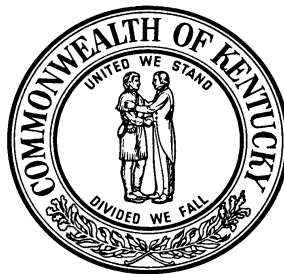


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME I

**For the Year Ended
June 30, 2020**



**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, 2020

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 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, 2020
(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, 2020, the total federal dollars expended by the Commonwealth of Kentucky were \$16,569,382,040 in cash awards and \$969,298,243 in noncash awards. For FY 2020, the total federal cash expenditures as reported on the SEFA increased by \$4,757,861,065 in comparison with the total for FY 2019.

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 9, 2021

Honorable Andy Beshear, 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, 2020. 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



CONTENTS

	Page
INDEPENDENT AUDITOR’S REPORT	1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	21
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33
<i>Financial Statement Findings</i>	
Material Weaknesses Relating to Internal Controls and/or Noncompliances	
<u>FINDING 2020-001:</u> The Finance and Administration Cabinet Failed To Implement Adequate Internal Controls Over Financial Reporting Of Fixed Assets And Capital Leases	39
<u>FINDING 2020-002:</u> The Finance And Administration Cabinet Did Not Accurately Compile The Financial Statements For The Unemployment Compensation Fund.....	41
<u>FINDING 2020-003:</u> The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law	44
<u>FINDING 2020-004:</u> The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System	53
<u>FINDING 2020-005:</u> The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process.....	57
<u>FINDING 2020-006:</u> The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants.....	64
<u>FINDING 2020-007:</u> The Office of Unemployment Insurance Did Not Recognize Accounts Receivable For Federal Unemployment Compensation Funds On The Closing Package.....	70
<u>FINDING 2020-008:</u> The Office Of Unemployment Insurance Paid Unemployment Benefits To Full-Time Employees Of The Commonwealth	72
<u>FINDING 2020-009:</u> The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of Its Closing Package.....	78
<u>FINDING 2020-010:</u> The Office Of Unemployment Insurance Could Not Provide A Reasonable Or Reliable Estimate Of Remaining Fiscal Year 2020 Claims.....	80
Significant Deficiencies Relating to Internal Controls and/or Noncompliances	
<u>FINDING 2020-011:</u> The Commonwealth Office Of Technology Did Not Maintain Sufficient Logical Security Controls For The LINUX Servers	83

CONTENTS
(Continued)

Page

<u>FINDING 2020-012:</u> The Commonwealth Office Of Technology Does Not Comply With The Risk Assessment Enterprise Policy.....	86
<u>FINDING 2020-013:</u> The Commonwealth Office Of Technology Does Not Have A Comprehensive Listing Of Machines	89
<u>FINDING 2020-014:</u> The Department Of Revenue Does Not Comply With Certain Enterprise Policies Related To System Security	92
<u>FINDING 2020-015:</u> The Finance And Administration Cabinet Does Not Comply With Certain Enterprise Policies Related To System Security.....	95
<u>FINDING 2020-016:</u> The Finance And Administration Cabinet Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information	98
<u>FINDING 2020-017:</u> The Finance and Administration Cabinet Did Not Maintain Adequate Internal Controls Over The Calculation of Compensated Absences	100
<u>FINDING 2020-018:</u> The Kentucky Department Of Agriculture Failed To Accurately Report Non-Cash Expenditures For The Food Distribution Cluster On The Schedule Of Expenditures Of Federal Awards	101
<u>FINDING 2020-019:</u> The Kentucky Department Of Education Did Not Close Out Grants On The Schedule Of Expenditures Of Federal Awards.....	103
<u>FINDING 2020-020:</u> The Kentucky Transportation Cabinet Did Not Verify The Accuracy Of Salt On Hand In Their Inventory System When Inventory Counts Occurred	105
<u>FINDING 2020-021:</u> The Kentucky Transportation Cabinet Did Not Accurately Submit The Annual Financial Report To The Finance And Administration Cabinet	106
<u>FINDING 2020-022:</u> The Office Of Unemployment Insurance Does Not Comply With Certain Federal And State Enterprise Policies Related To System Security.....	108
<u>FINDING 2020-023:</u> The Office Of Unemployment Insurance Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act	114
<u>FINDING 2020-024:</u> The Office of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace for Employment Services System Was Properly Secured	119
<u>FINDING 2020-025:</u> The Office Of Unemployment Insurance Did Not Fully And Appropriately Separate CARES Act Expenditures From Non-CARES Act Expenditures On The Schedule Of Expenditures Of Federal Awards.....	123
APPENDIX	127



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Honorable Andy Beshear, 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, 2020, 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 17, 2020, which contained a qualified opinion on the Business-Type Activities and Unemployment Compensation Fund. 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 Andy Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly
Page 2

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 long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

