750	Support for Adam Walsh Act Implementation Grant Program	KSP	51,600		
16.754	Harold Rogers Prescription Drug Monitoring Program	CHFS	276,945		
16.813	NICS Act Record Improvement Program	KSP	79,960		
16.817	Innovations in Community-Based Crime Reduction	PUBAD	37,067		
16.826	Vision 21 (Note 14)	PPC			
16.833	National Sexual Assault Kit Initiative	KSP	1,129,938		
		OAG	157,272		
16.922	Equitable Sharing Program	UPS	36,299		
16.U01	Drug Enforcement Administration (Note 1)(Note 15)	KSP	1,886,211		
16.U02	Federal Bureau of Investigation (Note 1)(Note 15)	KSP	79,310		
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program (Note 1)(Note 15)	KSP	81,338		
16.U04	District Fugitive Task Force (Note 1)(Note 15)	KSP	7,659		
16.U05	Equitable Sharing-Asset Forfeiture (Note 1)(Note 15)	KSP	745,945		
Total U.S. Department of Justice			<u>\$ 29,189,716</u>	<u>\$</u>	<u>\$ 18,574,602</u>

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	DWI	\$ 933,834	\$	\$
17.005	Compensation and Working Conditions	LABOR	162,429		
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	DWI	6,681,690		
17.801	Disabled Veterans' Outreach Program (DVOP)	DWI	1,654,694		
17.804	Local Veterans' Employment Representative Program	DWI	425,690		
Total Employment Service Cluster:			<u>8,762,074</u>		
17.225	Unemployment Insurance (Note 2)(Note 4)	DWI	328,952,028		
17.225	ARRA-Unemployment Insurance (Note 4)(Note 13)	DWI	865		
17.235	Senior Community Service Employment Program	CHFS	1,372,570		1,310,466
17.245	Trade Adjustment Assistance	DWI	6,070,533		4,719,234
WIOA Cluster:					
17.258	WIOA Adult Program (Note 2)	DWI	11,015,237		10,815,163
17.259	WIOA Youth Activities (Note 2)	DWI	15,461,377		12,895,201
17.278	WIOA Dislocated Worker Formula Grants (Note 2)	DWI	18,071,739		13,957,186
Total WIOA Cluster:			<u>44,548,353</u>		<u>37,667,550</u>
17.261	WIOA Pilots, Demonstrations, and Research Projects	DWI	309,399		
17.271	Work Opportunity Tax Credit Program (WOTC)	DWI	357,398		
17.273	Temporary Labor Certification For Foreign Workers	DWI	477,090		
17.276	Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	DWI	3,903		
17.277	WIOA National Dislocated Workers Grants / WIA National Emergency Grants	DWI	3,563,856		2,721,165
17.281	WIOA Dislocated Worker National Reserve Technical Assistance and Training	DWI	102,060		
17.285	Apprenticeship USA Grants	LABOR	783,046		522,949
17.503	Occupational Safety and Health State Program	LABOR	3,366,287		
17.600	Mine Health and Safety Grants	EEC	594,488		
Total U.S. Department of Labor			<u>\$ 400,360,213</u>	<u>\$</u>	<u>\$ 46,941,364</u>
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program	TC	\$ 504,689	\$	\$
Highway Planning and Construction Cluster:					
20.205	Highway Planning and Construction (Note 2)(Note 5)	TC	755,308,484		30,978,830
		PARKS	713,111		
		DWI	2,980		
		KSP	345,817		
		KHS			
20.219	Recreational Trails Program (Note 2) (Note 6)	DLG	1,397,264		1,344,565
Total Highway Planning and Construction Cluster:			<u>757,767,656</u>		<u>32,323,395</u>
20.218	Motor Carrier Safety Assistance	KSP	3,556,318		101,464
		TC	562,675		
20.231	Performance and Registration Information Systems Management	TC	181,542		
20.232	Commercial Driver's License Program Implementation Grant	TC	100,797		
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	TC	536,506		
20.240	Fuel Tax Evasion-Intergovernmental Enforce Effort	KSP	92,854		
		TC	3,319		
		REV	6,630		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Transportation (Continued)					
Direct Programs (Continued):					
Federal Transit Cluster:					
20.500	Federal Transit Capital Investment Grants	TC	114,838		114,838
20.526	Bus and Bus Facilities Formula Program	TC	5,167,265		5,167,265
Total Federal Transit Cluster:			5,282,103		5,282,103
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	TC	725,886		725,886
20.509	Formula Grants for Rural Areas	TC	20,756,812		19,889,334
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	TC	1,650,440		1,650,440
Total Transit Services Programs Cluster:			1,650,440		1,650,440
Highway Safety Cluster:					
20.600	State and Community Highway Safety	TC	2,373,775		1,514,216
		KSP	555,231		
		OAG	50,613		
		DCIT	45,540		
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I (Note 14)	KSP			
		DCIT			
20.602	Occupant Protection Incentive Grants (Note 14)	KSP			
		TC			
20.610	State Traffic Safety Information System Improvement Grants (Note 14)	KSP			
20.616	National Priority Safety Programs	TC	2,144,342		1,075,527
		KSP	934,041		
		OAG	116,182		
		DCIT	12,071		
Total Highway Safety Cluster:			6,231,795		2,589,743
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	KSP	157,360		
		TC	54,406		54,406
20.700	Pipeline Safety Program State Base Grant	EEC	609,469		
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	MIL	290,352		66,189
20.933	National Infrastructure Investments	TC	13,637,321		1,555,024
Total U.S. Department of Transportation			\$ 812,708,930	\$	\$ 64,237,984
U.S. Department of Treasury					
Direct Programs:					
21.016	Equitable Sharing (Note 14)	UPS	\$	\$	\$
21.U01	Internal Revenue Service (Note 1)(Note 14)	KSP			
21.U02	Equitable Sharing-Asset Forfeiture (Note 1) (Note 15)	KSP	641,569		
		UPS			
21.U03	State Small Business Credit Initiative (Note 1)(Note 15)	CED	5,635		
Total U.S. Department of Treasury			\$ 647,204	\$	\$
U.S. Appalachian Regional Commission					
Direct Programs:					
23.002	Appalachian Area Development	DLG	\$ 741,859	\$	\$ 741,859
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	DLG	127,351		
Total U.S. Appalachian Regional Commission			\$ 869,210	\$	\$ 741,859

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Programs:					
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	HRC	\$ 140,920	\$	\$
Total U.S. Equal Employment Opportunity Commission			<u>\$ 140,920</u>	<u>\$</u>	<u>\$</u>
<u>U.S. General Services Administration</u>					
Direct Programs:					
39.003	Donation of Federal Surplus Personal Property (Note 10)	FAC	\$	\$ 73,873	\$
39.011	Election Reform Payments (Note 7) (Note 12)	EBC KBE	818,136		
Total U.S. General Services Administration			<u>\$ 818,136</u>	<u>\$ 73,873</u>	<u>\$</u>
<u>National Aeronautics and Space Administration</u>					
Direct Programs:					
43.002	Aeronautics (Note 14)	COT	\$	\$	\$
Total National Aeronautics and Space Administration			<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>U.S. National Foundation on the Arts and the Humanities</u>					
Direct Programs:					
45.025	Promotion of the Arts Partnership Agreements	KAC KHS	\$ 740,687	\$	\$ 677,963
45.149	Promotion of the Humanities Division of Preservation and Access	KHS	2,658		
45.161	Promotion of the Humanities Research	KHS	70,533		
45.301	Museums for America	KHS	44,498		
45.310	Grants to States	DLA	2,229,144		10,000
45.313	Laura Bush 21st Century Librarian Program	DLA	78,068		
Total U.S. National Foundation on the Arts and Humanities			<u>\$ 3,165,588</u>	<u>\$</u>	<u>\$ 687,963</u>
<u>U.S. Small Business Administration</u>					
Direct Programs:					
59.061	State Trade Expansion	CED	\$ 275,375	\$	\$
Total U.S. Small Business Administration			<u>\$ 275,375</u>	<u>\$</u>	<u>\$</u>
<u>U.S. Department of Veterans Affairs</u>					
Direct Programs:					
64.005	Grants to States for Construction of State Home Facilities	VA	\$ 508,303	\$	\$
64.015	Veterans State Nursing Home Care	VA	22,702,422		
64.101	Burial Expenses Allowance for Veterans	VA	732,398		
Total U.S. Department of Veterans Affairs			<u>\$ 23,943,123</u>	<u>\$</u>	<u>\$</u>
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
66.032	State Indoor Radon Grants	CHFS	\$ 211,314	\$	\$ 119,013
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Note 10)	EEC	647,661	105,089	
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	EEC	226,279		
66.433	State Underground Water Source Protection	EEC	163,232		
66.454	Water Quality Management Planning	EEC	170,000		

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Environmental Protection Agency (Continued)					
Direct Programs (Continued):					
Clean Water State Revolving Fund Cluster:					
66.458	Capitalization Grants for Clean Water State Revolving Funds	EEC	603,198		
	Total Clean Water State Revolving Fund Cluster:		<u>603,198</u>		
66.460	Nonpoint Source Implementation Grants	EEC	59,206		59,205
Drinking Water State Revolving Fund Cluster:					
66.468	Capitalization Grants for Drinking Water State Revolving Funds	EEC	5,534,432		69,524
	Total Drinking Water State Revolving Fund Cluster:		<u>5,534,432</u>		<u>69,524</u>
66.605	Performance Partnership Grants (Note 10)	EEC	9,856,898	221,764	1,930,234
		AGR	602,679		
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	CHFS	368,330		45,000
66.717	Source Reduction Assistance	EEC	8,803		
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative	EEC	164,603		
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	EEC	423,105		
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	EEC	1,223,936		
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	EEC	56,693		
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	EEC	86,769		40,902
66.951	Environmental Education Grants	DWI	37,294		6,850
	Total U.S. Environmental Protection Agency		<u>\$ 20,444,432</u>	<u>\$ 326,853</u>	<u>\$ 2,270,728</u>
U.S. Department of Energy					
Direct Programs:					
81.041	State Energy Program	EEC	\$ 630,370	\$	\$ 130,140
81.104	Environmental Remediation and Waste Processing and Disposal	EEC	833,801		
		CHFS	580,018		
81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13) (Note 14)	DLG			
		PPC			
81.138	State Heating Oil and Propane Program	EEC	8,470		
	Total U.S. Department of Energy		<u>\$ 2,052,659</u>	<u>\$</u>	<u>\$ 130,140</u>
U.S. Department of Education					
Direct Programs:					
84.010	Title I Grants to Local Educational Agencies (Note 2)	EDU	\$ 206,354,235	\$	\$ 199,320,825
84.011	Migrant Education State Grant Program	EDU	6,892,463		6,839,300
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	JUV	1,627,106		748,894
		CORR	6,820		
		EDU	253		
Special Education Cluster (IDEA):					
84.027	Special Education Grants to States (Note 2)	EDU	154,654,226		152,299,742
84.173	Special Education Preschool Grants (Note 2)	EDU	9,558,254		9,268,101
	Total Special Education Cluster (IDEA):		<u>164,212,480</u>		<u>161,567,843</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.048	Career and Technical Education -- Basic Grants to States	EDU	17,291,894		14,918,851
		CORR	2		
		EPSB	87,436		
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States (Note 2)	DWI	45,835,721		
84.144	Migrant Education Coordination Program	EDU	155,165		
84.161	Rehabilitation Services Client Assistance Program	DWI	164,349		
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	DWI	504,457		
84.181	Special Education-Grants for Infants and Families	CHFS	6,689,416		
84.184	School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs)	EDU	104,907		98,751
84.186	Safe and Drug-Free Schools and Communities_State Grants (Note 14)	EDU			
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	DWI	86,508		
84.196	Education for Homeless Children and Youth	EDU	1,015,409		975,105
84.206	Javits Gifted and Talented Students Education	EDU	415,981		414,311
84.213	Even Start_State Educational Agencies (Note 14)	EDU			
84.215	Innovative Approaches to Literacy, Full-service Community Schools; and Promise Neighborhoods (Note 14)	KHS			
84.224	Assistive Technology (Note 14)	DWI			
84.235	Rehabilitation Services Demonstration and Training Programs	DWI	506,061		283,245
84.240	Program of Protection and Advocacy of Individual Rights	PUBAD	178,004		
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training (Note 14)	DWI			
84.287	Twenty-First Century Community Learning Centers	EDU	16,872,207		16,810,797
84.298	State Grants for Innovative Programs (Note 14)	EDU			
84.318	Educational Technology State Grants (Note 14)	EDU			
84.323	Special Education - State Personnel Development	EDU	1,199,540		823,148
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	EDU	181,598		181,598
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)(Note 14)	EDU			
84.357	Reading First State Grants (Note 14)	EDU			
84.358	Rural Education	EDU	4,354,925		4,292,162
84.365	English Language Acquisition State Grants	EDU	3,224,295		3,106,133
84.366	Mathematics and Science Partnerships	EDU	2,316,901		2,203,557
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) (Note 2)	EDU	30,427,532		29,743,137
84.369	Grants for State Assessments and Related Activities	EPSB	429,972		
84.371	Comprehensive Literacy Development	EDU	3,176,515		
84.372	Statewide Longitudinal Data Systems	EDU	48,072		
84.377	School Improvement Grants	DWI	1,507,969		
84.377	School Improvement Grants	EDU	5,591,810		5,535,894
84.388	ARRA-School Improvement Grants, Recovery Act (Note 13)(Note 14)	EDU			
84.412	Race to the Top -- Early Learning Challenge	CHFS	12,493,881		2,555,050
		GOV	3,210,518		
		EDU	4,448,066		4,142,083
84.413	Race to the Top (Note 14)	EDU			
84.416	Race to the Top - District Grants	DWI	161,286		
84.424	Student Support and Academic Enrichment Program	EDU	175,286		114,997
Total U.S. Department of Education			\$ 541,949,040	\$	\$ 454,675,681

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	DLA	\$ 92,762	\$	\$
		KHS	40,228		
Total U.S. National Archives and Records Administration			\$ 132,990	\$	\$
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments (Note 7)	KBE	\$ 2,219,428	\$	\$
Total U.S. Election Assistance Commission			\$ 2,219,428	\$	\$
U.S. Department of Health and Human Services					
Direct Programs:					
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	CHFS	\$ 72,437	\$	\$ 72,437
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	CHFS	212,488		123,427
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	CHFS	287,152		268,250
Aging Cluster:					
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	CHFS	5,152,668		4,969,806
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	CHFS	9,056,974		8,545,219
93.053	Nutrition Services Incentive Program	CHFS	1,480,490		1,480,490
Total Aging Cluster:			15,690,132		14,995,515
93.048	Special Programs for the Aging, Title IV, and Title II, Discretionary Projects (Note 14)	CHFS			
93.051	Alzheimer's Disease Demonstration Grants to States (Note 14)	CHFS			
93.052	National Family Caregiver Support, Title III, Part E	CHFS	2,051,668		1,963,351
93.069	Public Health Emergency Preparedness (Note 10)	CHFS	8,661,546	339,507	4,641,885
93.070	Environmental Public Health and Emergency Response	CHFS	762,487		
93.071	Medicare Enrollment Assistance Program	CHFS	543,924		511,277
93.073	Birth Defects and Developmental Disabilities - Prevention and Surveillance	CHFS	357,404		
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	CHFS	338,913		287,767
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	EDU	45,371		
93.087	Enhance Safety of Children Affected by Substance Abuse	CHFS	359,713		216,292
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	CHFS	549,984		542,800
93.103	Food and Drug Administration Research	CHFS	595,385		
93.110	Maternal and Child Health Federal Consolidated Programs	CHFS	122,487		
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	CHFS	486,309		
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	CHFS	133,493		
93.136	Injury Prevention and Control Research and State and Community Based Programs	CHFS	418,590		418,590
		DCJT	12,454		
93.138	Protection and Advocacy for Individuals with Mental Illness	PUBAD	389,598		
93.150	Projects for Assistance In Transition from Homelessness (PATH)	CHFS	467,601		452,978
93.184	Disabilities Prevention	CHFS	133,800		
93.217	Family Planning Services	CHFS	6,338,675		5,792,539
93.235	Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	CHFS	1,061,789		987,620
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance (Note 7)	CHFS	8,017,694		5,978,661
		AOC	2,326,667		
		EDU	1,466,677		1,159,028

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.251	Universal Newborn Hearing Screening	CHFS	228,448		
93.267	State Grants for Protection and Advocacy Services (Note 14)	PUBAD			
93.268	Immunization Cooperative Agreements (Note 2) (Note 10)	CHFS	3,524,112	55,544,469	
93.270	Viral Hepatitis Prevention and Control	CHFS	256,701		
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	CHFS	3,913,357		870,446
93.292	National Public Health Improvement Initiative (Note 14)	CHFS			
93.296	State Partnership Grant Program to Improve Minority Health (Note 14)	CHFS			
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	CHFS	1,862,761		247,127
93.324	State Health Insurance Assistance Program	CHFS	794,647		555,652
93.325	Paralysis Resource Center	DWI	58,031		40,355
93.369	ACL Independent Living State Grants	DWI	93,217		
		CHFS	191,255		190,722
93.464	ACL Assistive Technology	DWI	515,540		475,623
93.504	Family to Family Health Information Centers	CHFS	88,185		
Maternal, Infant, and Early Childhood Home Visiting Cluster:					
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	CHFS	3,427,847		
			<u>3,427,847</u>		
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient	CHFS	77,280		
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	PPC	176,307		
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information	CHFS	945,349		24,262
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	PPC	340,435		
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds (Note 14)	CHFS			
93.556	Promoting Safe and Stable Families	CHFS	4,985,618		4,404,912
TANF Cluster:					
93.558	Temporary Assistance for Needy Families (Note 2)	CHFS	176,068,683		17,206,723
	Total TANF Cluster:		<u>176,068,683</u>		<u>17,206,723</u>
93.563	Child Support Enforcement (Note 2)	CHFS	39,245,513		27,185,931
		AOC	107,974		
93.564	Child Support Enforcement Research (Note 14)	CHFS			
93.568	Low-Income Home Energy Assistance (Note 2)	CHFS	41,452,243		41,389,775
93.569	Community Services Block Grant	CHFS	12,004,305		11,890,757
CCDF Cluster:					
93.575	Child Care and Development Block Grant (Note 2)	CHFS	26,786,460		9,595,734
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	CHFS	70,044,400		492,839
	Total CCDF Cluster:		<u>96,830,860</u>		<u>10,088,573</u>
93.586	State Court Improvement Program	AOC	383,853		
93.590	Community-Based Child Abuse Prevention Grants	CHFS	1,660,397		1,399,066
93.597	Grants to States for Access and Visitation Programs	CHFS	137,881		
93.599	Chafee Education and Training Vouchers Program (ETV)	CHFS	465,139		
93.600	Head Start	GOV	151,508		
		EDU			