December 17, 2020

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

CFDA	Program Title	State Agencies	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	\$ 517,805	\$	\$
		F&W			
10.028	Wildlife Services (Note 15)	F&W			
10.072	Wetlands Reserve Program	F&W	444,505		
10.093	Voluntary Public Access and Habitat Incentive Program (Note 15)	F&W			
10.153	Market News	AGR	18,906		
10.162	Inspection Grading and Standardization	AGR	12,735		
10.163	Market Protection and Promotion	AGR	36,994		
10.170	Specialty Crop Block Grant Program - Farm Bill	AGR	301,539		
10.178	Trade Mitigation Program Eligible Recipient Agency Operational Funds (Note 10)	AGR	1,148,680	20,688,454	
10.351	Rural Business Development Grant (Note 15)	KAC			
10.479	Food Safety Cooperative Agreements	CHFS	46,058		
10.537	Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants	DWI	207,536		
		CHFS			
10.547	Professional Standards for School Nutrition Employees (Note 15)	EDU			
SNAP Cluster:					
10.551	Supplemental Nutrition Assistance Program (Note 2) (Note 10)	CHFS		840,751,801	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2)	CHFS	82,931,719		12,598,015
	Total SNAP Cluster:		<u>82,931,719</u>	<u>840,751,801</u>	<u>12,598,015</u>
Child Nutrition Cluster:					
10.553	School Breakfast Program (Note 2)	EDU	78,184,563		78,184,563
		JUV			
10.553	CARES-School Breakfast Program (Note 2) (Note 14)	EDU	6,112,953		6,112,953
10.555	National School Lunch Program (Note 2) (Note 10)	EDU	185,065,666		185,065,666
		AGR		28,924,034	
		JUV			
10.555	CARES--National School Lunch Program (Note 2) (Note 14)	EDU	14,239,152		14,236,056
10.556	Special Milk Program for Children (Note 2)	EDU	10,931		10,931
10.556	CARES--Special Milk Program for Children (Note 2) (Note 14)	EDU	780		780
10.559	Summer Food Service Program for Children (Note 2)	EDU	44,982,225		44,982,225
10.559	CARES--Summer Food Service Program for Children (Note 2) (Note 14)	EDU	44,852,536		44,578,068
	Total Child Nutrition Cluster:		<u>373,448,806</u>	<u>28,924,034</u>	<u>373,171,242</u>
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	CHFS	101,911,220		22,611,026
10.558	Child and Adult Care Food Program (Note 2)	EDU	38,878,865		38,878,865
10.558	CARES-Child and Adult Care Food Program (Note 14) (Note 2)	EDU	3,175,504		2,553,688
10.560	State Administrative Expenses for Child Nutrition	EDU	3,946,242		1,085,617
		AGR	588,066		
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program (Note 10) (Note 11)	AGR	2,394,070	9,442,212	
10.568	Emergency Food Assistance Program (Administrative Costs)	AGR	3,091,006		
10.568	FFCRA-Emergency Food Assistance Program (Note 14)	AGR	780,278		
10.569	Emergency Food Assistance Program (Food Commodities) (Note 10)	AGR		11,542,317	
10.569	FFCRA-Emergency Food Assistance Program (Food Commodities) (Note 10) (Note 14)	AGR		1,240,787	
10.569	CARES-Emergency Food Assistance Program (Food Commodities) (Note 14) (Note 15)	AGR			
	Total Food Distribution Cluster:		<u>6,265,354</u>	<u>22,225,316</u>	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	CHFS	97,805		
10.575	Farm to School Grant Program	AGR	5,135		
10.576	Senior Farmers Market Nutrition Program	AGR	302,210		
10.578	WIC Grants to States (WGS)	CHFS	173,966		134,396
10.579	Child Nutrition Discretionary Grants Limited Availability	EDU	563,447		563,447
10.582	Fresh Fruit and Vegetable Program	EDU	2,869,284		2,869,284
10.592	Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects	CHFS	137,645		

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, 2020
(Continued)**

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture (Continued)					
Direct Programs (Continued):					
10.596	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP	CHFS	811,766		593,825
10.652	Forestry Research	EEC	383,469		
10.664	Cooperative Forestry Assistance	EEC	2,619,548		684,731
10.674	Wood Utilization Assistance	EEC	57,990		47,458
10.676	Forest Legacy Program	EEC	2,149		
10.678	Forest Stewardship Program	EEC	27,476		
10.691	Good Neighbor Authority	F&W	17,773		
		EEC	38,821		
10.697	State & Private Forestry Hazardous Fuel Reduction Program	EEC	78,916		
10.771	Rural Cooperative Development Grants (Note 15)	AGR			
10.902	Soil and Water Conservation	EEC	153,739		
		F&W			
		COT			
10.912	Environmental Quality Incentives Program (Note 7)	COT	50,000		
		COT	100,000		
10.913	Farm and Ranch Lands Protection Program	AGR	3,223		
		F&W			
10.923	Emergency Watershed Protection Program	TC	1,841		
10.924	Conservation Stewardship Program (Note 7)	COT	50,669		
10.932	Regional Conservation Partnership Program	EEC	30,711		30,711
10.U01	Rural Rehabilitation Student Loan Program (Note 1) (Note 3) (Note 15) (Note 16)	AGR			
10.U02	HWA Participating Agreement with Daniel Boone National Forest (Note 1) (Note 16)	EEC	52,871		
Total U.S. Department of Agriculture			\$ 622,510,988	\$ 912,589,605	\$ 455,822,305
U.S. Department of Commerce					
Direct Programs:					
11.302	Economic Development Support for Planning Organizations	DLG	\$ 1,184,215	\$	\$ 1,165,693
Economic Development Cluster:					
11.307	Economic Adjustment Assistance (Note 15)	KCNA DLG DWI			
Total Economic Development Cluster:					
11.549	State and Local Implementation Grant Program	KSP COT	104,978		
Total U.S. Department of Commerce			\$ 1,289,193	\$	\$ 1,165,693
U.S. Department of Defense					
Direct Programs:					
12.104	Flood Plain Management Services	F&W	\$ 2,311	\$	\$
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	EEC	91,343		
12.219	EASE 2.0	SOS	115,407		
12.400	Military Construction, National Guard (Note 15)	MIL			
12.401	National Guard Military Operations and Maintenance (O&M) Projects	MIL	29,221,866		
12.404	National Guard ChalleNge Program	MIL	6,858,692		
12.617	Economic Adjustment Assistance for State Governments	CMA	746,310		
12.700	Donations/Loans of Obsolete DOD Property (Note 10)	EEC KSP		151,252	
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities (Note 1) (Note 16)	EEC	1,860,740		54,560
12.U02	Teacher and Teacher's Aide Placement Assistance Program (Note 1) (Note 15) (Note 16)	EPSB			
Total U.S. Department of Defense			\$ 38,896,669	\$ 151,252	\$ 54,560