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.603	Adoption and Legal Guardianship Incentive Payments	CHFS	794,058		794,058
93.617	Voting Access for Individuals with Disabilities-Grants To States (Note 14)	KBE			
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	PUBAD	62,674		
93.624	ACA-State Innovation Models: Funding for Model Design and Model Testing Assistance (Note 14)	CHFS			
93.627	Affordable Care Act: Testing Experience and Functional Assessment Tools	CHFS	199,964		
93.630	Developmental Disabilities Basic Support and Advocacy Grants	CHFS	1,006,972		
		PUBAD	502,899		
93.643	Children's Justice Grants to States	CHFS	131,129		
93.644	Adult Medicaid Quality: Improving Material and Infant Health Outcomes in Medicaid and CHIP	CHFS	63,375		
93.645	Stephanie Tubbs Jones Child Welfare Services Program	CHFS	4,326,084		
93.658	Foster Care Title IV-E (Note 2)	CHFS	57,307,199		4,127,314
		JUV	781,674		
		AOC	441,613		
93.659	Adoption Assistance (Note 2)	CHFS	56,551,839		
93.667	Social Services Block Grant	CHFS	15,953,473		15,259
		JUV	6,859,831		
93.669	Child Abuse and Neglect State Grants	CHFS	388,533		203,089
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	CHFS	1,396,614		1,394,527
93.674	Chafee Foster Care Independence Program	CHFS	2,019,191		1,668,891
93.708	ARRA-Head Start (Note 13) (Note 14)	EDUC			
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF)	CHFS	342,180		
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs-financed by Prevention and Public Health Funds (PPHF) (Note 14)	CHFS			
93.735	State Public Health Approaches for Ensuring Quitline Capacity-Funded in part by Prevention	CHFS	184,055		
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public	CHFS	406,343		305,896
93.757	State and Local Public Health Actions to Prevent and Obesity, Diabetes, Heart Disease, and Stroke (PPHF)	CHFS	1,089,762		
93.767	Children's Health Insurance Program (Note 2)	CHFS	207,480,417		
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units (Note 2)	OAG	2,642,673		
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2)	CHFS	9,705,464		
93.778	Medical Assistance Program (Note 2)	CHFS	8,137,742,309		
93.778	ARRA-Medical Assistance Program (Note 2)(Note 13)	CHFS	22,914,865		
	Total Medicaid Cluster:		8,173,005,311		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations (Note 14)	CHFS			
93.788	Opioid STR	CHFS	4,454,955		1,230,922
93.791	Money Follows the Person Rebalancing Demonstration	CHFS	1,351,142		
93.800	Organized Approaches to Increase Colorectal Cancer Screening	CHFS	306,514		
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious	CHFS	540,394		89,377

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	CHFS	322,084		314,084
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services	CHFS	22,402		
93.843	ACL Assistive Technology State Grants for Protection and Advocacy	PUBAD	48,335		
93.873	State grants for Protection and Advocacy Services	PUBAD	25,150		
93.881	The Health Insurance Enforcement and Consumer Protections Grant program	PPC	384,818		
93.889	National Bioterrorism Hospital Preparedness Program	CHFS	2,804,930		1,768,541
		MIL	134,083		
		DWI	15,060		14,443
93.917	HIV Care Formula Grants	CHFS	7,478,400		4,165,391
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (Note 14)	EDU			
		CHFS			
93.940	HIV Prevention Activities Health Department Based	CHFS	1,686,266		260,347
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS)	CHFS	153,720		66,979
93.945	Assistance Programs for Chronic Disease Prevention and Control	CHFS	1,117,817		30,112
		EDU	292,974		18,307
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	CHFS	376,135		
93.958	Block Grants for Community Mental Health Services	CHFS	6,656,600		5,605,552
93.959	Block Grants for Prevention and Treatment of Substance Abuse	CHFS	19,663,863		17,880,593
		KSP			
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants (Note 10)	CHFS	951,625	396,307	75,761
93.991	Preventive Health and Health Services Block Grant	CHFS	1,507,972		117,928
93.994	Maternal and Child Health Services Block Grant to the States	CHFS	10,844,217		332,000
93.U01	Other Federal Assistance (Note 1)(Note 15)	CHFS	307,236		
		KSP	10,921		
93.U02	Medicare Nursing Home Care (Note 1)(Note 15)	VA	1,643,129		
Total U.S. Department of Health and Human Services			\$ 9,036,287,816	\$ 56,280,283	\$ 194,861,712
U.S. Corporation for National and Community Service					
Direct Programs:					
94.003	State Commissions	CHFS	\$ 265,321	\$	\$
94.004	Learn and Serve America_School and Community Based Programs (Note 14)	EDU			
94.006	AmeriCorps	CHFS	5,908,994		5,903,354
		DWI	1,956		
94.009	Training and Technical Assistance	CHFS	127,470		
Foster Grandparent/Senior Companion Cluster:					
94.011	Foster Grandparent Program	CHFS	3,525		
Total Foster Grandparent/Senior Companion Cluster:			3,525		
94.021	Volunteer Generation Fund	CHFS	96,696		18,591
Total U.S. Corporation for National and Community Service			\$ 6,403,962	\$	\$ 5,921,945
U.S. Office of National Drug Control Policy					
Direct Program:					
95.001	High Intensity Drug Trafficking Areas Program	KSP	1,006,167		
		OAG	97,291		
Total U.S. Office of National Drug Control Policy			\$ 1,103,458	\$	\$

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Social Security Administration					
Direct Programs:					
Disability Insurance/SSI Cluster:					
96.001	Social Security Disability Insurance (Note 2)	CHFS	\$ 44,797,281	\$	\$
		OAG	448,944		
	Total Disability Insurance/SSI Cluster:		<u>45,246,225</u>		
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	PUBAD	134,652		
Total U.S. Social Security Administration			<u>\$ 45,380,877</u>	<u>\$</u>	<u>\$</u>
U. S. Department of Homeland Security					
Direct Programs:					
97.012	Boating Safety Financial Assistance	F&W	\$ 1,127,422	\$	\$
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	EEC	287,478		
97.029	Flood Mitigation Assistance	MIL	3,501,348		3,501,348
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	TC	8,512,962		
		MIL	6,993,227		5,705,410
		PARKS	35,679		
		KSP			
97.039	Hazard Mitigation Grant	MIL	5,756,952		5,326,945
97.040	Chemical Stockpile Emergency Preparedness Program	MIL	11,203,629		9,666,561
97.041	National Dam Safety Program	EEC	110,452		
97.042	Emergency Management Performance Grants	MIL	4,934,013		2,447,745
		EEC	9,373		
97.045	Cooperating Technical Partners	EEC	2,685,122		
97.047	Pre-Disaster Mitigation	MIL	582,233		561,074
97.056	Port Security Grant Program (Note 14)	KSP			
		F&W			
97.067	Homeland Security Grant Program	KOHS	2,561,555		1,714,750
97.082	Earthquake Consortium	MIL	2,861		
97.089	Driver's License Security Grant Program	TC	47,574		
97.107	National Incident Management System (NIMS) (Note 14)	MIL			
97.108	Homeland Security, Research, Testing, Evaluation, and Demonstration of Technologies	EEC	14,875		
97.110	Severe Repetitive Loss Program (Note 14)	MIL			
Total U.S. Department of Homeland Security			<u>\$ 48,366,755</u>	<u>\$</u>	<u>\$ 28,923,833</u>
Other Federal Assistance					
Direct Programs:					
99.U01	Tennessee Valley Authority (Note 1) (Note 14)	F&W	\$	\$	\$
Total Other Federal Assistance			<u>\$</u>	<u>\$</u>	<u>\$</u>
Total All State Agencies			<u>\$ 11,658,879,290</u>	<u>\$ 992,423,925</u>	<u>\$ 1,269,344,669</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 1 – Basis of Presentation and Significant Accounting Policies

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule includes the federal award activity of the Commonwealth, except those programs administered by state universities and other discretely presented component units, for the year ended June 30, 2018. Because the Schedule presents only a selected portion of the operations of the Commonwealth, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Commonwealth.

Significant Accounting Policies – Expenditures reported on the Schedule are presented on the modified cash basis of accounting as modified by the application of Kentucky Revised Statute (KRS) 45.229.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last two pay periods of the fiscal year are charged to the next year.

All federal award expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Commonwealth has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary, and fiduciary fund financial statements.

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2018. The noncash expenditures presented on the Schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

Clusters of programs are indicated on the Schedule by light gray shading.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Programs that do not have CFDA numbers are identified using the two-digit federal identifier prefix, the letter “U” for Unknown, and a preassigned two-digit number. Additional identifying factors used by the Commonwealth are described in Note 15.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

(a) Federal funds may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-through to state universities and discretely presented component units, as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities and discretely presented component units report those amounts as expenditures.

(b) Federal funds received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as expenditures by the purchasing agency only.

Note 2 – Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$30,000,000 for FY 2018. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 2018, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA	Program Title	Expenditures
Supplemental Nutrition Assistance Program Cluster		
10.551	Supplemental Nutrition Assistance Program	\$ 890,852,457
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	70,829,643

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
Child Nutrition Cluster		
10.553	School Breakfast Program	94,037,481
10.555	National School Lunch Program	258,512,915
10.556	Special Milk Program for Children	19,086
10.559	Summer Food Service Program for Children	9,117,296
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	106,857,585
10.558	Child and Adult Care Food Program	44,199,554
17.225	Unemployment Insurance	328,952,028
WIOA Cluster		
17.258	WIOA Adult Program	11,015,237
17.259	WIOA Youth Activities	15,461,377
17.278	WIOA Dislocated Worker Formula Grants	18,071,739
Highway Planning and Construction Cluster		
20.205	Highway Planning and Construction	756,370,392
20.219	Recreational Trails Program	1,397,264
84.010	Title I Grants to Local Educational Agencies	206,354,235
Special Education Cluster (IDEA)		
84.027	Special Education Grants to States	154,654,226
84.173	Special Education Preschool Grants	9,558,254
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	45,835,721
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	30,427,532

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
93.268	Immunization Cooperative Agreements	59,068,581
Temporary Assistance for Needy Families Cluster		
93.558	Temporary Assistance for Needy Families	176,068,683
93.563	Child Support Enforcement	39,353,487
93.568	Low-Income Home Energy Assistance	41,452,243
CCDF Cluster		
93.575	Child Care and Development Block Grant	26,786,460
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	70,044,400
93.658	Foster Care Title IV-E	58,530,486
93.659	Adoption Assistance	56,551,839
93.767	Children's Health Insurance Program	207,480,417
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	2,642,673
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	9,705,464
93.778	Medical Assistance Program	8,137,742,309
93.778	ARRA-Medical Assistance Program	22,914,865
Disability Insurance/Supplemental Security Income Cluster		
96.001	Social Security Disability Insurance	45,246,225
Total Type A Programs		\$ 12,006,112,154

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Note 3 – Federally Assisted Loan Program (CFDA 10.U01)

The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U.S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments administered by the Office of Financial Management. The Department of Agriculture is no longer in the business of making student loans and reassigned all loans in payment compliance to the Kentucky Higher Education Assistance Authority (KHEAA). The Department of Agriculture retained only those loans that had a delinquent payment history. This program is currently in phase-out status, with authorization from the U.S. Department of Agriculture (USDA) to eliminate the principal through issuance of specific grants and scholarships.

All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2018 outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY 2018.

Note 4 – Unemployment Insurance (CFDA 17.225)

The Commonwealth paid out \$303,096,846 in benefits in FY 2018. The amounts shown on the accompanying Schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$25,856,047 of federal funds expended for administration of the program, resulting in a combined total of \$328,952,893 in federal expenditures. Included in this amount is \$865 in benefit payments funded by the American Recovery and Reinvestment Act (ARRA).

Note 5 – Highway Planning and Construction (CFDA 20.205)

The information reported for the Highway Planning and Construction program represents the activity of all open projects during FY 2018. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the Schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration

Expenditures for the Highway Planning and Construction program were shown net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$2,080,196 for FY 2018.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

Note 6 – Outdoor Recreation Acquisition, Development and Planning
(CFDA 15.916) and Recreational Trails Program (CFDA 20.219)

Administrative costs are shown as expended when received from the federal government. These costs are recovered through a negotiated, fixed indirect cost rate. Any over or under recovery will be recouped in the future.

Note 7 – Research and Development Expenditures

Title 2 U.S. Code of Federal Regulations Part 200.87 states, “Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity.”

The expenditures presented in the SEFA include R&D expenditures. The R&D portions of the expenditures for each program are listed below.

CFDA	Program Title	State Agency	Expenditures
15.605	Sport Fish Restoration	F&W	\$ 522,596
15.615	Cooperative Endangered Species Conservation Fund	F&W	43,439
15.634	State Wildlife Grants	F&W	832,742
16.585	Drug Court Discretionary Grant Program	AOC	72,981
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	AOC	2,123
39.011	Election Reform Payments	KBE	690,871
90.401	Help America Vote ACT Requirements Payments	KBE	2,219,428
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	AOC	402,302
Total Research and Development Expenditures			\$ 4,786,482

**COMMONWEALTH OF KENTUCKY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Continued)**

Note 8 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (CFDA 14.228)

The Commonwealth matches the federal portion of administration dollar for dollar. Cash expenditures include the federal portion of administration.

Note 9 – Wildlife Restoration and Basic Hunter Education (CFDA 15.611)

The Department of Fish and Wildlife Resources leases properties from the U.S. Army Corps of Engineers for Condition Three and Condition Five Projects. These projects stipulate that the properties leased be managed for wildlife purposes and may produce income. The leases for wildlife management rights on these properties are non-monetary. The Department of Fish and Wildlife Resources currently leases the following properties:

Barren River	Birdsville Island
Green River	Lake Cumberland
Dewey Lake	Paintsville Lake
Fishtrap Lake	Sloughs-Grassy Pond
Barlow Bottoms-Olmstead	Taylorsville Lake

Any expenditure in excess of revenue from each property listed above will be eligible for reimbursement under the Wildlife Restoration and Basic Hunter Education grant (CFDA 15.611) from the U.S. Department of the Interior. The properties listed above are not reimbursed with federal funds if the grant has already been expended to manage other wildlife properties.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

Note 10 – Noncash Expenditure Programs

The Commonwealth's noncash programs and a description of the method/basis of valuation for FY 2018 are as follows:

CFDA	Program Title	Amount	Method/Basis of Valuation
10.551	Supplemental Nutrition Assistance Program	\$ 890,852,457	EBT Issuance
10.555	National School Lunch Program	28,427,188	Commodities issued for FY18 per WBSCM report
10.565	Commodity Supplemental Food Program	6,296,841	Commodities issued for FY18 per WBSCM report
10.569	Emergency Food Assistance Program (Food Commodities)	9,946,530	Commodities issued for FY18 per WBSCM report
12.700	Donations/Loans of Obsolete DOD Property	219,900	Acquisition Cost determined by the Department of Defense
39.003	Donation of Federal Surplus Personal Property	73,873	22.47% of federal acquisition cost (\$328,761)
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	105,089	Environmental Protection Agency contracts with Eastern Research Group for sample analysis
66.605	Performance Partnership Grants	221,764	In-kind services valued by the donor, the U.S. Environmental Protection Agency
93.069	Public Health Emergency Preparedness	339,507	Grant Award Document
93.268	Immunization Cooperative Agreements	55,544,469	CDC Report
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	396,307	Grant Award Document
Total Noncash Expenditures		<u>\$ 992,423,925</u>	

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

Note 11 – Activity Occurring in Programs with Inventoriable Items

The Department of Agriculture operates a statewide Commodity Supplemental Food Program (CFDA 10.565). The dollar value of the inventory, based on the USDA Commodity File, dated June 2018 is as follows:

	Commodity Supplemental Food Program CFDA 10.565
Beginning Inventory, July 1, 2017	\$ 1,588,281
Price Adjustment	(189,729)
Adjusted Inventory, July 1, 2017	<u>1,398,552</u>
Received Commodities	6,129,720
Issued to Recipients	(6,296,841)
Net Value of Inventory Adjustments, June 30, 2018	(2,872)
Ending Inventory, June 30, 2018	<u>\$ 1,228,559</u>

Note 12 - Election Reform Payments (CFDA 39.011)

Interest earned must be used for additional program expenditures.

Note 13 - Pertaining to ARRA

In order to identify ARRA funds on the Schedule of Expenditures of Federal Awards, the prefix will precede the Program Title on the Schedule.

Note 14 - Zero Expenditure Programs

These programs had no expenditures related to the respective state organization during FY 2018. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. For CFDA numbers with multiple state agencies listed, the Schedule is presented in descending expenditure amount order.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

Note 15 – Unknown CFDA Number

When a federal program has been awarded to the Commonwealth with an unknown CFDA number, the items discussed in Note 1 - Significant Accounting Policies are used to prepare the Schedule. The Commonwealth also uses other identifiers such as the major program, program, and function codes as established through grant accounting. A list of all unknown CFDA numbers and other identifying factors having expenditures during FY 2018 are listed below:

CFDA	Program Title	Agency	Award Identifier	Expenditures
10.U02	HWA Participating Agreement with Daniel Boone National Forest	EEC	11-PA-11080224-027	\$ 24,445
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	EEC	ACWPRG-04-BBB0	1,050,198
16.U01	Drug Enforcement Administration	KSP	DEA-FAMJ16MJ; DEA-FAMJ17MJ OCDETF-CHOKE16; OCDETF-MJTF1710; OCDETF-MJTF1708; OCDETF-LTDTF17; OCDETF-LTDTF16; OCDETF-MJTF1707; OCDETF-MTJF1608; OCDETF-MJTF1610; OCDETF-MJTF16BG; OCDETF-CHOKE17; OCDETF-MFBAND17; OCDETF-LBHERO17; OCDETF-MUCHOD17	1,886,211
16.U02	Federal Bureau of Investigation	KSP	OCDETF-JTTF17LT; OCDETF-JTTF16LT; OCDETF-KCETF16CT; OCDETF-KCETF17CT; OCDETF-HVCDTF17	79,310
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program	KSP	ATF-ATF16AT	81,338
16.U04	District Fugitive Task Force	KSP	OCDETF-TSKFRCE16	7,659
16.U05	Equitable Sharing- Asset Forfeiture	KSP	KY-KSP-0000	745,945
21.U02	Equitable Sharing- Asset Forfeiture	KSP	DAF1	641,569
21.U03	State Small Business Credit Initiative	CED	GEXP-6-11SB200Z- GEXP	5,635
93.U01	Other Federal Assistance	CHFS	05-1605-KY-5002	307,236
93.U01	Other Federal Assistance	KSP	FDA-FDA16; FDA-FDA17	10,921
93.U02	Medicare Nursing Home Care	VA	KY-074-1324-DA00- R604	1,643,129

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of
Financial Statements Performed In Accordance With
*Government Auditing Standards***

Independent Auditor's Report

Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the Fiscal Year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 12, 2018, except for our procedures related to Note 18 for the Supreme Court opinion, which is dated December 13, 2018. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commonwealth's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of
Financial Statements Performed In Accordance With
Government Auditing Standards
(Continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of financial statement findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be material weaknesses: 2018-001, 2018-002, 2018-003, 2018-004 and 2018-005.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in the accompanying schedule of financial statement findings, to be significant deficiencies: 2018-006, 2018-007, 2018-008, 2018-009, 2018-010, 2018-011, 2018-012, 2018-013, 2018-014, 2018-015, 2018-016, 2018-017, 2018-018, 2018-019, 2018-020, 2018-021, 2018-022, 2018-023, 2018-024, and 2018-025.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliances or other matters that would be required to be reported under *Governmental Auditing Standards*.

Management's Responses to Findings

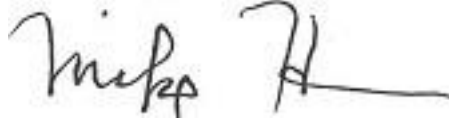
Management's responses to the findings identified in our audit are described in the accompanying schedule of financial statement findings. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of
Financial Statements Performed In Accordance With
Government Auditing Standards
(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 12, 2018, except as to Note 18 in the Commonwealth's Comprehensive Annual Financial Report for the Supreme Court opinion, which is as of December 13, 2018.

Where December 12, 2018 is the date of the auditor's report and December 13, 2018 is the date of the completion of audit procedures limited to the revision disclosed in Note 18 for the Supreme Court opinion.

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2018-001: The Department Of Parks Underreported Unearned Revenue By More Than \$2 Million

The Kentucky Department of Parks (Parks) failed to implement adequate internal controls over the tracking, classification, and reporting of unearned revenue. Parks' submitted closing package, which is utilized for financial reporting, initially identified \$478,840 of unearned revenue for fiscal year 2018 which was calculated based solely on external bank account balances. A process was not in place, and adequate documentation was not obtained from the service organization to enable Parks to accurately identify and report unearned revenue. Upon identification of the error during the course of the audit, Parks obtained additional information to properly identify all unearned revenue necessary for financial reporting. A revised closing package was submitted which reported \$2,495,919 of unearned revenue during fiscal year 2018.

Campground reservations for all state parks, including the Kentucky Horse Park (KHP), can be made up to a year in advance through Parks' campground reservation vendor. This vendor provides Parks all receipts collected during a period into an external bank account managed by Parks. Twice each month, Parks reviews supporting documentation for the recorded deposits and writes a check to itself and KHP in order to allocate funds received between the two entities. These bi-monthly deposits account for reservations made during the prior two week time frame and include both earned and unearned revenue which is dependent on the timing of the reservation. All campground reservations are being recorded as revenue within Parks' accounting system at the time of deposit. Parks failed to obtain necessary reports and implement adequate procedures to correctly identify unearned revenue during the preparation of the year end closing package.

Parks' failure to properly identify and classify unearned revenue has resulted in the misstatement of current and prior year financial statements, which relied on the same process and methodology for calculating unearned revenue. Had the error not been detected during fiscal year 2018, revenues would have been overstated, liabilities understated, and ending net position overstated by \$2,017,079. Additionally, interested parties and users of the financial statements would have had incorrect information when evaluating Parks' financial operations.

The revenue recognition principle within Generally Accepted Accounting Principles (GAAP) requires revenue should not be recorded until it is realized or realizable and earned. As a result, payments for advance campground reservations are recorded as unearned revenue until the service is provided and the revenue can be recognized in accordance with GAAP. An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting, whereby the financial statements are reliable, inclusive of all activities and transactions reflected in accordance with GAAP. Implementation of control activities should focus on the prevention, detection, and correction of errors and/or misstatements.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2018-001: The Department Of Parks Underreported Unearned Revenue By More Than \$2 Million (Continued)**

Recommendation

We recommend Parks strengthen policies, procedures, and internal controls over the tracking and recording of unearned revenue to ensure advance campground reservations are recognized and reported in accordance with GAAP and established policy by the Finance and Administration Cabinet (FAC). Parks should also consult with FAC as deemed necessary to strengthen its understanding of the financial reporting process and to ensure the proper treatment of unearned revenue moving forward.

Management's Response and Planned Corrective Action

The Department of Parks agrees with the findings. In previous fiscal years the Department of Parks did not identify these funds as unearned revenue. Only in this year was it brought to our attention that these funds could be considered as unearned. After discussions with the APA and Parks upper management, a determination was made to include these funds in the CAFR. The modification was then made to the FY2018 CAFR report. We are working with the vendor to ensure that Parks accounts for the proper amount of unearned revenue for camping reservations in the future.

Auditor's Reply

Parks' response indicated "[o]nly in this year was it brought to our attention that these funds could be considered as unearned revenue." It is important to note that the APA audit is not a function of Management's internal control system for ensuring the accuracy and completeness of reported activity within the financial statements. While this misstatement was first identified during fiscal year 2018 audit procedures, Parks maintains the responsibility for evaluating its financial activity and understanding accounting requirements to ensure the financial statements are prepared in accordance with GAAP.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2018-002: The Department Of Parks Failed To Implement Adequate Internal Controls Over Financial Reporting Of More Than \$15 Million In Its Capital Energy Leases**

The Kentucky Department of Parks (Parks) failed to implement adequate internal controls over the tracking, classification, and reporting of a capital energy lease. During fiscal year 2018, inquiry into Parks' capital lease obligations identified an energy lease that had not been properly identified and recorded on Parks' financial statements in the amount of \$15,165,676. The energy lease contract was effective July 2015 and established a completion date for improvements to be finalized in January 2017. The improvements were completed at various state parks throughout the Commonwealth.

Parks failed to implement adequate internal controls to ensure all capital leases were properly recorded and classified. Additionally, the capital energy lease was not reported to the Finance and Administration Cabinet (FAC) to ensure inclusion within Parks' financial statements. While FAC assists in the compilation of Parks' financial statements, they are reliant on accurate and timely information from Parks to assist in the compilation process. Parks is ultimately responsible for the accuracy and completeness of the prepared financial statements.

Failure to track, report, and classify capital lease obligations resulted in a material misstatement on Parks' financial statements. Audit adjustments were necessary to increase both capital lease obligations and capital assets by \$15,165,676, record depreciation expense and accumulated depreciation in the amount of \$1,083,263, reclassify capital lease payments in the amount of \$334,322, and to properly classify the short and long term portion of the capital lease obligations.

Sound internal controls dictate capital leases be properly tracked and accounted for to ensure complete and accurate financial reporting. Generally Accepted Accounting Principles (GAAP) requires capital leases, including the asset and related liability, be properly reflected within the financial statements. Additional guidance on proprietary fund reporting of capital leases is identified within Government Accounting Standards Board (GASB) Statement 34, as amended. It should be noted that GASB 87, which has an effective date for reporting periods beginning after December 15, 2019, will provide additional requirements on the reporting of leases.

Recommendation

We recommend Parks strengthen policies, procedures, and internal controls over the tracking and recording of capital leases to ensure all assets and liabilities are recognized and properly reported in accordance with established accounting requirements. Parks should also consult with FAC to strengthen its understanding of the financial reporting process and to ensure the proper treatment of its capital leases moving forward.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

FINDING 2018-002: The Department Of Parks Failed To Implement Adequate Internal Controls Over Financial Reporting Of More Than \$15 Million In Its Capital Energy Leases (Continued)

Management's Response and Planned Corrective Action

The Department of Parks was unaware this information was to be reported to FAC since the contract and financing were initiated with in FAC. After speaking to FAC and the Comptroller's Office, the Department of Parks is not aware of any official mechanism or form to be utilized to report such contracts/leases. Until such a time as there is direction from FAC on an official communication of this information, the Department of Parks will rely on email correspondence of the established contract/lease to FAC and the Comptroller's Office.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2018-003: The Finance And Administration Cabinet Failed To Detect And Prevent Errors In Pension And Other Post-Employment Benefits Account Balances

During the 2018 audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR), disclosures and financial statement accounts related to pension and other postemployment benefits (OPEB) were reviewed. To compile the Commonwealth's CAFR, the Finance and Administration Cabinet (FAC) relies on reports prepared by actuaries to determine certain financial statement entries related to pensions and OPEB. Misstatements in the statement of net position, statement of activities, and notes to the financial statements were identified related to these accounts. The misstatements in the financial statements were corrected by FAC, but some disclosures in the notes were not corrected or were omitted. In addition, note disclosures for pensions did not reconcile to note disclosures for long term liabilities.

The pension note did not reconcile to the long term liability note for the following account balances: for the net pension liability there was a variance of \$103,803,000. For deferred inflows of resources related to pensions, there was a variance of \$153,640,000.

FAC misinterpreted Kentucky Teachers Retirement System (KTRS) actuarial reports, which led to errors. This resulted in, cumulatively, for both pension and OPEB related accounts, deferred outflows being overstated by \$59,267,807, deferred inflows being overstated by \$316,123,728, and expenses being overstated by \$256,855,921.

The compilation process involves recording journal entries based on actuarial estimates and aggregating information from multiple external sources. FAC's review process did not detect variances within the notes to the financial statements.

GASB statements 68, as amended, and 75 require extensive disclosures related to pensions and OPEB that must be included in the notes to the financial statements and/or presented as required supplementary information.

Sound internal controls over financial reporting dictate FAC develop processes for collecting the data necessary for the pension and OPEB related notes and accruals required by generally accepted accounting principles.

Recommendation

We recommend FAC:

- Develop processes for utilizing actuarial reports to accurately report the appropriate pension and OPEB related amounts in the CAFR;
- Create templates for pension and OPEB note disclosures that indicate the source of data included in the notes to increase the efficiency of the compilation process;
- Collaborate with KTRS and its actuary to clarify amounts related to the Commonwealth on the actuarial reports;
- Develop processes to reconcile the financial statements and the notes to the financial statements as the CAFR is being compiled.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2018-003: The Finance And Administration Failed To Detect And Prevent Errors In Pension And Other Post-Employment Benefits Account Balances (Continued)

Management's Response and Planned Corrective Action

FAC will continue to work internally on creating a process for reconciling the financial statements to the notes to the financial statements for both pensions and OPEB when compiling the CAFR. FAC will plan to meet with the KTRS and its actuary to clarify the amounts on the reports used in creating the journal entries for the CAFR.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2018-004: The Kentucky Horse Park Underreported Unearned Revenue By More Than \$600,000

The Kentucky Horse Park (KHP) failed to implement adequate internal controls over the tracking, classification, and reporting of its unearned revenue. KHP's submitted closing package, which is utilized for financial reporting, initially identified \$0 of unearned revenue for fiscal year 2018. A process was not in place, and adequate documentation was not obtained from a utilized service organization to enable KHP to accurately identify and report all unearned revenue. Upon identification of the error during the course of the audit, KHP obtained additional information to properly identify all unearned revenue necessary for financial reporting. A revised closing package was submitted which resulted in a \$615,225 restatement of unearned revenue during fiscal year 2018. KHP failed to properly record \$537,852 of unearned revenue related to advance campground reservations and \$77,373 of advanced payments for shows and events.

Campground reservations for all state parks, including the KHP, can be made up to a year in advance through the campground reservation vendor. This vendor provides The Kentucky Department of Parks (Parks) all receipts collected during a period into an external bank account managed by Parks. Twice each month, Parks reviews supporting documentation for the recorded deposits and writes a check to itself and KHP in order to allocate funds received between the two entities. These bi-monthly deposits account for reservations made during the prior two week time frame, which could include earned and unearned revenue depending on the timing of the reservation. All campground reservations at the time of deposit are being recorded as revenue. Additionally, KHP receives deposits in advance for shows and events, some of which occur after the fiscal year end. KHP failed to obtain necessary reports, analyze maintained event data, and implement adequate procedures to correctly identify unearned revenue during the preparation of the year end closing package.

KHP's failure to properly identify and classify unearned revenue has resulted in the misstatement of current and prior year financial statements that relied on the same process and methodology for calculating unearned revenue. Had the error not been detected during fiscal year 2018, revenues would have been overstated, liabilities understated, and ending net position overstated by \$615,225. Additionally, interested parties and users of the financial statements would have had incorrect information when evaluating KHP's financial operations.

The revenue recognition principle within Generally Accepted Accounting Principles (GAAP) requires revenue should not be recorded until it is realized or realizable and earned. As a result, advance campground reservations and deposits made on future events and shows are recorded as unearned revenue until the revenue can be recognized in accordance with GAAP. An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting, whereby the financial statements are reliable, inclusive of all activities and transactions reflected in accordance with GAAP. Implementation of control activities should focus on the prevention, detection, and correction of errors and/or misstatements.

FINANCIAL STATEMENT FINDINGS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2018-004: The Kentucky Horse Park Underreported Unearned Revenue By More Than \$600,000 (Continued)**

Recommendation

We recommend KHP strengthen policies, procedures, and internal controls over the tracking and recording of unearned revenue to ensure advance campground reservations and deposits for events and shows are recognized and reported in accordance with GAAP and established policy by the Finance and Administration Cabinet (FAC). KHP should also consult with FAC as deemed necessary to strengthen its understanding of the financial reporting process and to ensure the proper treatment moving forward.

Management's Response and Planned Corrective Action

KHP will track unearned revenue and provide supporting documentation for balances at year end for event deposits and campground reservations. The amounts for event deposits and campground reservations will be recognized and reported in accordance with GAAP and FAC policies.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2018-005: The Kentucky Transportation Cabinet Failed To Detect Material Errors Of More Than \$71 Million In Accounts Payable Impacting Three Funds

The Kentucky Transportation Cabinet (KYTC) prepares and submits a closing package annually at year-end which consists of various Annual Financial Report (AFR) forms to recognize the agency's accruals for receivables and payables. The closing package is submitted to the Finance and Administration Cabinet (FAC) who uses the information reported in the AFR forms to prepare the Commonwealth's Comprehensive Annual Financial Report (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP). Testing and analysis of the prepared closing package identified KYTC failed to properly identify and record all accounts payable in fiscal year 2018 related to construction activity at year end. KYTC prepared a revised closing package requiring the following adjustments to the Commonwealth's fund financial statements:

- An additional \$30,025,948 in accounts payable was recorded within the Transportation Fund;
- An additional \$41,736,686 in accounts payable was recorded within the Federal Fund; and,
- An additional \$615,360 in accounts payable was recorded within the Agency Revenue Fund.

During fiscal year 2018, the Commonwealth's accounting system was upgraded. A system interface process did not occur as intended which would correctly identify and transfer construction service date information within Site Manager into the accounting system automatically. As a result, service date information necessary to properly identify and classify payables was not complete and accurate, and cut-off procedures were not adequately performed to identify construction related accounts payable transactions. KYTC was forced to change its methodology in order to identify and report its construction related payables.

Additionally, the preparation of the financial information by the Division of Accounts is contingent on information provided and recorded by the Division of Construction to identify service dates necessary for classifying accounts payable. Risks were not properly assessed and communication did not ensure all responsible parties were prepared for the impact of upcoming system changes. Furthermore, adequate internal controls were not in place to ensure the completeness and accuracy of reported accounts payable as the closing package was not adequately reviewed prior to submission allowing errors to occur without detection.

KYTC submitted inaccurate accounts payable information to FAC for inclusion in the Commonwealth's financial statements. Had the errors not been detected and corrected during audit procedures, accounts payable would have been materially misstated on the Commonwealth's financial statements within the Transportation Fund. Additionally, the Federal Fund accounts payable would have been significantly understated. The magnitude of the misstatement and the agency's failure to detect the error in the normal course of preparing its year-end financial information suggests that material misstatements could occur and not be detected by management during the closing package preparation.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2018-005: The Kentucky Transportation Cabinet Failed To Detect Material Errors Of More Than \$71 Million In Accounts Payable Impacting Three Funds (Continued)

GAAP requires expenses be recorded in the period in which they are incurred, not paid, and income to be reported when it is earned, not received in accordance with the matching principle. GAAP also requires information reported in the financial statements to be comparable and consistent.

FAC's closing package instructions state, "accounts payable, as applied to the Commonwealth of Kentucky's GAAP reporting system, included liabilities incurred for goods received and services performed as of June 30 for which payment has not been made. Amounts to be reported on this form should include only amounts that will be paid with 'new year' funds."

Recommendation

KYTC should implement adequate policies, procedures, and internal controls to ensure the accuracy and completeness of the accounts payable data prior to submitting to FAC. Since the closing package preparation process occurs only once per year, management should design sufficient procedures to identify misstatements and mitigate the risk of material errors. KYTC should strengthen formal policies and procedures and consider conducting analytical comparisons of prior year accounts payable data. Any unexpected variances should be investigated and evaluated accordingly to identify potential misstatements. Additionally, a review of the closing package information should be documented verifying that reported information is complete and accurate.

Management's Response and Planned Corrective Action

History

Prior to FY17, KYTC reported Construction accounts payable separately, and with a different process/method than all other KYTC accounts payable. Construction payments are interfaced into eMars from another financial system known as Site Manager, and prior to FY17, Site Manager did not include Service Dates. Without Service Dates, KYTC's process/method for reporting Construction accounts payable included pulling the first bi-monthly cycle of construction payments for July, entering on a separate AFR70 form, and submitting to the CAFR team. This process/method was successfully employed for decades.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2018-005: The Kentucky Transportation Cabinet Failed To Detect Material Errors Of More Than \$71 Million In Accounts Payable Impacting Three Funds (Continued)

Management's Response and Planned Corrective Action (Continued)

Event

In FY17, with assistance from KYTC's Office of IT, Service Dates were finally incorporated into Site Manager, allowing the Division of Construction to interface accurate Service Dates into eMars. This subsequently allowed the Division of Accounts to report Construction accounts payable with Service Dates, the same process/method used for reporting all other KYTC accounts payable. The new process/method was applied successfully for FY17 CAFR reporting. However, due to the FY18/19 eMARS upgrade, the Division of Construction failed to complete the process for establishing and transmitting accurate Service Dates from Site Manager to eMars. This caused an issue for the cabinet's accounts payable submission, when the APA noticed a material decrease in Construction transactions when compared to previous year submittals.