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, 2020
(Continued)

CFDA	Program Title	State Agencies	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	\$ 17,871,645	\$	\$ 17,138,126
14.270	Appalachia Economic Development Initiative (Note 15)	MIL			
14.401	Fair Housing Assistance Program State and Local	DLG			
		HRC	119,251		
Total U.S. Department of Housing and Urban Development			\$ 17,990,896	\$	\$ 17,138,126
U.S. Department of the Interior					
Direct Programs:					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	EEC	\$ 13,110,121	\$	\$
15.252	Abandoned Mine Land Reclamation (AMLR) (Note 2)	EEC	30,477,434		1,290,384
15.255	Science and Technology Projects Related to Coal Mining and Reclamation (Note 15)	EEC			
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration (Note 7)	F&W	5,540,540		
15.611	Wildlife Restoration and Basic Hunter Education (Note 7) (Note 9)	F&W	9,374,373		204,657
15.626	Enhanced Hunter Education and Safety	F&W	30,322		
Total Fish and Wildlife Cluster:			14,945,235		204,657
15.608	Fish and Wildlife Management Assistance	F&W	1,093,535		
15.614	Coastal Wetlands Planning, Protection and Restoration (Note 15)	F&W			
15.615	Cooperative Endangered Species Conservation Fund (Note 7)	F&W	124,805		
		EEC	47,509		
15.616	Clean Vessel Act (Note 15)	F&W			
15.622	Sportfishing and Boating Safety Act	F&W	165,000		165,000
15.623	North American Wetlands Conservation Fund (Note 15)	F&W			
15.631	Partners for Fish and Wildlife (Note 15)	EEC			
15.634	State Wildlife Grants (Note 7)	F&W	860,135		3,629
15.656	ARRA-Recovery Act Funds - Habitat Enhancement, Restoration and Improvement (Note 13) (Note 15)	F&W			
15.657	Endangered Species Conservation - Recovery Implementation Funds (Note 7)	F&W	65,833		
		EEC	19,433		
15.808	U.S. Geological Survey Research and Data Collection (Note 7)	COT	150,385		
15.904	Historic Preservation Fund Grants-In-Aid	KHC	908,192		88,884
15.916	Outdoor Recreation Acquisition, Development and Planning (Note 6)	DLG	747,306		747,306
15.945	Cooperative Research and Training Programs - Resources of the National Park System (Note 15)	EEC			
15.981	Water Use and Data Research	EEC	2,879		2,879
15.U01	Clark River NWR Fish Survey (Note 1) (Note 15) (Note 16)	F&W			
15.U02	Ohio River Survey (Note 1) (Note 15) (Note 16)	F&W			
Total U.S. Department of the Interior			\$ 62,717,802	\$	\$ 2,502,739
U.S. Department of Justice					
Direct Programs:					
16.017	Sexual Assault Services Formula Program	JUST	\$ 391,611	\$	\$ 391,611
16.320	Services for Trafficking Victims	OAG	159,178		
16.540	Juvenile Justice and Delinquency Prevention	JUV	202,126		185,168
16.543	Missing Children's Assistance	KSP	383,428		
16.550	State Justice Statistics Program for Statistical Analysis Centers	JUST	72,898		
16.554	National Criminal History Improvement Program (NCHIP)	KSP	125,428		
		JUST			
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	CORR	218,911		
		KSP			
16.575	Crime Victim Assistance (Note 2)	JUST	29,844,878		28,664,233
		UPS	942,584		
		OAG	133,529		
		CORR	9,736		
		KSP	1,539,101		