Resolve

Without accurate Service Dates tied to KYTC Construction payables, the only tested option for reporting Construction accounts payable was to return to the old process/method that was employed for decades prior to FY17. As mentioned above, this process/method includes the extraction of all New Year construction payments interfaced from Site Manager during the first Construction payment cycle of July, then reported on a separate AFR70 form.

Planned Corrective Action

Moving forward, KYTC plans to implement a process for analytics testing of accounts payable prior to submission. The Assistant Director of Accounts shall compare current year numbers against the previous 5 years of accounts payable reports by Department and Fund Type. This new process will be incorporated into the Division of Accounts' processes for CAFR reporting. The Assistant Director of Accounts will also communicate with the Division of Construction staff and ensure the process of interfacing Service Dates occurs during year-end processes.

Auditor's Reply

Management identified they reverted to an older methodology in calculating accounts payable due to service date information not properly interfacing with eMARS. It is important to note that although this methodology had been previously utilized, it does not necessarily ensure reported account balances are complete and accurate. Properly identifying service dates is pivotal in ensuring construction activity is reported in the period incurred in accordance with U.S. GAAP regardless of the methodology utilized.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-006: The Cabinet For Health And Family Services Department For Medicaid Services Did Not Adequately Update 1099 Vendor Reportable Records

Testing internal controls over Journal Voucher Expense Corrections (JV2Es) for the Cabinet for Health and Family Services (CHFS) Department for Medicaid Services (DMS) identified inadequate reporting of 1099 transactions in the Enhanced Management Administrative and Reporting System (eMARS).

When DMS is notified by a third-party vendor that a provider has been overpaid for Medicaid services from the federal fund, a JV2E is created by DMS for the purpose of updating the provider's 1099 record in eMARS. The provider is notified by DMS of the overpayment and submits reimbursement of the funds. The reimbursement of funds is processed on a Cash Receipt (CR) without updating the provider's 1099 record in eMARS.

The JV2E submitted and approved by DMS staff has a zero net effect on the provider's 1099 record in eMARS. The accounting string information on the JV2E debits and credits the same amount to the provider's 1099 record.

DMS intended to decrease the amount on the provider's 1099 record in eMARS due to the provider refunding any overpayment amounts. However, since the JV2E had a zero net effect, the provider's 1099 record is overstated. By overstating a provider's 1099 record in eMARS, the provider's earnings reported to the Internal Revenue Service (IRS) are higher than actually earned.

For Fiscal Year 2018, the aggregated amount of overstated 1099 records is \$23,137,723. However, 1099s are reported to the IRS on a calendar-year basis, and for calendar year 2017, the overstated amount reported to the IRS was \$21,058,455.

U.S. Code Title 26 Ch. 68 Sec. 6722 - Failure to furnish correct payee statements describes a failure subject to penalty as "(B) any failure to include all of the information required to be shown on a payee statement or the inclusion of incorrect information."

By providing 1099s to payees that include incorrect information (overstated earnings) DMS could be subject to penalties by the IRS.

Recommendation

We recommend that CHFS DMS:

- Work with the Finance and Administration Cabinet to correct the calendar year 2018 provider 1099 records in eMARS so that they are accurate before the IRS due date of January 31, 2019.
- Correct the JV2E accounting template in eMARS so that 1099 records are adequately updated.
- Consult with the Finance and Administration Cabinet, Department of Revenue, and Internal Revenue Service to determine if prior 1099s should be corrected and amended.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

FINDING 2018-006: The Cabinet For Health And Family Services Department For Medicaid Services Did Not Adequately Update 1099 Vendor Reportable Records (Continued)

Management's Response and Planned Corrective Action

The Department for Medicaid Services (DMS) is in agreement with the finding listed above and is currently working with the Office of Administration and Technology Services (OATS) and our fiscal agent, DXC Technologies to correct the issue. DXC is currently testing Change Order (CO) 29624 to correct this process. When the CO is implemented, the JVs created will debit a Miscellaneous Tax ID Number and credit the Providers Tax ID Number for amount of the refund collected. This process will correct Provider 1099s. DMS/DXC will correct all files processed during calendar year 2018, so that 2018 1099s are accurate by January 31, 2019.

DMS is currently working with the Finance and Administration Cabinet to determine what course of action needs to be taken on correcting 2017 Provider 1099s.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-007: The Cabinet For Health And Family Services Failed To Ensure Accounts Receivable Was Accurately Reported

During the fiscal year 2018 audit of the Cabinet for Health and Family Services (CHFS) Closing Package - Accounts Receivable, errors were noted in accounts receivable balances. Supporting documentation to the closing package provided by CHFS included errors or did not agree to the closing package. Therefore, CHFS submitted incorrect Accounts Receivable information on the closing package to the Finance and Administration Cabinet.

The errors in the CHFS closing package were caused by inaccurate supporting documentation and the inaccurate inclusion of funds the state cannot claim. Inaccurate amounts were discovered in the process of reconciling the supporting documentation to the closing package forms AFR 30 and 32. Documentation did not agree or was not updated to reflect current year information.

Incorrect supporting documentation resulted in the following misstatements in the CHFS Closing Package:

1. Accounts Receivable documents provided by CHFS included multiple errors related to Department 748 Funds 0100 and 1200, that were carried to the closing package AFR 30 and 32 forms:
 - Child support Medicaid was overstated \$5,080,995 in Medicaid fund 1200. However, the amount was reported correctly by Department 727 Child Support, but was not reported correctly in Medicaid AFR Funds 0100 and 1200 Department 748.
 - Medicaid drug rebate uncollectible on the support was overstated \$61,305: \$43,630 in fund 1200 and \$17,674 in fund 0100.
2. Errors related to supporting documentation for department 736:
 - SNAP was only partially updated to FY 2018 information. FY 2018 quarterly reports were included as supporting documentation, but FY 2017 data were used to calculate Accounts Receivable. This resulted in an understatement of \$2,340,282 in accounts receivable, \$1,170,141 in fund 1200 and \$1,170,141 in fund 1300, and an overstatement of \$585,551 for uncollectible for Department 736 fund 1300. This error was carried forward to the AFR 30 & 32.
3. Errors related to department 727 reported to Finance and corrected:
 - Department 727, fund 7200 was overstated \$1,172,126,616 in accounts receivable and \$103,418,705 uncollectible. The amount listed under NPA is for arrearage of amount not due the state, but this amount was included in original AFR 30 and 32.

200 KAR 38:070 in conjunction with FAP 120-07-00, identifies fiscal responsibilities as “responsibilities including establishing and maintaining a proper internal control structure, establishing and maintaining the chart of accounts for the State’s accounting system, providing assurances that agency financial reports accurately reflect underlying activity, conducting fiscal operation under Generally Accepted Accounting Principles (GAAP).”

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-007: The Cabinet For Health And Family Services Failed To Ensure Accounts Receivable Was Accurately Reported (Continued)**

Recommendation

We recommend the Cabinet for Health and Family Services incorporate the following procedures to ensure accurate and complete reporting:

Implement a thorough review process of the closing package to ensure accuracy and verify the information submitted by the various departments is complete and accurate, including agency reports.

Management's Response and Planned Corrective Action**Department 746 and 736 (1 & 2)**

The Division of General Accounting (DGA) agrees with the findings. Spreadsheets that calculate the accounts receivable amounts for Medicaid and SNAP have been modified to a more orderly layout with corrected formulas. This will automate some of the data entry and reduce the chance for errors. This new format will be more logical and make the review process easier. Due to staff turnover, CHFS will have a new person in charge of the Closeout package. This new person will review procedures and workpapers and look for even more improvements through automation and/or redesign. All CHFS departments submitting workpapers to DGA will be required to include their supporting documentation. All AFR forms will be reviewed by management to ensure accuracy.

Department 727 (3)

The Division of General Accounting (DGA) asks the various departments to provide information on various Closing Package categories based on the reporting requirements. In some instances, DGA and/or Finance may make an accounting determination that something provided on the departments' closing package submissions is not appropriate for CAFR reporting purposes. The Child Support Enforcement (CSE) non-public assistance (NPA) is one of those things.

DGA was made aware that Finance was excluding the CSE NPA amount from the final numbers. Had Finance made the request, DGA personnel would have omitted that amount from their compiled submission to Finance. However, it was our understanding, Finance may have reasons for wanting to see this amount reflected on DGA's submission, even if they intended to leave it off the final package. Historically, DGA has always included NPA amounts to Finance and they would exclude these numbers from their compiled submission. Since the final CAFR leaves these amounts off, we are unclear as to why APA would have a problem with CHFS making Finance aware of the NPA payment amounts. After speaking to the Finance Cabinet, subsequent to this issue being brought up, Finance has made a request to CHFS to leave CSE NPA off future submissions. This information will no longer be sent to Finance.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-008: The Cabinet For Health And Family Services Overstated Accounts Payable In The Closing Package

As part of the Cabinet for Health and Family Services (CHFS) audit for fiscal year 2018, tests were performed to confirm the integrity and validity of the accounts payable that are reported in the closing package. The closing package needs to be accurate and precise as it is completed each year and submitted to the FAC to compile the Commonwealth's Comprehensive Annual Financial Report (CAFR).

CHFS failed to apply the appropriate internal controls to oversee the preparation of the agency's closing package that is then forwarded to FAC for review. Within CHFS, the Department for Medicaid Services (DMS) did not report an accurate fund balance for accounts payable on the closing package form due to errors in the preparation of the Medicaid Service Benefits estimate.

The Medicaid Service Benefits estimate is calculated by the Department for Medicaid Services for the purpose of completing the closing package. The estimate is calculated by multiplying the average percentage of prior period claims by the fiscal year total Medicaid Service Benefits expenditures. In fiscal year 2018, the DMS estimate was adjusted for a prior year error. The adjusted expenditure amount was overstated by \$37,019,940, which resulted in an overstatement of accounts payable.

CHFS failed to include the correct amount required to be adjusted as a prior period adjustment. Lack of proper review process led to the reporting of an overstatement of Accounts Payable.

For fiscal year 2018, the expenditures for Medicaid Service Benefits were overstated by \$37,019,940 due to a prior year error. This caused the estimated outstanding accounts payable to be overstated by \$4,956,970, \$1,429,094 in the General fund and \$3,527,876 in the Federal fund.

Internal controls that oversee the preparation of the closing package forms and year-end reporting activities need to include proper review processes. These processes need to be followed and enforced to guarantee the closing package that is delivered to FAC relays accurate, substantiated, and dependable information. Also, internal controls for accounts payable estimates need to include processes that identify all possible components that could potentially influence the calculated estimate.

Recommendation

The APA recommends CHFS ensure an adequate and thorough review of the closing package information prior to a timely submission to FAC.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2018-008: The Cabinet For Health And Family Services Overstated Accounts Payable In The Closing Package (Continued)**

Management's Response and Planned Corrective Action

The Department for Medicaid Services acknowledges that the calculation of the estimated accounts payables was overestimated because the amount of prior period adjustments taken into consideration was incorrect. This resulted in a higher estimate of accounts payables being reported of approximately \$5 million or approximately 1%, which is considered to be immaterial. In the future, a more thorough review will be applied to the processes in place that is used to calculate the estimated accounts payable, and further training will be provided for all employees involved in the process.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-009: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards

The Cabinet for Health and Family Services (CHFS) has not consistently performed a third party vulnerability assessment of its 31 critical systems on schedule. Commonwealth Office of Technology's (COT) enterprise policy CIO-082 requires a third party to conduct vulnerability assessments on all critical systems at implementation and every two years thereafter. Only three critical systems, or 9.7% of the total, have been appropriately assessed. Similar issues have been noted since FY 2016 and no progress has been made since FY 2017.

CHFS did not comply with the requirements of COT's CIO-082 Critical Systems Vulnerability Assessments policy in regards to the timing of vulnerability assessments.

The absence of a strong vulnerability assessment program increases the likelihood that security vulnerabilities exist undetected on agency computer systems or are identified but not addressed in a timely fashion. This increases the risk that an intruder could exploit security vulnerabilities to compromise computer resources and gain unauthorized access to the agency's confidential and financial data.

According to COT enterprise policy CIO-082 Critical Systems Vulnerability Assessments,

Agencies will be responsible for identifying critical infrastructure including servers and applications based on the nature of the data and system's business function or mission. Each agency shall engage a third party for assisting with an assessment of all critical systems both upon initial implementation into production use and every two (2) years thereafter.

According to the CHFS internal policy 020.205 - IT Systems Technical Assessments Policy,

CHFS complies with and adheres to the Commonwealth Office of Technology (COT) Enterprise CIO-082 Critical Systems Vulnerability Assessments Policy. CHFS OATS [Office of Administrative and Technology Services] works collaboratively with program areas to determine the level of sensitivity for its data.

Per Enterprise CIO-082 Policy, for those systems deemed critical, the CHFS is responsible for engaging a third party to assist in conducting vulnerability assessments both upon implementation into production and every two (2) years thereafter.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-009: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards (Continued)**

According to the CHFS internal policy 065.014 - CHFS System Development Life Cycle (SDLC) and New Application Development,

The term ‘critical system’ refers to the server, or servers, that support one or more critical business application. This may include web servers, database servers, and other servers that are essential to the operation of the business application. Per Enterprise Policy – CIO-082...each agency shall engage a third party to assess all critical systems under the agency’s responsibility both upon initial implementation into production use and at least every two (2) years thereafter.

Recommendation

We recommend CHFS ensure a third party vendor performs vulnerability assessments on all critical systems in accordance with CIO-082 and internal policies. Adequate documentation should be maintained to support the external assessments performed on agency devices for management and audit purposes.

Management’s Response and Planned Corrective Action

CHFS will continue efforts to identify an efficient and cost effective approach within funding limitations to comply with the Commonwealth Office of Technology enterprise policy CIO-082 and other policy requirements. As CIO-082 is a COT enterprise policy, CHFS will also confer with COT in search of innovative approaches to cost effectively comply with this enterprise policy.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-010: The Commonwealth Office Of Technology Did Not Fulfill Their Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure

The Commonwealth Office of Technology's (COT) Business Continuity (BC) and Disaster Recovery (DR) Plan is not complete. Although it was updated to reflect current processes and procedures, there are several questions and comments in the Markup section of the document. The table of contents does not match up with the actual content of the document. A DR Table Top Exercise has not been performed on COT's BC/DR Plan to determine if the plan is adequate should a disaster occur.

The IT Infrastructure Initiative (I.3) consolidation allowed COT to take ownership and management of agency servers, network infrastructure, Active Directory (AD), and related security controls including disaster recovery and business continuity procedures. Although the development of BC Plans is still an agency level responsibility, COT has not provided any policies, procedures, or other guidance for agencies related to their development. After the initial services are established for an agency, COT provides no further communication with the agencies, written or verbal, about back-up and recovery services being provided. COT has not provided detailed information concerning the application files, user data files, or executable files being backed up, how often the backups occur, or how long the backups are maintained.

COT does not have a complete list of machines, files, or data currently being backed up. They have documented the network infrastructure and a listing of critical systems in the BC/DR Plan; however, the critical system listing is a high level document that does not identify classifications. It also reflects incorrect agency contact information.

During FY 2017, COT began attempting to identify all servers throughout the Commonwealth that required backup services. Initially, there were approximately 2,500 servers that did not have backups. Agencies have been slow to respond, but COT has decreased this to nearly 2,000 servers. COT is working to move the enterprise network to a new infrastructure in the next few months, which will ensure all servers are backed up. Agencies will be able to opt out of this service once it is implemented, but initially, all servers will be included in the backup service.

The annual DR exercise held by COT between October 30 and November 3, 2017 covered numerous systems used throughout the Commonwealth; however, mainframe applications were not included in this testing. The last time mainframe applications were tested for recovery was November 2016. These applications fell out of scope due to the impending transition of the mainframe to a third party vendor, which is anticipated to occur by October 2018. Once this transition is made, mainframe applications will be tested for recovery by the vendor.

Although the BC/DR Plan has been updated to reflect current processes and procedures, the plan as a whole has not been tested. COT has not provided comprehensive information concerning backup and recovery service levels established with consolidated agencies. These issues were first reported to the agency during the FY 2017 audit.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-010: The Commonwealth Office Of Technology Did Not Fulfill Their Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure (Continued)

Disasters or extended downtime can impact the Commonwealth's ability to operate effectively. Having an up-to-date DR Plan helps decrease the risk agencies will not be able to continue to provide customer service or to perform business critical tasks daily. Failure to implement an adequate, formal disaster recovery plan increases the possibility of loss due to excessive recovery time, costs, and disruption of processing capabilities in the event of a disaster or extended system outage.

Strong management practices minimize risks through planning. The goal of a disaster recovery plan is to improve preparedness for extended system outages at minimal cost using available resources. According to the Maintenance & Distribution section of COT's BC/DR Plan, "The Business Continuity Administrator is responsible for overseeing the maintenance, distribution, and periodic testing of the continuity plan." Additional detailed responsibilities for the Business Continuity Coordinator are further itemized within Section 10.2.7 of the Plan Administration, including, but not limited to, tracking of the review process and types of changes within the agency that need to be considered for updates to the DRP.

Section 10.2, Disaster Recovery Plan Maintenance, states the following:

10.2.1 Overview:

It is important that the Plan be continually maintained and updated. Disaster Recovery Plans should include specific maintenance, responsibilities, and procedures...

10.2.2 Maintenance Frequency:

The recovery procedures for each Recovery Team should be updated at minimum on a quarterly basis and should also be updated following major organizational changes. The plan should be reviewed and updated when there are major changes in technology...

Recommendation

We recommend COT critically review all documented procedures and listed resources within the BC/DR Plan and associated exhibits and make necessary updates to reflect the current processes and contact information. Once this update is completed, COT should perform a table top exercise to determine the adequacy of the BC/DR Plan and to ensure all stakeholders are aware of their responsibilities should a disaster occur.

In addition, COT should complete the move of the enterprise network to a new infrastructure. As part of this project, agencies should be made aware of what is included within the rated service, which includes disaster recovery testing and backup services. As a result of this project, COT should formally communicate with the agencies about all backup and recovery services currently being provided.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-010: The Commonwealth Office Of Technology Did Not Fulfill Their Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure (Continued)**

Recommendation (Continued)

We further recommend COT develop and make available enterprise policies and procedures as guidance for agencies in the creation of agency-specific BCPs.

Once the third party takes over managerial duties of the mainframe, COT should ensure this party completes DR testing of mainframe applications to ensure they are recoverable in the event a disaster occurs.

Management's Response and Planned Corrective Action

COT acknowledges the recommendations provide by the APA, are currently working on a complete review and update of the COT BC/DR Plan. COT will perform a Table Top exercise in conjunction with the next Disaster Recovery Exercise, which is currently scheduled for Late January 2019.

We are currently working to improve the verbiage and descriptions for Disaster Recovery Rated services.

The Enterprise Storage Team is working with the agencies to identify what is currently being backed up and offering the services for any additional backups needs.

COT has drafted the NIST Contingency Planning Policy and has submitted it for review.

COT agrees with ensuring the third party that is taking over the managerial duties of the mainframe completes DR testing of mainframe applications to ensure they are recoverable in the event a disaster occurs.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-011: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood

The Commonwealth Office of Technology (COT) has not developed and implemented a formal policy addressing Windows server share configurations. COT does not have a complete list of all servers they manage and maintain for the Commonwealth. A similar finding was noted in FY 2017.

COT has developed the Windows Server Share Configuration Procedure document, which is in draft format. Once reviewed and approved by the Change Approval Board and the business, this document will define the procedures to grant permissions to all files and folders on servers managed by COT.

Security permissions established on certain servers allowed unnecessary access to shared folders on COT-managed machines housing sensitive and confidential information. COT has not taken any action to modify permissions during FY 2018.

COT does not have a comprehensive list of machines they manage on behalf of the Commonwealth. COT is implementing a new converged infrastructure and may use the IT Service Management (ITSM) tool and/or the Helpdesk Expert Automation Tool (HEAT) to identify all machines they are responsible for managing. However, these were not being used at the end of fieldwork.

The Executive Order (EO) 2012-880 transferred the responsibility for and ownership of Information Technology (IT) infrastructure from specific individual agencies to COT. COT did not properly secure machines within their oversight authority.

Sensitive or confidential information that is placed in a shared file can be obtained by unauthorized users if not properly secured. If a machine is not configured to properly restrict access, then an intruder could potentially use this available resource to attempt to gain access to the network. This could negatively impact the financial statements if confidential data is stolen, which could result in substantial mitigation and legal fees for the agency and/or taxpayer as well as loss of taxpayer trust and damage to the agency's reputation.

The responsibility for ensuring the security of the Commonwealth's network falls to COT. According to EO 2012-880,

III. The [Chief Information Officer] CIO of COT shall be responsible for management of all executive branch information technology infrastructure services. These duties include, but are not limited to the following: information technology infrastructure, computing equipment, support staff, servers, networks, storage, desktop support, telephony, enterprise share systems, information technology security, disaster recovery, business continuity, database administration, software licensing, and all related planning, administration, asset management and procurement.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-011: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood (Continued)

Security policies should be in place to address adequately securing files on local workstations. Access to an agency's domain machines should be restricted to only users requiring access related to a valid business purpose. All access should be appropriately restricted.

Recommendation

We recommend COT formalize the Windows Server Share Configuration Procedure document to ensure all machines and associated resources are adequately secured. Security on all network machines should be configured to properly restrict access, unless a valid business purpose is determined and specifically documented. Periodic reviews of domain machines should be performed to ensure only proper access is allowed to all shares, folders, and files. We recommend COT provide sufficient training to appropriate staff to ensure they are aware of the risk this issue poses and that they fully understand the steps to take to ensure resources are properly secured.

We also recommend COT use ITSM or HEAT in order to track all machines they manage on behalf of the Commonwealth. COT should work with the various state agencies to determine which machines house critical or sensitive information and ensure these are properly secured.

Management's Response and Planned Corrective Action

The Commonwealth Office for Technology acknowledges the recommendations. Our policy for creating file and folder shares has been updated to reflect the APA guidelines for using limited Domain Groups for share permissions and requiring all individual user access be from the group membership. This practice is being used to create all new file/folder shares and we are working on the plan to update the current shared permissions already in place to eliminate the Everyone Group and replace it with the appropriate limited Domain Group permissions. We expect to begin replacing the current Everyone Group permissions for file/folder shared access once we have communicated and reviewed our approach with the Agencies to avoid breaking business, and received approval from the Change Approval Board.

We are waiting for the revised procedures to be formally published as our Standard, which we expect to happen by October 1, 2018. A meeting with all server administrators will follow the publication where they will be informed of the new Standard and trained, if necessary, on the new procedure(s).

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2018-011: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood (Continued)**

Management's Response and Planned Corrective Action (Continued)

COT is populating a Configuration Management database (CMDB) that will house all support servers information. The application hosting the database is our Helpdesk Expert Automation Tool (HEAT) which is also our ticketing tool. We currently have all COT supported servers recording within the Billing system, which is being used comparatively against the CMDB for completeness.

In addition, we have added a requirement for Data Classification to our New Server Request process which will capture and maintain the proper classification for system data and allow us to provide the required Security Controls based on the classification.

We will work with the Agencies to audit current systems, which they identified and provided the data classifications, to validate or update the classifications and verify the proper Security Controls are in place for all Production systems.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-012: The Kentucky Department of Education Did Not Properly Segregate Duties Over The Child Nutrition Information And Payment System And The Enhanced Management Administrative And Reporting System

The Kentucky Department of Education's (KDE) Division of School and Community Nutrition (DSCN) did not maintain a proper segregation of duties between the Child Nutrition Information and Payment System (CNIPS) and the Enhanced Management Administrative and Reporting System (eMARS). The CNIPS Security Administrator has been granted the INTERNAL security role in eMARS, which allows access to the INT_TBL Resource Group. Access to this group allows the user to have full update access to most reference/database tables in eMARS and the ability to upload interface files to the Interface Content Manager in eMARS. This elevated access to both CNIPS and eMARS constitutes a lack of segregation of duties. DSCN plans to hire and train a new CNIPS Security Administrator, at which time access will be removed from the current administrator.

A segregation of duties concern exists as the CNIPS Security Administrator has been granted the ability to upload interface files to eMARS.

A lack of segregation of duties increases the risk that the existing controls could be circumvented, which could result in the introduction of unauthorized and inaccurate program logic or manipulation of production data. This could further lead to a disruption of business operations. Specifically, a user having elevated access to both CNIPS and eMARS increases the potential that the user would have the ability to initiate unapproved transactions in eMARS and conceal them in CNIPS.

The Control Objectives for Information and Related Technologies (COBIT) 5 Customized Process Reference Guide establishes a benchmark on which entities may manage roles, responsibilities, access privileges, and levels of authority. Activity Four of DSS06.03 suggests management should allocate roles for sensitive activities so that there is a clear segregation of duties.

Additionally, the National Institute of Standards and Technology (NIST) 800-53 establishes a standard on segregation of duties:

Control: The organization:

- a. Separates [Assignment: organization-defined duties of individuals];
- b. Documents separation of duties of individuals; and
- c. Defines information system access authorizations to support separation of duties.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2018-012: The Kentucky Department of Education Did Not Properly Segregate Duties Over The Child Nutrition Information And Payment System And The Enhanced Management Administrative And Reporting System (Continued)**

Supplemental Guidance: Separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of malevolent activity without collusion. Separation of duties includes, for example: (i) dividing mission functions and information system support functions among different individuals and/or roles; (ii) conducting information system support functions with different individuals (e.g., system management, programming, configuration management, quality assurance and testing, and network security); and (iii) ensuring security personnel administering access control functions do not also administer audit functions.

Recommendation

We recommend DSCN reevaluate the current System Administrator's access to CNIPS and eMARS to ensure a sufficient degree of independence is maintained between system administration functions and data processing. Until DSCN is able to reassign the current System Administrator's job duties, DSCN should actively monitor system activity to ensure all interfaces uploaded to eMARS are complete and accurate.

Management's Response and Planned Corrective Action

DSCN is currently interviewing candidates for the Systems Consultant IT position. Once the position is filled, duties will be reviewed to segregate System Administrator and eMARS duties as quickly as possible. DSCN will continue to actively monitor system activity to ensure all interfaces uploaded to eMARS are complete and accurate.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-013: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations

This is a repeat finding as reported in the fiscal year 2017 Statewide Single Audit of Kentucky (SSWAK) Volume I as finding 2017-014.

The Kentucky Department of Parks (Parks) maintains a bank account outside of the Kentucky State Treasury (Treasury) to temporarily hold funds associated with campground reservations collected by a contracted service organization. Twice each month, Parks reviews supporting documentation for the recorded deposits in the account and writes a check to itself and the Kentucky Horse Park (KHP) in order to allocate funds received between the two entities. Parks' check is deposited into Treasury, and the KHP check is mailed to KHP's accounting department. Review of the internal controls safeguarding this outside bank account revealed the following:

- At June 30, 2018, the account bank statements indicated a balance of \$206,102 which was reported on Parks' closing package as additional cash to be accounted for as unearned revenue. An outstanding check to KHP was not recognized by Parks in the amount of \$22,548, causing ending cash to be overstated on Parks' closing package and the same financial activity to be recorded by both Parks and KHP. As identified in finding 2018-001, Parks also failed to properly account for unearned revenue related to campground reservations.
- Bank reconciliations of the account were not complete or adequately documented. The June 2018 bank statement was the only bank statement during FY18 with indication of limited review procedures. The statement was not signed or dated, which would have provided evidence that monitoring was completed.
- Parks did not provide KHP adequate supporting documentation with their check to assist in verifying the completeness and accuracy of the distributed receipts. Only summary data was provided which was insufficient in allowing KHP to substantiate the receipt. KHP does not have the capabilities to run the necessary reports.

During FY18, Parks began obtaining more detailed source documentation from their service organizations in order to verify deposit and withdrawal amounts in the bank account.

Parks failed to implement adequate internal controls over the monitoring of its outside bank account. Additionally, excess reliance is placed on the operational effectiveness of the service organization in ensuring distributed receipts are complete and accurate. Failure to complete bank reconciliations timely can lead to oversights, errors, and miscalculations that could go undetected for months, increasing the complexity of reconciling the bank account. Accounts held outside Treasury are at a higher risk of fraud, waste, and abuse.

When dealing with reservations, the reconciliation process is pivotal in ensuring funds are properly reported on the financial statements. Failure to verify receipts are complete, accurate, and properly classified could lead to a misstatement on the financial statements.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-013: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations (Continued)

Sound internal controls require bank accounts be reconciled in a timely manner, reviewed by appropriate personnel, and signed or initialed with a date to indicate review. Supporting documentation should ensure the completeness of the reported receipts and unearned revenue. Written policies and procedures help prevent mistakes, ensure compliance, save time, ensure consistency, and improve quality.

Additionally, Finance and Administration Policy (FAP) 120-24-02(d) states, “[b]ank accounts shall be reconciled by employees who have no responsibilities for cash receipts, disbursements or custody.”

Recommendation

We recommend Parks:

- Complete all outstanding reconciliations of the campground reservation bank account.
- Formally document required procedures for preparing and reviewing bank reconciliations. This should include the requirement for signatures and dates documenting procedures were performed as well as ensuring adequate segregation of duties is maintained over the reconciliation in accordance with FAP 120-24-02(d).
- Submit supporting documentation to KHP for their reservation receipts in order to ensure accuracy in their financial reporting. Parks should collaborate with KHP to ensure adequate supporting documentation is provided.

Additionally, Parks should consult with the Finance and Administration Cabinet (FAC) and Treasury to discuss options to possibly have all campground reservation receipts either deposited straight to Treasury or electronically swept from the temporary account. If this is a viable option, receipts would be further safeguarded and Parks would only need to transfer funds within the accounting system eliminating the need to write checks monthly. Parks would still be responsible for reconciling receipts back to supporting documentation and verifying that fees collected by the service organization are correct in accordance with the contract.

Management’s Response and Planned Corrective Action

The Department of Parks agrees with the finding. The receipts section has encountered a tremendous amount of turnover in FY2018. We now have in place a strong manager and staff complement. The manager has processes in place to reconcile this account as well as track outstanding checks. We also have been in contact with the Kentucky Horse Park and have modified the reports sent to them to include necessary data for their portion of the funds.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-014: The Department Of Parks Failed To Enact Proper Policies And Procedures For Depositing Receipts With Treasury In A Timely Manner

The Kentucky Department of Parks (Parks) receives revenue through the advanced reservation of campgrounds and through advanced reservations for historic and/or recreational park activities. Per Parks' procedure manual, reservations can be made up to three years in advance at resort parks and one year in advance at recreation parks and historic sites. During fiscal year 2018, receipts held in temporary deposit accounts were not being transferred to Treasury timely in accordance with Kentucky Revised Statute (KRS) 41.070. The following exceptions were noted:

- Fourteen temporary deposit accounts, with a total year-end balance of \$263,575, are holding monies from advanced reservations for shelter rentals and deposits for events. The revenue is recognized by the park on the day of event/activity at which time the money is transferred as a payment into the receipts account via that day's local bank deposit. Not all funds are being reverted to Treasury timely in accordance with KRS.
- One temporary deposit account, with a year-end balance of \$9,165, is holding monies from advanced campground reservations made through the campground reservation vendor's call center. Customers can mail in payment by check which is then deposited into the temporary account. There were no transfers made to Treasury during FY18.

In addition to funds not being deposited timely with Treasury, these outside accounts represent a significant fraud risk as bank reconciliations were not adequately documented, and checks were written directly from the accounts. The following additional concerns were noted:

- While it was evident that some of the bank accounts were reviewed as indicated by notations on the bank statements, not all outstanding checks were properly identified as part of the formal bank reconciliation process. Parks reports the June 30, 2018 bank statement amount as cash and unearned revenue on its closing package; however, without taking outstanding checks into consideration, the balance could be inaccurate.
- One of the more significant accounts included My Old Kentucky Home State Park, whose reservation account was \$97,349 at June 30, 2018. The June 30, 2018 statement indicated various checks being written including those to the state park for inclusion in the daily deposit and refunds to clients. Total activity during June 2018 included around \$20,000 of withdrawals and deposits. Substantial activity is occurring outside of the accounting system. Without proper controls and oversight, these accounts are subject to fraud or abuse.

Parks failed to adhere to statute requiring receipts held in temporary deposit accounts be transferred to Treasury timely. Since Parks accounting system is on a cash basis, the utilization of the outside accounts is an attempt to more easily identify unearned revenue related to services being paid for in advance. Additionally, internal controls were not in place to ensure bank reconciliations were performed and adequately documented as a safeguard over deposited cash.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-014: The Department Of Parks Failed To Enact Proper Policies And Procedures For Depositing Receipts With Treasury In A Timely Manner (Continued)

Failure to implement and adhere to policies and procedures over the receipt and monitoring of cash could create a significant risk and opportunity for fraud and abuse. Additionally, failure to verify receipts are complete, accurate, and properly classified could lead to misstatements in the financial statements.

KRS 41.070, Moneys to be deposited in state depositories, states, in part,

(1) Unless otherwise expressly provided by law, no receipts from any source of state money or money for which the state is responsible shall be held, used, or deposited in any personal or special bank account, temporarily or otherwise, by any agent or employee of any budget unit, to meet expenditures or for any other purpose. All receipts of any character of any budget unit, all revenue collected for the state, and all public money and dues to the state shall be deposited in state depositories in the most prompt and cost-efficient manner available. However in the case of state departments or agencies located outside Frankfort, and all state institutions, the Finance and Administration Cabinet may permit temporary deposits to be made to the accounts maintained by the agency, department, or institution in a bank which has been designated as a depository for state funds for a period not to exceed thirty (30) days, and may require that the money be forwarded to the State Treasury at the time and in the manner and form prescribed by the cabinet.

The Finance and Administration Cabinet Agency Guidance For Cash Handling requires that all monies received by agencies, departments, and institutions be promptly transmitted to Treasury for deposit or promptly deposited in a state depository bank account per KRS 41.070.

Additionally, Finance and Administration Policy (FAP) 120-24-02(d) states, “[b]ank accounts shall be reconciled by employees who have no responsibilities for cash receipts, disbursements or custody.”

Recommendation

We recommend Parks strengthen internal controls to safeguard assets and ensure all collected revenue is deposited into Treasury in a timely manner in accordance with KRS 41.070. Parks should also establish an internal policy to ensure it conforms to KRS 41.070. Additionally, Parks should evaluate and implement adequate internal controls to ensure funds held within temporary accounts are properly safeguarded and accurately reported on the financial statements.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-014: The Department Of Parks Failed To Enact Proper Policies And Procedures For Depositing Receipts With Treasury In A Timely Manner (Continued)

Management's Response and Planned Corrective Action

The Department of Parks agrees with the finding. We have unintentionally maintained these accounts for many years not knowing of the statute as it relates to KRS 41.070. We are working with the State Comptroller's Office to work out a solution for our business need. The bank account reconciliations are currently up to date and properly documented.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-015: The Department Of Parks Failed To Implement Adequate Policies, Procedures, And Internal Controls Over The Disposal Of Obsolete Vehicles And Equipment**

This is a repeat finding as reported in the fiscal year 2017 Statewide Single Audit Kentucky (SSWAK) Volume 1 as finding 2017-016.

The Kentucky Department of Parks (Parks) failed to implement adequate policies, procedures, and internal controls over the disposal of obsolete vehicles and equipment. During fiscal year 2018, Parks disposed of four vehicles and equipment with a historical cost totaling \$57,647. Local parks are to complete a Request for Disposal form to initiate the disposal process. If the asset's historical cost is over \$1,000, the park's regional manager approves the disposal, and the property officer at Parks Central Office is notified. Digital photos are also taken of items with a historical cost of over \$500, which are to be submitted and maintained by the property officer at Parks Central Office. All four asset disposals were tested, and Parks failed to maintain adequate documentation to support the approval, method of disposal, and any income generated for the disposal.

Parks' policies and procedures were not formally established or consistently applied to ensure proper protocol was followed for the disposal of obsolete capital assets. Without adequate documentation, asset disposals could not be properly verified as being authorized and warranted. The failure to implement adequate internal controls over the disposal process leaves Parks' assets vulnerable to loss due to fraud, waste, and abuse.