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, 2020
(Continued)**

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.576	Crime Victim Compensation	PPC	185,268		
16.582	Crime Victim Assistance/Discretionary Grants	JUST	46,521		43,966
		OAG			
		UPS			
16.585	Drug Court Discretionary Grant Program (Note 7)	AOC	840,100		
16.588	Violence Against Women Formula Grants	JUST	2,042,719		1,804,043
		AOC	97,209		
		OAG	12,909		
		UPS	4		
		KSP			
		CHFS			
16.593	Residential Substance Abuse Treatment for State Prisoners	CORR	187,537		
		JUV			
		JUST			
16.606	State Criminal Alien Assistance Program	CORR	64,435		
16.607	Bulletproof Vest Partnership Program (Note 15)	JUST			
16.609	Project Safe Neighborhoods	JUST	12,126		
16.610	Regional Information Sharing Systems (Note 15)	COT			
16.710	Public Safety Partnership and Community Policing Grants	KSP	2,414,091		
16.735	PREA Program: Strategic Support for PREA Implementation (Note 15)	JUST			
		JUV			
		CORR			
16.738	Edward Byrne Memorial Justice Assistance Grant Program	JUST	1,739,944		1,594,512
		KSP	455,748		
		PUBAD			
		CORR			
16.741	DNA Backlog Reduction Program	KSP	898,683		
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	KSP	203,986		
		JUST	55,444		
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program (Note 15)	AOC			
16.746	Capital Case Litigation Initiative (Note 15)	JUST			
16.750	Support for Adam Walsh Act Implementation Grant Program	CORR	261,657		
		KSP			
16.754	Harold Rogers Prescription Drug Monitoring Program	CHFS	280,897		
16.812	Second Chance Act Reentry Initiative	JUV	6,079		
		CORR	155,986		
		KSP			
16.813	NICS Act Record Improvement Program (Note 15)	PUBAD			
16.817	Innovations in Community-Based Crime Reduction (Note 15)	PUBAD			
16.820	Postconviction Testing of DNA Evidence	JUV	82,016		
16.823	Emergency Planning for Juvenile Justice Facilities (Note 15)	KSP			
16.833	National Sexual Assault Kit Initiative	OAG	630,795		62,086
16.839	STOP School Violence	KSP	189,709		
16.922	Equitable Sharing Program	UPS	22,371		
		AOG			
16.U01	Drug Enforcement Administration (Note 1) (Note 16)	KSP	2,046,575		
16.U02	Federal Bureau of Investigation (Note 1) (Note 16)	KSP	60,633		
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program (Note 1) (Note 16)	KSP	29,997		
16.U04	District Fugitive Task Force (Note 1) (Note 16)	KSP	16,817		
16.U05	Equitable Sharing-Asset Forfeiture (Note 1) (Note 16)	KSP	760,242		
Total U.S. Department of Justice			<u>\$ 47,855,955</u>	<u>\$</u>	<u>\$ 32,745,619</u>
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	DWI	\$ 913,969	\$	\$
17.005	Compensation and Working Conditions	LABOR	151,931		

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Labor (Continued)					
Direct Programs (Continued):					
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	DWI	6,623,532		
		DLG			
17.801	Jobs for Veterans State Grants	DWI	1,723,681		
	Total Employment Service Cluster:		8,347,213		
17.225	Unemployment Insurance (Note 2) (Note 4)	DWI	1,141,962,609		
17.225	ARRA-Unemployment Insurance (Note 4) (Note 13) (Note 15)	DWI			
17.225	CARES- Unemployment Insurance (Note 2) (Note 14)	DWI	2,279,658,766		
17.235	Senior Community Service Employment Program	CHFS	1,440,050		1,349,043
17.245	Trade Adjustment Assistance	DWI	3,080,398		1,653,561
WIOA Cluster:					
17.258	WIOA Adult Program (Note 2)	DWI	10,507,297		8,937,405
17.259	WIOA Youth Activities (Note 2)	DWI	12,256,530		10,228,004
17.278	WIOA Dislocated Worker Formula Grants (Note 2)	DWI	17,071,431		15,342,651
	Total WIOA Cluster:		39,835,258		34,508,060
17.261	WIOA Pilots, Demonstrations, and Research Projects (Note 7)	DWI	325,490		
17.270	Reentry Employment Opportunities	DWI	85,000		
17.271	Work Opportunity Tax Credit Program (WOTC)	DWI	414,303		
17.273	Temporary Labor Certification For Foreign Workers	DWI	213,730		
17.276	Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	DWI	1,693		
17.277	WIOA National Dislocated Workers Grants / WIA National Emergency Grants	DWI	703		
17.277	CARES-WIOA National Dislocated Worker Grants/WIA National Emergency Grants (Note 14)	DWI	2,149		1,711
17.281	WIOA Dislocated Worker National Reserve Technical Assistance and Training (Note 15)	DWI			
17.285	Apprenticeship USA Grants	DWI	730,874		
		LABOR			
17.503	Occupational Safety and Health State Program	LABOR	3,484,502		
17.600	Mine Health and Safety Grants	EEC	498,264		
17.720	Disability Employment Policy Development	DWI	1,543,101		290,719
Total U.S. Department of Labor			\$ 3,482,690,003	\$	\$ 37,803,094
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program	TC	\$ 249,811	\$	\$
Highway Planning and Construction Cluster:					
20.205	Highway Planning and Construction (Note 2) (Note 5)	TC	918,596,404		28,300,543
		PARKS			
		DWI			
		KSP	21,376		
		KHS			
20.219	Recreational Trails Program (Note 2) (Note 6)	DLG	574,013		538,343
		PARKS			
	Total Highway Planning and Construction Cluster:		919,191,793		28,838,886
20.218	Motor Carrier Safety Assistance	KSP	3,126,716		159,179
		TC	837,069		
20.231	Performance and Registration Information Systems Management	TC	72,412		
20.232	Commercial Driver's License Program Implementation Grant	TC	87,445		
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	TC	697,547		
		KSP	578,737		
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	REV	10,227		
		KSP	16,248		
		TC			