Finance and Administration Cabinet Policies and Procedures (FAP) 220-19-02e states:

An agency that has been delegated authority to declare and dispose of state-owned surplus personal property shall:

1. Delete surplus items from agency inventory listings;
2. Maintain records of disposal;
3. Manage the accounting of any applicable federal interest in the property;
4. Retain the proceeds from the disposal of surplus property, unless the property has been delivered to the Division of Surplus Property warehouse; and
5. Make records of surplus property disposition available for audit by the FAC.

Sound internal controls further dictate adequate policies and procedures be implemented to ensure safeguards over cash related to transactions are in place to minimize the risk of loss due to fraud, waste, and abuse.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2018-015: The Department Of Parks Failed To Implement Adequate Policies, Procedures, And Internal Controls Over The Disposal Of Obsolete Vehicles And Equipment (Continued)**

Recommendation

We recommend Parks implement adequate policies, procedures, and internal controls over the disposal of obsolete property and equipment to ensure items disposed of are properly tracked and funds received are accounted for. Parks should formally document procedural requirements for asset disposals, distribute to local parks throughout the Commonwealth, and ensure the policy is consistently applied to ensure compliance with FAP 220-19. All supporting documentation should be properly maintained and available.

Management's Response and Planned Corrective Action

The Department of Parks agrees in part to the findings. The person that was responsible for the disposal of equipment was dismissed just after the first of the fiscal year. During the audit, we were unable to retrieve the back-up documentation from his computer. At the time of this response we were actively working to gain access to his electronic files. We feel proper procedure was followed however we do not have definite verification at this time.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-016: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To The Enhanced Management Administrative And Reporting System

This is a repeat finding as reported in the fiscal year 2017 Statewide Single Audit of Kentucky (SSWAK) Volume I as finding 2017-017.

The Department of Revenue (DOR) has been unable to reconcile tax payments to the Enhanced Management Administrative and Reporting System (eMARS) since January 2014 when the Enterprise Electronic Payments Systems (EEPS) was implemented. The difference between the two systems as of June 30, 2018 was \$10,277,364. This finding was originally communicated to DOR during the FY 2016 audit.

During FY 2016, EEPS and eMARS would not reconcile due to timing differences, differences in the way the funds were recorded, potential input errors, and a lack of returns and refund information in EEPS. Since then, DOR has been working with the Commonwealth Office of Technology (COT), the Finance and Administration Cabinet, and a third party vendor to develop a solution, including potential system enhancements and new reports to assist with the reconciliation. DOR has also created a separate clearing account to assist with the monthly reconciliations.

Although DOR reconciliation procedures were able to identify the unreconciled differences for FY 2018, DOR still does not have a process in place for timely reconciliation of revenues recorded among the separate data sources.

Systems that cannot be reconciled could lead to oversights, errors, and miscalculations that misstate account balances for financial reporting purposes.

Good internal controls over the monthly reconciliation process are necessary to ensure that transactions are accurate, complete, and consistent in both EEPS and eMARS. EEPS should be reconciled on a monthly basis to verify that all items were posted correctly to the various accounts and any differences are identified and corrected. Unreconciled accounts at month end could result in inaccurate recording of transactions, incorrect reporting, and affect other resources.

Recommendation

We recommend DOR resolve the EEPS reconciliation issues. DOR should ensure all enhancements made to EEPS are properly tested and functioning as designed prior to being moved to production. Any reports created should provide complete and accurate information.

Management's Response and Planned Corrective Action

To further improve the process for reconciling money we have added a new process in EEPS where the DOR users can upload a report from KII to EEPS and get the validating records from EEPs and then download that report into Excel. This makes it easier for the DOR to sort by validating numbers and find the missing transactions.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-017: The Department Of Workforce Investment Cash Handling Procedures Were Not In Compliance With Commonwealth Policies And Procedures

The Kentucky Department of Workforce Investment (DWI) failed to handle certain receipts of the Unemployment Insurance (UI) compensation program according to state and federal rules and regulations. There are instances where a person that received UI benefits is required to pay back part or all of the benefits received. These receipts are processed by DWI's UI Integrity Branch.

While reviewing supporting documentation for UI benefit receipts, the review identified that DWI does not properly log receipts or segregate duties among staff. The envelopes with these receipts were opened by DWI mail room employees, and the contents were not logged. These opened envelopes were then delivered to a single DWI employee. This employee, alone, logged the contents, restrictively endorsed the checks, submitted the cash receipt (CR) document in the enhanced Management Administrative Reporting System (eMARS), and maintained possession and delivered checks to the Kentucky State Treasurer (KST).

Additionally, DWI reported that reconciliations were being performed; however, documentation could not be provided to verify this was occurring.

DWI did not establish and implement policies and procedures to safeguard and monitor receipts collected by the UI Integrity Branch for the UI compensation program and to ensure adequate internal controls were in place that comply with the requirements of state and federal regulation. Not properly segregating duties reduces management's ability to prevent, detect, and correct collection errors and irregularities, and also creates the opportunity for misappropriation or theft of funds.

According to FAP 120-24-00 Cash Handling,

1. "Cash" and "cash receipts" means currency, coins, checks, money orders and all other forms of payment that are not electronically transmitted to the Commonwealth.
2. Segregation of Duties: Strict control shall be maintained during the processing of cash receipts to ensure proper accounting.
 - a. Responsibilities and duties involving cash receipts shall be separated among different employees with respect to authorization, processing and recording, receiving funds, reviewing and monitoring, and the custodial functions to ensure no one (1) employee or group of employees has total control over the cash handling process.
 - b. Duties shall be assigned systematically to a number of employees, when applicable, to ensure that effective checks and balances exist.
 - c. The responsibility for opening mail shall be assigned to employees who have no responsibilities for, or access to, files or documents pertaining to accounts receivable or cash accounts...

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-017: The Department Of Workforce Investment Cash Handling Procedures Were Not In Compliance With Commonwealth Policies And Procedures (Continued)**

- d. Bank accounts shall be reconciled by employees who have no responsibilities for cash receipts, disbursements or custody
- 5. Recording of cash receipt transactions: Agencies shall promptly record cash receipt transactions.
 - a. The duties of receiving cash and preparing the initial documentation shall be segregated from the duties of making entries into the agencies' or states' accounting system, posting of cash collections and making deposits.
[...]
- 6. Financial Reporting and Reconciliation: Management shall perform reconciliations and independent supervisory reviews over the cash receipts process.
 - a. Someone independent of the cash receipt function shall reconcile the mail log where cash and receipts are initially received, to the daily cash and receipts activity. A comparison of actual currency and coins deposited with actual currency and coins received shall be conducted.
 - b. Someone independent of the cash receipt process shall summarize cash receipts. This summary shall be compared to the State Treasury deposits to ensure that all collections are deposited intact. Cash receipts recorded in the state accounting system shall also be reconciled against an agency's internal accounting system.

2 CFR section 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States (Green Book) or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sections 10.12, 10.13, and 10.14 identify management responsibilities with regard to segregation of duties.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-017: The Department Of Workforce Investment Cash Handling Procedures Were Not In Compliance With Commonwealth Policies And Procedures (Continued)

Recommendation

We recommend DWI:

- Implement and formally document required procedures on cash handling for the Unemployment Insurance compensation program that comply with applicable state and federal rules and regulations.
- Strengthening internal controls by ensuring collection duties are properly segregated so that no one person has complete control over the collection, processing, recording, and depositing functions. In situations where proper segregation of duties is not practical, management should acknowledge this and define the appropriate compensating control(s) in place.
- Document cash reconciliations and ensure they are performed by an employee that is independent of the cash receipts and recording duties.

Management's Response and Planned Corrective Action

DWI's UI Integrity Branch's process of handling cash/cash receipts has been unchanged for 20 years, however in response to the recommendation of the State Auditor's office, effective immediately, the following procedures have been implemented:

- 1. DWI mail room employees will no longer be opening the envelopes for the UI Integrity Branch*
- 2. The UI Integrity Branch will have two employees retrieve the mail, open and log the mail*
- 3. The cash/cash receipts will then be handed to another employee of the UI Integrity Branch to verify the cash/cash receipts against the log created*
- 4. Once verification is complete, the cash/cash receipts will be locked in the cash box and the cash box will be locked in the safe, the log will be sent to the Section Supervisor to be sent to COT to be electronically processed overnight*
- 5. The next business day, the cash/cash receipts are reconciled against the Cash Recovery Summary Report, created from the log processed by COT overnight*
- 6. Once reconciled, the cash/cash receipts are given to another employee to run tads and bundle the checks into groups of 50, the bundles are then given to the Recover Consultant or Section Supervisor to run a second tad for verification*

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2018-017: The Department Of Workforce Investment Cash Handling Procedures Were Not In Compliance With Commonwealth Policies And Procedures (Continued)**

Management's Response and Planned Corrective Action (Continued)

7. *Once verified, an employee with level 1 access will create a Cash Receipt (CR) in EMARS and the Cash Receipt (CR) will be approved by either the Recover Consultant, Section Supervisor or Branch Manager*
8. *The cash/cash receipts are then endorsed by the Recover Consultant or Section Supervisor*
9. *The cash/cash receipts are prepared to send to Treasury by wrapping a Kentucky State Treasury Cash Receipt Transmittal Form around them and locking in a money bag to be delivered to the Kentucky State Treasury's Office by the Agency's messenger*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-018: The Department Of Workforce Investment Lacked Segregation Of Duties Over The Application And Eligibility Process Of Certain Federally Funded Unemployment Insurance Programs

The Kentucky Department of Workforce Investment (DWI) failed to implement adequate segregation of duties over the process for Unemployment Insurance (UI) claimants to apply for Trade Readjustment Allowance (TRA) benefits. The TRA is a federally funded benefit operated under the UI program. The TRA benefits are designated for eligible UI claimants whose jobs were directly affected by foreign imports as determined by a certification of group coverage issued by the U.S. Department of Labor after regular UI benefits have been exhausted.

One DWI employee approves eligibility, inputs information into the system, determines the payment amount, denies claimants, and monitors the TRA claimant. Upon notification of the lack of segregation of duties, DWI began taking steps to address this issue.

DWI did not establish policies and procedures to ensure adequate segregation of duties were in place and to comply with federal regulations. Not properly segregating duties reduces management's ability to prevent, detect, and correct errors and irregularities, and also creates the opportunity for misappropriation or theft of resources.

Proper internal control dictates that processes be adequately segregated among staff to ensure no one staff member has control over a process. In addition, internal controls should be officially documented in agency policies and procedures.

2 CFR section 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States (Green Book) or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Section 10.12 – Segregation of Duties, within the Green Book states, "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

Section 10.13 – Segregation of Duties, within the Green Book states, "Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties..."

Section 10.14 – Segregation of Duties, within the Green Book states, "If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process."

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2018-018: The Department Of Workforce Investment Lacked Segregation Of Duties Over The Application And Eligibility Process Of Certain Federally Funded Unemployment Insurance Programs (Continued)**

Recommendation

We recommend DWI management continue to address the segregation of duty issue in this area. In addition, policies and procedures should be established and documented to address the segregation of duties over the application and eligibility determination process that are easily accessible by all employees.

Management's Response and Planned Corrective Action

We have changed our processes for how we approve/deny Trade trainings. We have implemented a Trade Committee that approves/denies all training request. The TAA Coordinator's responsibilities include issuing the determination letter based upon the committee's decision.

The RTAA Coordinator's main function is to process the application from the Trade Field Staff regarding Trade individuals who are 50 years or older who have obtained employment and are eligible to receive RTAA.

The TAA and the RTAA Coordinators have two separate functions; neither are related.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-019: The Department Of Workforce Investment Lacked Policies And Procedures To Ensure The Trial Balance Reflected All Activity Occurring During The Fiscal Year**

The Kentucky Department of Workforce Investment (DWI) failed to reconcile the trust fund for the Unemployment Insurance (UI) compensation program to the enhanced Management Administrative Reporting System (eMARS) at the end of fiscal year 2018. The UI compensation program is a state-federal partnership, and DWI is responsible for administering the UI trust fund. The trust fund is an account with the federal government that maintains funds to pay future UI benefit payments.

During the fiscal year 2018 audit, a review of the documentation revealed the following misstatements:

- The UI trust fund cash balance was understated by \$3,979,221.
- A journal voucher was done in fiscal year 2019 for fiscal year 2018 activity resulting in receipts being understated by \$3,945,799. This consisted of interest earnings of \$2,794,362 and a reimbursement of federally funded UI benefits from the United States Department of Labor of \$1,151,437.
- Due to an agency error in fiscal year 2018, that was not identified until fiscal year 2019, the UI benefits fund cash balance was overstated by \$33,422.

DWI did not establish and implement policies and procedures to properly reconcile the UI trust fund to eMARS to prevent errors. DWI stated they perform a reconciliation on an internal tracking sheet, but they do not reconcile eMARS accounts to the trust fund account statements. DWI utilizes Finance and Administrative Cabinet's Statewide Accounting Services (SAS) to record some of the transactions affecting the UI funds; however, it was unclear on the extent of reconciliation procedures performed by SAS. Additionally, due to an eMARS upgrade, the system was unavailable during the last few days of the fiscal year, which caused the interest received in the trust fund on June 30, 2018 to be recorded in fiscal year 2019 of the Commonwealth. Agencies were aware of the timing of the upgrade; however, DWI did not implement adequate procedures to ensure this activity was added to the fiscal year 2018 accounting records.

Failure to ensure accounting records are complete and accurate could lead to incorrect financial reporting and could lead to poor management decisions. Additionally, UI is a state-federal partnership meaning inaccurate financial reporting could lead to noncompliance. Sound internal controls dictate adequate policies and procedures be implemented to reconcile accounting records to ensure the integrity of financial reporting.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-019: The Department Of Workforce Investment Lacked Policies And Procedures To Ensure The Trial Balance Reflected All Activity Occurring During The Fiscal Year (Continued)

In addition, Finance and Administration Cabinet policy (FAP) 120-07-00 Fiscal Year Closing states:

An agency head shall either serve as, or appoint an employee of the agency to serve as, fiscal officer. Examples of fiscal officer responsibilities include:

- a. Establishing and maintaining a proper internal control structure; [...]
- c. Proving assurances that agency financial reports accurately reflect underlying activity;
- d. Conducting fiscal operations under GAAP; [...]

Recommendation

We recommend DWI enact policies and procedures to perform a reconciliation of the accounting records at year end of the trust fund account to ensure the accounting recordings reflect the activity that occurred during the year.

Management's Response and Planned Corrective Action

The lack of accounting period 13 in enhanced Management Administrative Reporting System (eMARS) has contributed to this finding. Due to system conversion from eMARS 3.10 to eMARS 3.11, there was no period 13 as stated in the eMARS newsletter dated June 6, 2018. In addition, it was also stated in the newsletter that we would not be able to journal voucher funds between fiscal years.

<https://finance.ky.gov/services/statewideacct/Customer%20Resource%20Center/3.11%20Newsletters/eMARS%203.11%20Newsletter%20Issue%201.pdf>

Interest earned (\$2,794,362) is not identified until after the end of the quarter. We received the email on 7/2/18 showing interest earned.

Reimbursement of federally funded UI benefits (\$1,151,437) is done at the end of the quarter.

The \$33,422 variance occurred in AP6 with JVC 1800000319. Finance and Administrative Cabinet's Statewide Accounting Services (SAS) attempted to correct the variance in AP7 (JVC 1800000379) but the correction was not done correctly. Due to an unintended modification to the formula that determines SAS cash on deposit balance on the unemployment reconciliation report; SAS did not catch the mistake until after fiscal year 18 had closed. Typically SAS would do an internal audit in Accounting Period 13 but due to the conversion and no period 13, they did not catch this.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-019: The Department Of Workforce Investment Lacked Policies And Procedures To Ensure The Trial Balance Reflected All Activity Occurring During The Fiscal Year (Continued)**

Management's Response and Planned Corrective Action (Continued)

The Department of Workforce Investment reconciles the trust fund to Treasury Direct each month. <https://www.treasurydirect.gov/govt/reports/tfmp/utf/ky/dfiw00618asky.txt>. The individual cashbooks for Fund 6200 and 6210 are reconciled to eMARS each month. Finance and Administrative Cabinet's Statewide Accounting Services (SAS) reconciles the Trust fund to eMARS monthly.

With the conversion to eMARS 3.11, it was not possible to get these records into fiscal year 2018 due to not having a period 13 and the limitations of Journal Vouchers. Transactions are recorded in fiscal year 2019 and there are notes on these journal vouchers that reference fiscal year 2018.

Auditor's Reply

Management's response and corrective action states that they were notified there was no accounting period 13 for fiscal year 2018 on June 6, 2018 and reconciliation of eMARS was the responsibility of SAS. The elimination of accounting period 13 for the implementation of eMARS 3.11 was initially communicated with agencies on December 7, 2017 and again on March 29, 2018 via eMARS user group meetings by FAC. Regardless if there is an accounting period 13 in place or not, DWI is responsible for ensuring eMARS accounts accurately reflect the activity that occurred. Additionally, it is the responsibility of DWI to ensure all its accounts in eMARS are properly reconciled.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-020: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Reports Which Led To Inaccurate Financial Reporting**

The Department of Workforce Investment (DWI) failed to ensure the accuracy over the preparation and review of its closing package as submitted to the Finance and Administrative Cabinet (FAC) for the inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

DWI utilizes the Commonwealth Office of Technology (COT) to operate the Unemployment Insurance Benefits (UIB) system. One use of the UIB system is to determine the amount claimants owe back to the Unemployment Insurance (UI) program. The amount is determined by COT running two reports from the UIB system. One report is receivables from zero days to 30 days, which is used to report receivables within 30 days. The second report displays receivables between zero days and ten years. Taking the difference between the two reports determines the receivables over 30 days. These amounts are reported in the closing package on the AFR 30 and AFR 32 forms. These forms separate receivables due within 30 days and those due in excess of 30 days. In prior years, DWI had only provided printed copies of the totals for these reports. This year the electronic copies of the reports were requested and provided by COT. The reports included only the claimant, the principal due, interest, and penalty. During the review of these reports, the following items were noted:

- The parameters used to generate the reports could not be provided.
- DWI could not identify any procedures to ensure reports were complete and accurate.
- A review of zero days to 30 days report revealed it included payments made by claimants after June 30, 2018. As a result, receivables on the report were understated by \$177,350.

Because of the limited information contained in the report, auditors were not able to determine if a similar misstatement existed in the zero days to ten years report. Auditors requested and DWI agreed to perform a similar review on this report to determine if additional misstatements also existed and, if so, to submit an amended closing package to FAC.