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, 2020
(Continued)**

CFDA	Program Title	State Agencies	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	1,678,740		1,678,740
20.526	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	TC	8,762,831		8,213,261
Total Federal Transit Cluster:			10,441,571		9,892,001
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	TC	649,370		649,370
20.509	Formula Grants for Rural Areas and Tribal Transit Program	TC	21,840,489		20,642,235
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	TC	1,859,927		1,859,927
Total Transit Services Programs Cluster:			1,859,927		1,859,927
Highway Safety Cluster:					
20.600	State and Community Highway Safety	TC	2,386,223		1,583,227
		KSP	720,014		
		OAG			
		DCJT	-	-	-
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I (Note 15)	KSP			
		DCJT	-	-	-
20.602	Occupant Protection Incentive Grants (Note 15)	KSP			
		TC			
20.610	State Traffic Safety Information System Improvement Grants (Note 15)	KSP			
20.616	National Priority Safety Programs	TC	2,980,753		1,068,430
		KSP	772,843		
		OAG	61,827		
		DCJT			
		UPS	110,919		
		AOC	79,663		
Total Highway Safety Cluster:			7,112,242		2,651,657
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	KSP	306,048		
		TC			
20.700	Pipeline Safety Program State Base Grant	EEC	709,361		
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	MIL	313,862		2,994
20.720	State Damage Prevention Program Grants	EEC	43,920		
20.721	PHMSA Pipeline Safety Program One Call Grant	EEC	39,360		
20.933	National Infrastructure Investments	TC	18,965,444		7,741,899
20.934	Nationally Significant Freight and Highway Projects	TC	28,300,174		
Total U.S. Department of Transportation			\$ 1,015,449,773	\$	\$ 72,438,148
U.S. Department of Treasury					
Direct Programs:					
21.016	Equitable Sharing (Note 15)	UPS	\$	\$	\$
21.019	CARES-Coronavirus Relief Fund (Note 2) (Note 14)	CHFS	19,741,283		10,000,000
		OAC	3,378,779		
		AGR	5,011		
		MIL	37,617,744		
		JUV	1,905,117		
		KSP	33,726,550		
		LABOR	371,604		
		OSBD	1,507,214		
		DLG	45,374		
		TC	387,466		
		PARKS	1,159,719		
		CORR	3,526,629		
		KHP	4,414		

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, 2020
(Continued)**

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of Treasury (Continued)</u>					
Direct Programs (Continued):					
21.U01	Internal Revenue Service (Note 1) (Note 15) (Note 16)	KSP			
21.U02	Equitable Sharing-Asset Forfeiture (Note 1) (Note 16)	KSP	115,861		
		UPS			
21.U03	State Small Business Credit Initiative (Note 1) (Note 16)	CED	2,048		
Total U.S. Department of Treasury			\$ 103,494,813	\$	\$ 10,000,000
<u>U.S. Appalachian Regional Commission</u>					
Direct Programs:					
23.002	Appalachian Area Development	DLG	\$ 5,223,977	\$	\$ 5,022,144
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects (Note 15)	DLG			
Total U.S. Appalachian Regional Commission			\$ 5,223,977	\$	\$ 5,022,144
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Programs:					
30.001	Employment Discrimination Title VII of the Civil Rights Act of 1964	HRC	\$ 37,615	\$	\$
Total U.S. Equal Employment Opportunity Commission			\$ 37,615	\$	\$
<u>U.S. General Services Administration</u>					
Direct Programs:					
39.003	Donation of Federal Surplus Personal Property (Note 10)	FAC EEC		\$ 41,904	\$
39.011	Election Reform Payments (Note 12)	KBE	5,712,171		
Total U.S. General Services Administration			\$ 5,712,171	\$ 41,904	\$
<u>National Aeronautics and Space Administration</u>					
Direct Programs:					
43.002	Aeronautics (Note 15)	COT	\$	\$	\$
Total National Aeronautics and Space Administration			\$	\$	\$
<u>U.S. National Foundation on the Arts and the Humanities</u>					
Direct Programs:					
45.025	Promotion of the Arts Partnership Agreements	KAC KHS	\$ 690,525	\$	\$ 640,039
45.025	CARES-Promotion of the Arts Partnership Agreements(Note 14)	KAC	265,025		265,025
45.149	Promotion of the Humanities Division of Preservation and Access (Note 15)	KHS			
45.161	Promotion of the Humanities Research (Note 15)	KHS			
45.301	Museums for America	KHS	8,886		
45.310	Grants to States	DLA	2,910,333		170,000
45.313	Laura Bush 21st Century Librarian Program (Note 15)	DLA			
Total U.S. National Foundation on the Arts and Humanities			\$ 3,874,769	\$	\$ 1,075,064
<u>U.S. Small Business Administration</u>					
Direct Programs:					
59.058	Federal and State Technology Partnersheip	CED	\$ 113,392	\$	\$
59.061	State Trade Expansion	CED	384,652		
Total U.S. Small Business Administration			\$ 498,044	\$	\$

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Veterans Affairs					
Direct Programs:					
64.005	Grants to States for Construction of State Home Facilities	VA	\$ 845	\$	\$
64.015	Veterans State Nursing Home Care (Note 2)	VA	30,057,583		
64.101	Burial Expenses Allowance for Veterans	VA	817,823		
64.203	Veterans Cemetery Grants Program	VA	245,536		
Total U.S. Department of Veterans Affairs			\$ 31,121,787	\$	\$
U.S. Environmental Protection Agency					
Direct Programs:					
66.032	State Indoor Radon Grants	CHFS	\$ 247,637	\$	\$ 120,453
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Note 10)	EEC	279,817	190,783	
66.040	Diesel Emissions Reduction Act (DERA) State Grants	EEC	231,237		
66.202	Congressionally Mandated Projects	EEC	11,816		
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	EEC	123,268		
66.433	State Underground Water Source Protection (Note 15)	EEC			
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements-Section 104(b) (3) of the Clean Water Act	EEC	17,809		
66.444	Lead Testing in School and Child Care Program Drinking Water (SDWA 1464 (d))	EEC	290		
66.454	Water Quality Management Planning	EEC	204,000		
Clean Water State Revolving Fund Cluster:					
66.458	Capitalization Grants for Clean Water State Revolving Funds	EEC PARKS	606,690		
Total Clean Water State Revolving Fund Cluster:			606,690		
66.460	Nonpoint Source Implementation Grants (Note 15)	EEC			
Drinking Water State Revolving Fund Cluster:					
66.468	Capitalization Grants for Drinking Water State Revolving Funds	EEC	5,403,179		23,274
Total Drinking Water State Revolving Fund Cluster:			5,403,179		23,274
66.605	Performance Partnership Grants (Note 10)	EEC	10,963,844	77,615	1,863,772
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	AGR	433,979		
66.717	Source Reduction Assistance (Note 15)	EEC	283,238		
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	EEC	265,500		
66.804	Underground Storage Tank (UST) Prevention, Detection, and Compliance Program	EEC	776,755		
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	EEC	1,412,334		
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	EEC	73,911		
66.817	State and Tribal Response Program Grants	EEC	3,413		
66.818	Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements	EEC	316,076		250,000
66.951	Environmental Education Grants (Note 15)	DWI			
Total U.S. Environmental Protection Agency			\$ 21,654,793	\$ 268,398	\$ 2,257,499
U.S. Department of Energy					
Direct Programs:					
81.041	State Energy Program	EEC	\$ 616,967	\$	\$ 146,606
81.104	Environmental Remediation and Waste Processing and Disposal	EEC CHFS	764,045 631,353		
81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13) (Note 15)	DLG PPC			
81.138	State Heating Oil and Propane Program	EEC	13,399		
Total U.S. Department of Energy			\$ 2,025,764	\$	\$ 146,606

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, 2020
(Continued)

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education					
Direct Programs:					
84.002	Adult Education - Basic Grants to States	DWI	\$ 10,432,303	\$	\$ 542,299
84.010	Title I Grants to Local Educational Agencies (Note 2)	EDU	230,614,094		229,979,391
84.011	Migrant Education State Grant Program	EDU	5,633,419		5,435,442
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	JUV	639,511		484,841
		CORR	22,719		
		EDU	7,556		
Special Education Cluster (IDEA):					
84.027	Special Education Grants to States (Note 2)	EDU	161,739,613		159,592,795
84.173	Special Education Preschool Grants (Note 2)	EDU	9,447,739		8,991,325
Total Special Education Cluster (IDEA):			171,187,352		168,584,120
84.048	Career and Technical Education -- Basic Grants to States	EDU	17,983,253		15,696,606
		CORR			
		EPSB			
84.051	Career and Technical Education--National Programs	DWI	111,982		
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States (Note 2)	DWI	49,729,375		7,818,189
84.144	Migrant Education Coordination Program	EDU	70,518		7,730
84.161	Rehabilitation Services Client Assistance Program	DWI	157,591		
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	DWI	398,276		
84.181	Special Education-Grants for Infants and Families	CHFS	6,035,458		
84.184	School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs)	EDU	135,674		
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	DWI	367,970		
84.196	Education for Homeless Children and Youth	EDU	1,092,427		1,031,613
84.206	Javits Gifted and Talented Students Education	EDU	44,003		44,003
84.215	Innovative Approaches to Literacy, Full-service Community Schools; and Promise Neighborhoods (Note 15)	KHS			
84.235	Rehabilitation Services Demonstration and Training Programs	DWI	919,159		371,080
84.240	Program of Protection and Advocacy of Individual Rights	PUBAD	213,007		
84.287	Twenty-First Century Community Learning Centers	EDU	18,846,285		18,558,567
84.323	Special Education - State Personnel Development	EDU	974,156		932,465
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	EDU	51,456		51,456
84.358	Rural Education	EDU	4,820,137		4,785,875
84.365	English Language Acquisition State Grants	EDU	3,541,617		3,306,556
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) (Note 2)	EDU	30,765,689		29,717,637
84.369	Grants for State Assessments and Related Activities	EDU	3,264,417		30,000
84.371	Comprehensive Literacy Development	EDU	8,934,765		
84.372	Statewide Longitudinal Data Systems	DWI	652,350		
		EDU			
84.377	School Improvement Grants	EDU	4,418,200		4,321,973
84.424	Student Support and Academic Enrichment Program	EDU	13,932,886		13,582,049
84.425	CARES-Education Stabilization Fund(Note 14)	EDU	2,939,571		2,939,393
84.938	Disaster Recovery Assistance for Education	EDU	1,852		1,852
Total U.S. Department of Education			\$ 588,939,028	\$	\$ 508,223,137
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	DLA	\$ 7,184	\$	\$
		KHS			
Total U.S. National Archives and Records Administration			\$ 7,184	\$	\$
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments	KBE	\$ 1,555	\$	\$
90.404	CARES-2018 HAVA Election Security Grants (Note 14)	KBE	824,962		
Total U.S. Election Assistance Commission			\$ 826,517	\$	\$