DWI determined the AFR 30 and AFR 32 within 30 days receivable was overstated by \$16,348, but did not submit an amended closing package to FAC. DWI had originally found that the within 30 days receivable should be increased by \$177,350 as noted above. DWI did not note any changes to the over 30 days amounts. Since the over 30 days amounts in the AFR forms are based upon both UIB reports we expect any change to the within 30 days amount to also effect the over 30 days amounts. DWI did provide a written explanation, but did not respond to the auditor's request for clarification.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-020: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Reports Which Led To Inaccurate Financial Reporting (Continued)

DWI failed to establish and implement adequate internal controls to ensure reports from COT were complete and accurate. Failure to ensure the closing package is complete and accurate has led to incorrect financial reporting, and could lead to material misstatements. Additionally, Kentucky Revised Statutes (KRS) require DWI to report on liquidated and unliquidated debt due the Commonwealth. Failure to provide accurate accounts receivable information could lead to noncompliance.

The instructions for the closing package communicated from the Office of the Controller on April 25, 2018 states, in part:

“In accordance with KRS 45.241 (10) and KRS 45.237 (6), each department must provide information regarding both liquidated and unliquidated debts and improper payments due the Commonwealth as of June 30, 2018. [...]”

According to FAP 120-07-00 Fiscal Year Closing,

4. An agency head shall either serve as, or appoint an employee of the agency to serve as, fiscal officer. Examples of fiscal officer responsibilities include:
 - a. Establishing and maintaining a proper internal control structure;
[...]
 - c. Provide assurances that agency financial reports accurately reflect underlying activity;
 - d. Conducting fiscal operations under GAAP; [...]

Recommendation

We recommend DWI determine the correct amount to report in the closing package and submit an amended closing package to FAC. Further, we recommend DWI strengthen internal controls relating to the closing package preparation, which includes ensuring reports used to prepare the closing package are reviewed for completeness and accuracy. Any internal controls, as well the methodology for determining the completeness and accuracy of reports, should be documented in DWI's policies and procedures for preparing the closing package.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-020: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Reports Which Led To Inaccurate Financial Reporting (Continued)

Management's Response and Planned Corrective Action

The Department of Workforce Investment (DWI) disagrees with this finding. Upon further investigation, it was found the 0 to 30 days report was not understated by \$177,350, as indicated in the finding. It was, however, overstated by \$16,332. The overstatement represents less than 0.01% of overpayments established during the audit period. Despite a longstanding practice of producing the required reports at least 30 days after the end of the state fiscal year, for reasons still unexplained, the auditor requested the initial report 6 weeks early. Despite repeated caution that generating the report out of sequence and prematurely could potentially result in error, it was provided as demanded by the auditor. Additionally, the ancillary processes and reports that are used to create the auditor's closing package were not finalized at the time a representative from the APA received the reports. The DWI reporting system is based primarily in a 40-year-old mainframe application, given the age of our technology and the complexity in writing COBOL programs the early report was most certainly flawed. An additional report was provided to the auditor with explanation of the differences found, however that information does not appear to have been considered when this notice was produced. Requests for report parameters from the auditor were not made of staff who prepare the Closing Package. As a result of this notice it was discovered the request was made conversationally by the auditor to an individual in a branch not involved in the preparation of the Closing Package. Therefore, when asked the information was not available from the person asked and furthermore the appropriate staff were not contacted, therefore a written response was not prepared for the APA. The long-standing report, produced by the Commonwealth Office of Technology, provides overpayments established within the month of June. By way of this response, please find the requested parameters:

Uses Overpayment establishment date

WFCLB (Overpayments 0 – 30 days)

Overpayments established from 1 June 2018 to 30 June 2018

Report will still show Reversal activity thru the date the report is ran.

Excludes Payments made after 06/30/18

Excludes Interest accrued after 06/30/18

WFCLC (overpayments 0 days to 10 years)

Overpayments established from 30 June 2008 to 30 June 2018

Report will still show Reversal activity thru the date the report is ran.

Excludes Payments made after 06/30/18

Excludes Interest accrued after 06/30/18

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-020: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Reports Which Led To Inaccurate Financial Reporting (Continued)****Management's Response and Planned Corrective Action (Continued)**

Despite the unfortunate miscommunications that occurred during this audit, the DWI realizes the value of running reports a second time for validation purposes. Going forward, the DWI will request the Commonwealth Office of Technology to run the Closing Package reports twice within the month of July, on the 15th and 30th. These dates will allow adequate time for the ancillary processing and reconciliation to take place to ensure accurate reporting. DWI will compare the established overpayment information within the reports for any discrepancies and, if necessary, resolve any discrepancies before finalizing the Closing Package. DWI will update the current Closing Package procedures to ensure a more detailed reflection of the work is available for review.

Auditor's Reply

DWI is ultimately responsible for submitting accurate and complete information on their closing package to the Finance and Administration Cabinet. This should include appropriately reviewed and supported documentation.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-021: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility**

During fiscal year 2018 the Kentucky Employees Health Plan (KEHP) contracted with a third party vendor to conduct a dependent eligibility audit. A dependent eligibility audit verifies that the dependents covered by KEHP meet the definition of an eligible dependent for the plan. The KEHP Administration Manual defines an eligible dependent as an employee or retiree's spouse or child under the age of 26, or a disabled dependent who is over the age of 26.

The dependent eligibility audit verified 113,528 dependents met the definition of "eligible for plan coverage" through the October 7th final appeal date. However, the audit also identified 3,570 dependents who failed verification after all appeals and another 1,272 dependents who voluntarily dropped coverage when asked to verify eligibility. An additional 2,768 dependents were verified by the third party vendor but were later voluntarily removed from the plan due to a qualifying event.

The KEHP does not have a process in place to verify eligible dependents during the open enrollment period. According to KEHP, due to the volume of plan members and dependents, along with the decreased workforce at KEHP, the ability to verify all new dependents during open enrollment has not been possible.

The dependent eligibility audit performed during the fiscal year was not the first time KEHP has contracted for this type of work. However, due to the cost, the last time a similar process was performed was eight years ago.

If there are people erroneously enrolled in an insurance plan, it can cost the Commonwealth unnecessary dollars in both claims and administrative expense. Verifying each dependent's eligibility is a way to control insurance costs without asking employees to pay more to support the plan. KEHP has a fiscal responsibility to the plan and the plan participants. If there are excess claim dollars under these plans that are being unjustly paid out, it is inequitable not only to the Commonwealth but to all of the employees who support the plan financially.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-021: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility (Continued)

For the fiscal year the total amount of paid medical and pharmaceutical claims equaled \$16,238,645 for ineligible plan dependents. The break-out, by claim type and dependent category, is below:

Medical Claims		
Dependent Category	Number of Claims	Claims
Failed	20,554	\$ 8,457,924
Voluntarily Dropped	9,074	5,230,713
Medical Claims Total	29,628	\$ 13,688,637
Pharmaceutical Claims		
Failed	14,825	\$ 1,716,531
Voluntarily Dropped	7,260	833,477
Pharmaceutical Claims Total	22,085	2,550,008
Total Claims	51,713	\$ 16,238,645

Adequate internal controls are the responsibility of management and demand proper attention be given to assess the risk within the entity. Verification of dependent eligibility is an effective and organized method to ensure all dependents remain eligible for health insurance benefits. Periodic review of all dependent eligibility should be performed including a review of the eligibility requirements and a verification that all dependents currently receiving benefits under the plan are eligible to receive such benefits.

Recommendation

We recommend KEHP:

- Assess the risks of ineligible dependents being added to the plan and design controls that are both effective and cost efficient to the Commonwealth.
- Document and implement procedures for reviewing dependent eligibility during open enrollment.
- Implement new controls to ensure ineligible members are not enrolled in the plan. This can be done by creating system edits that would flag new dependents added during open enrollment.
- Perform dependent eligibility verification on a biennial or more consistent basis.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-021: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility (Continued)

Management's Response and Planned Corrective Action

The Personnel Cabinet strongly endorses an ongoing dependent eligibility verification process to preserve the integrity of the Kentucky Employees' Health Plan (KEHP) membership and to reduce financial risks generated by ineligible dependents. In response to the auditor's recommendations, the Cabinet has instituted controls and will implement additional controls by December 1, 2018.

Controls have been in place since 2006 to verify the addition of spouses and newborns added to the plan due to a qualifying event. Starting in the third quarter of 2017, DEI implemented additional controls to verify dependents added to the plan during new hire and qualifying event processes. Then, in the spring of 2018, DEI contracted with a third party vendor to perform a total dependent eligibility verification audit. In the fourth quarter of 2018, DEI contracted with the vendor to perform ongoing dependent eligibility verification effective December 1, 2018, including all dependents added to the plan during open enrollment or throughout the year.

Previously, system and workforce limitations prevented eligibility verification of new dependents added during the annual open enrollment season. This inability to verify the eligibility of new dependents added during open enrollment created a known gap in eligibility verification and was why the Personnel Cabinet, on its own, contracted for a verification audit.

To close the gap created by dependents added during open enrollment, in the spring of 2018 the KEHP underwent a dependent eligibility verification audit by a third party vendor. DEI used the public procurement process to contract with the vendor. Except for handling some outlying individual appeal issues, the vendor completed the eligibility verification audit of 121,138 dependents in October 2018. Initially 1,272 dependents were voluntarily removed by plan holders with 42% (534) of the dropped dependents turning 26 years old and aging out of the plan in 2018. At the close of the audit, 9,483 dependents were involuntarily removed from KEHP coverage. During the Level 1 and Level 2 Appeals process, 64% (6,041) of the involuntarily dropped dependents were added back to the plan after providing proof of eligibility to the vendor.

Of the 3,442 remaining dependents who were removed from the plan involuntarily, evidence suggests that many of these dependents were eligible, but plan holders simply failed to verify their dependents' status, or the dependents included children being raised by extended family members. A common example that emerged through the audit process was grandchildren of plan holders who were being raised in their grandparents' homes. The plan holder, in many cases a grandparent, had not sought a change in legal status from a court of law establishing legal dependency. The Personnel Cabinet believes this may be the result of several factors including knowledge of the requirement or even a lack of funds.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-021: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility (Continued)**

Management's Response and Planned Corrective Action (Continued)

Under federal rules regarding rescission of coverage, dependents determined to be ineligible for health insurance coverage as a result of an eligibility audit may not be retroactively removed from the plan absent a showing of fraud or intentional material misrepresentation. As a result, ineligible dependents are removed from the plan prospectively, eliminating the ability of the health plan to recoup paid claims and the necessity to refund paid premiums. As the auditor noted, the dependents who were ineligible for coverage incurred claims that, had the dependents not been added to the plan, would not have been claims payable by the KEHP. It should be noted that during fiscal year 2018 the KEHP billed plan holders of dependents who failed the eligibility audit approximately \$70 million in health insurance premiums.

The Personnel Cabinet contracted with the third party vendor to provide ongoing dependent eligibility verification services for the KEHP. Beginning in December 2018, the vendor will verify the eligibility of all dependents added to the KEHP, including dependents added during open enrollment. The vendor will require verification for dependents added during the 2018 open enrollment period who were not verified during the 2018 eligibility audit and any new dependents added since the audit closed. On an ongoing basis, the vendor will audit 100% of children and spouses added to the plan. In addition, previously verified spouses of Commonwealth employees covered under the KEHP will be re-verified every 24 months. The vendor's contract provides for ongoing dependent eligibility verification services through June 30, 2020.

DEI will enhance current processes and implement ongoing eligibility audit procedures by December 1, 2018, addressing all corrective actions related to the auditor's recommendations.

Auditor's Reply

The control weakness identified by the APA relates to the annual open-enrollment process and not qualifying events (QEs) process as mentioned by management's response. Also, management's response identified \$70 million in premiums billed to plan holders with dependents who failed the eligibility audit. However, it should be noted that these premiums paid do not always equate to a specific dependent, such as in the case of family and parent plus plans when more than one dependent child is in the household. The APA did not perform audit procedures to determine if the \$70 million of premiums paid by plan holders mentioned in management's response were attributed directly to these dependents due to limited time and system constraints.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-022: The Kentucky Horse Park Failed To Adequately Monitor Receipts From Campground Reservations**

This is a repeat finding as reported in the fiscal year 2017 Statewide Single Audit of Kentucky (SSWAK) Volume I as finding 2017-023.

The Kentucky Department of Parks (Parks) receives funds collected by a contracted service organization associated with campground reservations, a portion of which are related to transactions pertaining to the Kentucky Horse Park (KHP). Until March 2017, KHP was only mailed a check without any further documentation to substantiate the amount provided. After March 2017, additional support was provided; however, the support was inadequate in assisting KHP in verifying the collected receipts. KHP failed to implement adequate internal controls to reconcile the provided check and support against KHP records to ensure the accuracy and completeness of the amount remitted.

Support for campground reservation receipts have never been consistently provided to KHP; therefore, controls have never been implemented to ensure adequate reconciliation of campground reservation records to amounts received as provided by Parks. While reports are now being provided, they only include summary level detail and do not provide sufficient information to allow for a proper reconciliation. KHP relies on Parks for providing campground reservation reports as KHP personnel do not have access to the system to run their own.

By not having internal control procedures in place, there is no way for KHP management to be confident that the park has received all amounts due from campground reservations. When dealing with reservations, the reconciliation process is pivotal in ensuring funds are properly reported on the financial statements. During fiscal year 2018, total receipts from campground reservations totaled \$1,056,778. Failure to verify receipts are complete, accurate, and properly classified could lead to misstatements on the financial statements.

Sound internal controls dictate supporting documentation be reviewed and verified to ensure the completeness and accuracy of amounts reported in the financial statements. Internally generated reports should be utilized to reconcile and confirm activity when possible. Formally documented policies and procedures should be established to prevent inaccurate financial reporting.

Recommendation

We recommend KHP develop and implement internal controls to ensure campground reservation receipts are reconciled to supporting documentation and entity records to ensure the accuracy and completeness of amounts received. KHP should collaborate with Parks to ensure adequate internal controls are implemented and sufficient supporting documentation is provided to validate campground reservation receipts recorded in the financial statements.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2018-022: The Kentucky Horse Park Failed To Adequately Monitor Receipts From Campground Reservations (Continued)**

Management's Response and Planned Corrective Action

KHP has reviewed the area of controlled weakness, which was also identified in the prior year financial audit. Given the nature of the reservation agreement through the KY State Parks system, KHP has identified the need to improve the overall communication and workflow in order to develop cohesive procedures to ensure accurate documentation to validate campground reservation receipts which are sent from KY State Parks each month. KHP will reconcile payments to the supporting documentation to ensure reservation receipts are accurate and complete for the financial statements, with monthly auditing to ensure adherence to procedures.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-023: The Kentucky Horse Park Is Contractually Responsible For Sewer Expenses Of Unaffiliated Nearby Entities

The Kentucky Horse Park (KHP) is billed by the Lexington Fayette Urban County Government (LFUCG) for sewage usage necessary for park operations. Review of invoices identified not all charges were related to KHP operations as the sewer charges for six additional entities were also billed. Invoices received from LFUCG were broken into two billing lines. The first billing line was identified as the KY Horse Park and included one additional entity within the billed amount. The second billing line referenced Spindletop which was comprised of five entities. Spindletop is property adjacent to KHP associated with the University of Kentucky, with the entities and locations billed being referred to as the Spindletop Complex.

Originally, KHP paid both portions of the sewer bill and invoiced the other entities for reimbursement of their share. However, during 2015, KHP stopped receiving reimbursement for the Spindletop portion of the invoice and as a result ceased remitting payment on their behalf to LFUCG. As of May 2018, a balance of \$267,901 was due LFUCG for the Spindletop portion of the bill, which KHP was responsible for collecting and remitting to LFUCG as the result of an executed contract in July 2000. KHP failed to have written contracts in place to ensure payments were received timely and in full from entities included within KHP's sewer bill.

In June 2018, after pressure from LFUCG for payment, KHP reached a verbal agreement with Spindletop and paid \$133,950 of LFUCG bill on behalf of Spindletop and the other entities. KHP was reimbursed for this payment in July 2018. The remaining balance is pending due to KHP, LFUCG, and Spindletop trying to reach an agreement on billing and payment. The current verbal agreement is for LFUCG to continue billing KHP for all portions of the bill which leaves KHP responsible for receiving reimbursement.

On July 13, 2000, KHP signed a memorandum of agreement with LFUCG for the continuation of sewer services using the KHP's wastewater treatment plant for KHP and the Spindletop Complex. KHP failed to enter into a sound contractual agreement and properly assess the risks associated with the failure to receive payment for the sewer usage of the external entities. Per the agreement,

“LFUCG will calculate and bill the sewer user fee and odor control chemical costs on a monthly basis and will direct the bill to Kentucky Horse Park” and “[t]he Commonwealth will remit one payment for each monthly billing and shall retain responsibility for allocating to and collecting charges from the various entities and facilities within the Service Area permitted to utilized sewer service under the terms of this Agreement.”

As a result, KHP could be held responsible for the outstanding balance owed LFUCG or be subject to the loss of resources associated with resolving the outstanding balance.

Contracts should be properly developed and utilized to formalize agreements and ensure each party has a clear understanding of their roles and responsibilities. Furthermore, contracts should be enacted to adequately safeguard an entity and mitigate the risk from the potential loss of resources due to the failure of a party to perform or provide funding per the agreed terms.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-023: The Kentucky Horse Park Is Contractually Responsible For Sewer Expenses Of Unaffiliated Nearby Entities (Continued)**

Recommendation

We recommend KHP consult with LFUCG, the Commonwealth's Finance and Administration Cabinet (FAC), Spindletop, and other related entities to resolve the current outstanding sewer bill balance. If possible, KHP should request its portion of the sewer bill be removed from the other related entities to mitigate the risk associated with the failure of payment from the associated entities. If not possible, KHP should enter into sound contractual agreements to further safeguard KHP assets and mitigate the risks associated with the failure to receive payments from related parties.

Management's Response and Planned Corrective Action

Before issuance of this year's financial audit, KHP has continued to work diligently with the Tourism, Arts and Heritage Cabinet attorneys as well as the Finance Cabinet Deputy Secretary, along with local officials and Spindletop, to address the past due amounts. These past due amounts will be paid in full by the end of December 2018. These amounts have been billed back to the entities based upon the agreed percentages for allocation of the amount due. Moving forward KHP will pay the balance due to the city and then bill each entity monthly for reimbursement.

KHP is currently working on a new MOU that will remove the Park from being responsible for the billing of these entities moving forward. Once this new agreement is in place the city of Lexington will starting billing these entities directly to remove all risk associated with KHP in managing these accounts.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory

This is a repeat finding reported in the fiscal year 2017 Statewide Single Audit of Kentucky (SSWAK) Volume I as finding 2017-042.