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
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	\$ 69,854	\$	\$ 69,809
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	CHFS	134,451		121,607
93.042	CARES-Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals (Note 14)	CHFS	13,749		13,749
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	CHFS	376,195		305,982
Aging Cluster:					
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	CHFS	5,678,075		5,455,355
93.044	CARES-Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers (Note 14)	CHFS	299,606		299,606
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	CHFS	8,074,220		7,948,427
93.045	CARES-Special Programs for the Aging, Title III, Part C, Nutrition Services (Note 14)	CHFS	195,553		195,553
93.045	FFCRA-Special Programs for the Aging, Title III, Part C, Nutrition Services (Note 14)	CHFS	1,404,285		1,404,285
93.053	Nutrition Services Incentive Program	CHFS	1,481,467		1,481,367
Total Aging Cluster:			17,133,206		16,784,593
93.048	Special Programs for the Aging, Title IV, and Title II, Discretionary Projects (Note 15)	CHFS			
93.048	CARES-Special Programs for the Aging, Title IV, and Title II, Discretionary Projects (Note 14)	CHFS	50,000		
93.051	Alzheimer's Disease Demonstration Grants to States (Note 15)	CHFS			
93.052	National Family Caregiver Support, Title III, Part E	CHFS	2,316,077		2,277,839
93.052	CARES-National Family Caregiver Support, Title III, Part E (Note 14)	CHFS	38,256		38,256
93.069	Public Health Emergency Preparedness (Note 10)	CHFS	7,717,549	151,717	3,288,346
		MIL	64,873		
93.070	Environmental Public Health and Emergency Response	CHFS	704,265		
93.071	Medicare Enrollment Assistance Program	CHFS	562,708		481,590
93.073	Birth Defects and Developmental Disabilities-Prevention and Surveillance (Note 15)	CHFS			
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements (Note 15)	CHFS			
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	EDU	62,562		
93.087	Enhance Safety of Children Affected by Substance Abuse (Note 15)	CHFS			
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	CHFS	508,859		444,317
93.103	Food and Drug Administration Research	CHFS	185,747		374
		AGR	602,735		
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	CHFS	420,476		124,097
93.110	Maternal and Child Health Federal Consolidated Programs	CHFS	99,831		
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	CHFS	682,982		
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	CHFS	8,000		
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	CHFS	199,483		21,583
93.136	Injury Prevention and Control Research and State and Community Based Programs	CHFS	509,416		509,416
		DCJT	974		
		KSP	7,879		
93.138	Protection and Advocacy for Individuals with Mental Illness	PUBAD	471,089		
93.150	Projects for Assistance In Transition from Homelessness (PATH)	CHFS	445,625		442,767
93.184	Disabilities Prevention	CHFS	168,280		
93.217	Family Planning Services	CHFS	3,476,792		2,960,767
93.234	Traumatic Brain Injury State Demonstration Grant Program	CHFS	104,698		
93.235	Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	CHFS	929,112		772,912
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance (Note 7)	CHFS	4,418,226		3,366,370
		AOC	2,341,569		
		EDU	2,114,582		2,011,130
93.251	Early Hearing Detection and Intervention	CHFS	204,776		
93.268	Immunization Cooperative Agreements (Note 2) (Note 10)	CHFS	4,573,651	54,926,653	30,500
93.270	Viral Hepatitis Prevention and Control	CHFS	409,526		
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	CHFS	2,395,678		771,549
93.292	National Public Health Improvement Initiative (Note 15)	CHFS			
93.296	State Partnership Grant Program to Improve Minority Health (Note 15)	CHFS			

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, 2020
(Continued)