The Kentucky Transportation Cabinet (KYTC) reported \$56 million in materials and supplies on their Annual Financial Report (AFR) 40 - Inventory Analysis form during fiscal year 2018. Year-end inventory procedures were performed to verify the existence and accuracy of the inventory located at traffic and maintenance garages throughout the Commonwealth. Additionally, KYTC's inventory monitoring process was reviewed for its effectiveness in identifying and responding to potential errors in inventory reporting. The following deficiencies were identified:

- KYTC monitors inventory centrally in accordance with the Operations Management System (OMS) Materials Policy and Procedures Manual Section MAT-602 and MAT-604. KYTC's Inventory Error Rate workbook, used to track district inventory error rates, revealed numerous discrepancies including instances where district inventory counts exceeded the expected 5% average error rate and instances where no monthly data was reported indicating that districts did not submit inventory count documents. Additionally, the information reported within the Error Rate workbook did not always agree to documentation. KYTC's Inventory Error Rate workbook identified a potential inventory loss of \$592,009 during fiscal year 2018. The potential inventory loss could be greater as not all district losses were reported. KYTC did not investigate discrepancies, potential errors, or instances where error rate calculations were not submitted.
- In five instances, inventory quantities reported in OMS did not agree to the inventory count observed during year-end observations. Differences were attributed to districts failing to make the changes in OMS following the observation.

KYTC failed to adhere to internal control requirements established by the OMS Materials Policy and Procedures Manual. Failure to conduct inventory counts in accordance with established policy and follow up on error rates exceeding expectations leaves KYTC inventory at risk of loss due to fraud, waste, and abuse. Additionally, failure to properly track and update inventory counts and unit costs could lead to inaccurate information being used for financial reporting and decision making purposes.

Sound internal controls over inventory reporting should provide reasonable assurance that amounts in the financial statements are consistently reported, accurate, and complete. Inventory amounts reported at fiscal year-end should agree to and be supported by inventory count documentation and tracked unit cost information.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory (Continued)

OMS Materials Policy and Procedures Manual Section MAT-602 and the State Highway Engineering January 3, 2008 MEMO Titled “Monthly Inventory Counts” states:

All Management units shall conduct a monthly inventory for all OMS related materials. Copies are to be maintained in district office and compiled quarterly by Deputy Executive Director. Excessive error should be investigated to determine the appropriate corrective measures. The district quarterly report must be delivered to the Director of Maintenance before the end of month following each quarter. Central office maintenance will review each district report, calculate error rates and prepare the statewide report.

The above policy was amended in January 2018 to now require quarterly inventory reports. The OMS Materials Policy and Procedures Manual Section MAT-602 currently states:

As per the State Highway Engineer’s policy #2018-01 dated January 29, 2018 Memorandum (Appendix B), all management units shall conduct a quarterly inventory for all OMS related materials.

Each quarter all crews will be expected to conduct an inventory count (not reconciliation) and forward the results to the County Superintendent and Maintenance and/or Traffic Engineer for signature and approval. The signed documents will then be forwarded to the District Office. The Chief District Engineer will review forward them to the Director, Division of Maintenance within one month of the end of each quarter. The Division of Maintenance will review and note any significant discrepancies to the State Highway Engineer.

Records must be examined to determine the cause of any discrepancies. These may include missing Work Orders, purchases, or transfers since the last inventory.

If the cause is identified, the appropriate action must be taken to correct the error. Only when these remedies have been exhausted may inventory adjustments be made. Inventory adjustments must be performed by the OMS coordinator and must have written approval from the appropriate branch manager.

Mark all errors and discrepancies on the inventory sheet before correcting. Once all errors and discrepancies have been identified and corrected make note on the inventory sheet how the error was resolved.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory (Continued)**

OMS Materials Policy and Procedures Manual Section MAT-604 states:

Each quarter after all inventories have been submitted, the Central Office Division of Maintenance will compile inventory data and send an Inventory Report to the Commissioner of Highways for review. The report will be divided into the following four categories that measure performance:

- 1) Average Error Rate – Calculated by adding the inventory error rate for every crew within a district divided by the number of inventories submitted per that district each month. Average error rates are expected to be 5% or lower for all districts.
- 2) Highest Error Rate – Represents the crew with the highest error rate in their district for that particular month.
- 3) Percentage of Crews with Error Rates > 5% - Indicates the number of crews which failed to meet the expected error rate of 5% each month.
- 4) Number of Crews with no data reported – Represents the number of management units, which failed to either conduct or submit an inventory for that month.

Recommendation

We recommend KYTC strengthen monitoring of district inventory and further analyze and investigate identified irregularities in accordance with establish policy to determine the cause and implement corrective action. KYTC should take appropriate steps to safeguard assets from fraud, waste, and abuse and ensure the accuracy and integrity of the inventory data utilized in the preparation of the Commonwealth's financial statements. All inventory amounts should be updated as a result of year-end counts to ensure the accuracy and completeness of reported information in the financial statements. Additionally, unit cost amounts should be reviewed and verified to be complete and accurate in calculating the final inventory value as necessary for financial statement reporting.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory (Continued)**

Management's Response and Planned Corrective Action

KYTC agrees that monitoring of district inventories should be strengthened and proposes several actions to improve inventory control. In 2017 KYTC proposed changes to the inventory process to better identify those items that represented high risks in terms of cost and susceptibility to loss. However, due to loss of staff those changes have not yet been implemented. It is still our long-term goal to develop a risk-based process, but until such time the following changes are proposed to address immediate concerns:

- 1) Inventory rates exceeding 5%. The target for error rates is 5%, but it is understood that within each district there will occasionally be crews that exceed 5%. Beginning with the quarterly submittal in January 2019, the State Highway Engineer's office will identify districts reporting average error rates greater than 5% and will contact the respective Chief District Engineers to require that they take corrective action to reduce errors. Actions will be tailored to the specific issues identified within the district and may include additional training for end users, more frequent inventory counts, or improved facility layouts. The core response to this APA finding is that the State Highway Engineer's office will be responsible for actively investigating high error rates and working with the district to improve individual performance.*
- 2) Absence of reporting from some districts: All districts must report inventory counts to Central Office on a quarterly basis. Beginning with the January quarterly submittal, the State Highway Engineer's office will identify those districts failing to provide a report and will follow up with the Chief District Engineers of the respective districts to require that an inventory count be performed as soon as possible upon notification.*
- 3) Year-end observations failing to agree with observed counts: The Division of Maintenance will create a report identifying all OMS changes recorded during the end-of-year reconciliation. The State Highway Engineer's office will run this report after the end-of-year inventory counts are completed and will analyze this report in comparison to the printed inventory sheets in order to ensure quantities have been updated correctly in OMS.*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-025: The Kentucky Transportation Cabinet Failed To Implement Effective Internal Controls Over The Calculation Of Equipment Usage Costs Charged Against State And Federal Road Projects

The Kentucky Transportation Cabinet (KYTC) Department of Highways recorded over \$69 million in expenses related to the rental and usage of permanently assigned fleet vehicles, equipment, and motor pool vehicles during fiscal year 2018 within the Commonwealth's Transportation Fund. Vehicle and equipment usage charges are calculated based on established rates per a KYTC Secretary's Order and charged against state and federal road projects. A review of 62 individual equipment and vehicle usage charges identified errors in the calculation of total equipment usage costs within the Operations Management System (OMS) which are uploaded into the Commonwealth's accounting system through an automated process. A manual re-calculation of equipment rental expenses identified 34 instances where the total costs calculated within OMS were inaccurate. These variances only impacted the calculation of equipment costs and not vehicles. An example of the exceptions is provided below:

Equipment Number	Usage Amount (Hours)	Equipment Rental Rate	Auditor Calculated Cost	OMS Reported Cost	Difference
0000082	8	\$ 25	\$ 200	\$ 112	\$ 88
5551558	8	5	40	0	40
0001341	4	25	100	44	56
0009668	8	25	200	112	88
0000447	8	25	200	89	111
0000617	6	20	120	60	60

In addition to OMS incorrectly calculating equipment costs, additional discrepancies were identified when tracing supporting documentation to the calculation variables:

- In three instances, the equipment usage as listed on the OMS report was not supported on the employee's timesheet. As a result, it could not be confirmed that the reported cost was appropriate and had occurred.
- In one instance, the reported equipment usage did not agree between OMS and the employee's timesheet.
- In one instance, the equipment number identified on the employee's timesheet did not agree to the equipment number reflected in OMS. Recording the incorrect equipment number can result in an inaccurate total cost being calculated.
- In one instance, the equipment number reported within OMS was not included on the approved equipment rate schedule. As a result, the equipment cost calculations could not be performed.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2018-025: The Kentucky Transportation Cabinet Failed To Implement Effective Internal Controls Over The Calculation Of Equipment Usage Costs Charged Against State And Federal Road Projects (Continued)

KYTC identified software enhancements had occurred to enable them to capture a wider range of metrics for equipment billing purposes. During the system changes, several of the equipment class codes moved from its intended rental method into one of the newly create methods without KYTC's knowledge. KYTC identified that the error occurred in spring 2018 and that it was corrected in August 2018.

In addition to the system change, the data entry into OMS related to equipment use is a manual process, which is susceptible to errors as information is required to be properly recorded on timesheets and entered into OMS. The process also does not allow for an efficient audit trail as data entered into OMS cannot be easily tracked back to the appropriate timesheets and supporting documentation without substantial time and effort.

Due to the magnitude of the deficiencies within the system, as well as several unknowns at the time of review, including which equipment codes were impacted and when the errors first occurred, it was not possible to substantiate the reported equipment use expenditures as incorporated into the Commonwealth's financial statements. State and federal road projects were also incorrectly charged as a result of the error to an indeterminable degree. KYTC indicated they had contacted their system developers to identify all improper billings that had occurred; however, the focus would be on fiscal year 2019 in identifying any corrections. Had the error not been detected timely, a significant misstatement of equipment costs could have occurred.

Control activities over information technology infrastructure should be designed to support the completeness, accuracy, and validity of processed information. Additionally, control activities over the development, maintenance, and change of application software should prevent unauthorized programs or modifications to existing programs.

The Commonwealth Office of Technology policy CIO-105 System and Information Integrity Policy further requires that agencies:

- Identify, report, and correct information system flaws.
- Test and install security-relevant software and firmware updates, upgrades and system changes within established timelines following the release of the update.
- Incorporate flaw remediation into the configuration management process.
- Employ automated mechanisms, at a pre-determined interval (i.e. daily, weekly, monthly), to determine the state of components with respect to flaw remediation.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-025: The Kentucky Transportation Cabinet Failed To Implement Effective Internal Controls Over The Calculation Of Equipment Usage Costs Charged Against State And Federal Road Projects (Continued)**

Recommendation

We recommend KYTC investigate the identified system error and perform a reconciliation of costs interfaced between OMS and eMARS to determine the magnitude of the discrepancies including the potential impact on the financial statements. Policies and procedures should be implemented to ensure compliance with CIO-105 to ensure system modifications are tested to ensure the accuracy of reported results. Corrections should be made to ensure state and federal road project billings are complete and accurate related to equipment usage. KYTC should also evaluate the current process for tracking and calculating equipment costs to strengthen the audit trail and reduce the potential risk of human error. This could incorporate a review process to help mitigate the risk of unintentional input errors.

Management's Response and Planned Corrective Action

In regards to the issue that occurred during the enhancement upgrade to the class code table which changed the usage rate calculation on several of the class codes, multiple measures were already in place to capture undesired results. Currently the upgrade is tested by the software development team and then the project manager of client care support prior to implementation into a test environment for testing by KYTC staff. The reason this particular instance had been missed was due to the fact it only impacted a small fraction of the class codes within the system. So while this portion of the enhancement went through multiple layers of testing unfortunately this small fraction was not within the sample set. The issue was identified back in early July well prior to audit and several steps have already been put in place that eliminated the problem.

As part of the enhancement, multiple meter type columns were created to assist in tracking preventative maintenance. Although only the meter type 1 actually impacted the usage rate calculation. That column has now been renamed to clearly identify its purpose. Further the incorrect meter types were able to be fixed from the front end which terminated the inaccurate calculation immediately. Since the calculation on these specific class codes caused usage costs to either be 0 or a small fraction of the actual usage rate the OMS helpdesk was flooded with user calls reporting strange values. It was because of the user reports we were able to quickly identify which class codes were causing problems and changed them to the accurate calculation.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2018-025: The Kentucky Transportation Cabinet Failed To Implement Effective Internal Controls Over The Calculation Of Equipment Usage Costs Charged Against State And Federal Road Projects (Continued)**

Management's Response and Planned Corrective Action (Continued)

The problem was reported to the software developers before audit and they are generating correction files at this time. We have given a February deadline to produce the files so that KYTC staff has time to verify accuracy and upload to eMARS prior to the end of fiscal year. The Division of Accounts was made aware of the issue and a correction file will be submitted.

The Division of Equipment during such time filled a position that is serving as the statewide OMS Equipment Coordinator, these duties fall under a Resource Management Analyst III. This position is dedicated to monitoring and managing the system for functionality and operational needs to meet the Equipment Service Program, and will assist with the review of system enhancements, sample and data testing. This position will provide a corrective measure or means to assist with addressing system issues before the release or implementation of an enhancement or systems upgrade. Procedures are already in place and were performed in this instance. However, the position identified above will provide a means to ensure procedures are appropriately followed and reviewed.

In addition, the Office of Audits, Internal Audit Branch has previously and will again as part of fiscal year 2019 annual site audits to the District offices evaluate the processes for tracking equipment costs. Calculating equipment costs is also an audit occurring currently in the Internal Audit Branch as a follow-up to a recent federal highway review. Through these audits we will make recommendations for improvements, as needed, to the appropriate District and central office personnel. The process for calculating equipment rates and entering them into OMS is a central office process. The process for equipment tracking is decentralized for the Cabinet and occurs in the District offices. Each District office has procedures and review processes in place for equipment tracking, documentation of which could include timesheets and/or equipment tracking logs.

Auditor's Reply

Management's response indicated "the issue was identified back in early July well prior to audit and several steps have already been put in place that eliminated the problem." While correspondence was provided during the finding response period identifying KYTC was aware of the system error in July, this information was not provided until the completion stage of fieldwork despite multiple conversations and requests for information concerning miscalculations with reported amounts. Management also stated that the error impacted only a small fraction of class codes; however, equipment rate errors were numerous in auditor-tested transactions sampled in May and June 2018.

APPENDIX

COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2018

This report is available on our website, www.auditor.ky.gov in PDF format. For other requests, please contact Tim Gutman, the APA's Open Records Administrator, at (502)564-5841 or tim.gutman@ky.gov. If copies of the CAFR for FY 2018 are required, please contact William M. Landrum III, Finance and Administration Cabinet Secretary, at (502)564-4240 or william.landrum@ky.gov.

The list includes entities included in the Commonwealth's CAFR with separate audited financial statement reports issued by the Auditor of Public Accounts or Certified Public Accounting firms. Audit reports are available upon request to the respective agency.

Bluegrass State Skills Corporation
Old Capitol Annex
300 West Broadway
Frankfort, Kentucky 40601

Turnpike Authority of Kentucky
Room 76, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Transportation Cabinet
Kentucky Transportation Cabinet Worker's Compensation
200 Mero Street
Frankfort, Kentucky 40601

Kentucky Center for the Arts
501 West Main Street
Louisville, Kentucky 40202

Kentucky Economic Development Finance Authority
Old Capitol Annex
300 West Broadway
Frankfort, Kentucky 40601

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

University of Louisville
2301 South 3rd Street
108 Grawemeyer Hall
Louisville, Kentucky 40292

Western Kentucky University
Vice President for Finance and Administration
1906 College Heights Blvd.
Potter Hall 435
Bowling Green, Kentucky 42101-1007

Murray State University
102 Curris Center
Murray, Kentucky 42071

Kentucky State University
Office of Administrative Affairs
400 East Main Street
Frankfort, Kentucky 40601

Kentucky Lottery Corporation
1011 West Main Street
Louisville, Kentucky 40202-2623

Kentucky State Fair Board
Kentucky Fair and Exposition Center
P.O. Box 37130
Louisville, Kentucky 40233-7130

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority
P.O. Box 798
Frankfort, Kentucky 40602-0798

Kentucky Higher Education Student Loan Corporation
P.O. Box 24328
Louisville, KY 40224-0328

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Kentucky Infrastructure Authority
1024 Capital Center Dr., Suite 340
Frankfort, Kentucky 40601

Kentucky Judicial Form Retirement System
Suite 302, Whitaker Bank Building
305 Ann Street
Frankfort, Kentucky 40601

University of Kentucky
410 Administration Drive
Lexington, Kentucky 40506-0005

Eastern Kentucky University
Vice President for Business Affairs
521 Lancaster Avenue
Richmond, Kentucky 40475-3101

Morehead State University
Office of Accounting and Financial Services
207 Howell-McDowell Administration Building
Morehead, Kentucky 40351

Northern Kentucky University
Office of Business Affairs
Lucas Administration Center
726 Nunn Drive
Highland Heights, Kentucky 41099-8101

Office of Public Employees Health Insurance
State Office Building, 2nd Floor
501 High Street
Frankfort, KY 40601

Kentucky Community and Technical College System
300 North Main Street
Versailles, KY 40383

Kentucky River Authority
403 Wapping Street, Suite 105
Frankfort, KY 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, Kentucky 40601

Office of the Petroleum Storage Tank
Environmental Assurance Fund
300 Sower Blvd, 2nd Floor
Frankfort, KY 40601

Kentucky Artisan Center at Berea
200 Artisan Way
Berea, KY 40403

Kentucky Public Employees' Deferred Compensation Authority
101 Sea Hero Road, Suite 110
Frankfort, KY 40601-5404

Workers' Compensation Program
State Office Building, 3rd Floor
501 High Street
Frankfort, KY 40601

Kentucky Department of Labor - Special Fund
1047 US Highway 127 S, Suite 4
Frankfort, KY 40601

Kentucky Horse Park Foundation
4089 Iron Works Parkway
Lexington, Kentucky 40511

Kentucky Public Transportation Infrastructure Authority
200 Mero Street, 6th Floor East
Frankfort, Kentucky 40601

Kentucky Communications Network Authority
209 Saint Clair St. 4th Floor
Frankfort, KY 40601

Louisville Arena Authority
1 Arena Plaza
Louisville, KY 40202