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.305	PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)	CHFS	1,393,693		
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	CHFS	73,421		
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	CHFS	2,975,643		120,353
93.323	CARES-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) (Note 14)	CHFS	703,212		
93.323	PPP-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) (Note 14)	CHFS	79,833		
93.324	State Health Insurance Assistance Program	CHFS	750,298		489,378
93.325	Paralysis Resource Center	DWI	15		
93.336	Behavioral Risk Factor Surveillance System	CHFS	277,319		
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	CHFS	3,605,369		2,293,227
93.354	CPRSA-Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response (Note 14)	CHFS	310,403		
93.367	Flexible Funding Model - Infrastructure Development and Maintenance for State Manufactured Food Regulatory Programs	CHFS	502,656		
93.369	ACL Independent Living State Grants	DWI	68,565		
		CHFS	259,379		252,285
93.426	Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	CHFS	2,061,564		139,110
93.434	Every Student Succeeds Act/Preschool Development Grants	DWI	5,417,138		2,331,447
		GOV			
		CHFS	231,528		
		EDU	1,452,606		1,452,606
93.435	Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke	CHFS	714,622		
93.464	ACL Assistive Technology	DWI	484,470		413,953
93.472	Title IV-E Prevention and Family Services and Programs	CHFS	3,570,891		982,811
93.504	Family to Family Health Information Centers	CHFS	81,131		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (Note 15)	CHFS			
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers (Note 15)	CHFS			
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	CHFS	84,972		
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds (Note 15)	CHFS			
93.556	Promoting Safe and Stable Families	CHFS	6,161,736		5,147,285
93.558	Temporary Assistance for Needy Families (Note 2)	CHFS	189,836,152		24,098,789
93.563	Child Support Enforcement (Note 2)	CHFS	43,449,435		30,192,549
		AOC	63,469		
93.564	Child Support Enforcement Research (Note 15)	CHFS			
93.568	Low-Income Home Energy Assistance (Note 2)	CHFS	52,144,745		52,098,594
93.569	Community Services Block Grant	CHFS	11,170,294		11,127,380
CCDF Cluster:					
93.575	Child Care and Development Block Grant (Note 2)	CHFS	84,556,494		6,440,506
93.575	CARES-Child Care and Development Block Grant (Note 2) (Note 14)	CHFS	43,517,161		
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	CHFS	34,505,380		
	Total CCDF Cluster:		162,579,035		6,440,506
93.586	State Court Improvement Program	AOC	547,468		
93.590	Community-Based Child Abuse Prevention Grants	CHFS	1,958,310		1,694,300
93.597	Grants to States for Access and Visitation Programs	CHFS	139,789		
93.599	Chafee Education and Training Vouchers Program (ETV)	CHFS	495,005		
Head Start Cluster:					
93.600	Head Start	DWI	116,038		
		EDU			
		GOV			
	Total Head Start Cluster:		116,038		

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, 2020
(Continued)

CFDA	Program Title	State Agencies	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	568,394		543,163
93.617	Voting Access for Individuals with Disabilities-Grants To States (Note 15)	KBE			
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	PUBAD	124,335		
93.624	Community Health Access and Rural Transformation (CHART) Model (Note 15)	CHFS			
93.627	Affordable Care Act: Testing Experience and Functional Assessment Tools	CHFS	74,291		
93.630	Developmental Disabilities Basic Support and Advocacy Grants	PUBAD	422,145		
		TREASURY	1,580,461		
		CHFS			
93.643	Children's Justice Grants to States	CHFS	306,665		187,449
93.644	Adult Medicaid Quality: Improving Material and Infant Health Outcomes in Medicaid and CHIP	CHFS	19,557		
93.645	Stephanie Tubbs Jones Child Welfare Services Program	CHFS	3,240,769		
93.645	CARES-Stephanie Tubbs Jones Child Welfare Services Program(Note 14)	CHFS	206,324		
93.658	Foster Care Title IV-E (Note 2)	CHFS	49,680,187		3,609,349
		JUV	577,980		
		AOC	500,000		
93.658	FFCRA-Foster Care Title IV-E (Note 14) (Note 2)	CHFS	1,005,639		
93.659	Adoption Assistance (Note 2)	CHFS	68,522,797		
93.659	FFCRA-Adoption Assistance (Note 14) (Note 2)	CHFS	3,001,984		
93.664	Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment (SUPPORT) for Patients and Communities Act	CHFS	72		
93.667	Social Services Block Grant	CHFS	13,030,148		20,624
		JUV	5,165,710		
93.669	Child Abuse and Neglect State Grants	CHFS	270,071		222,531
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	CHFS	1,505,480		1,505,474
93.674	John H. Chafee Foster Care Proram for Successful Transition to Adulthood	CHFS	2,820,514		1,992,757
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF) (Note 15)	CHFS			
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 15)	CHFS			
93.735	State Public Health Approaches for Ensuring Quidline Capacity-Funded in part by Prevention and Public Health Funds (PPHF)	CHFS	334,741		
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	CHFS	427,745		252,468
93.767	Children's Health Insurance Program (Note 2)	CHFS	233,364,595		
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units (Note 2)	OAG	2,842,744		
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2)	CHFS	9,543,730		
93.778	Medical Assistance Program (Note 2) (Note 7)	CHFS	9,064,371,702		
93.778	ARRA-Medical Assistance Program (Note 2) (Note 13)	CHFS	23,352,841		
93.778	FFCRA-Medical Assistance Program (Note 2) (Note 14)	CHFS	254,254,625		
	Total Medicaid Cluster:		9,354,365,642		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	CHFS	257,774		81,699
93.788	Opioid STR (Note 2)	CHFS	34,589,497		8,655,597
		AOC			
93.791	Money Follows the Person Rebalancing Demonstration	CHFS	1,123,466		
93.800	Organized Approaches to Increase Colorectal Cancer Screening	CHFS	410,511		
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	CHFS	82,811		82,811
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services (Note 15)	CHFS			
93.843	ACL Assistive Technology State Grants for Protection and Advocacy	PUBAD	49,565		
93.870	Maternal, Infant and Early Childhood Home Visiting Grant	CHFS	4,263,799		
93.873	State grants for Protection and Advocacy Services	PUBAD	65,326		
93.881	The Health Insurance Enforcement and Consumer Protections Grant program	PPC	4,038		
93.889	National Bioterrorism Hospital Preparedness Program (Note 10)	CHFS	2,650,476	756,680	1,661,566
		MIL	51,502		
93.889	CPRSA-National Bioterrorism Hospital Preparedness Program (Note 14)	CHFS	1,985		
93.917	HIV Care Formula Grants	CHFS	12,139,581		6,821,817
93.917	CARES-HIV Care Formula Grants (Note 14)	CHFS	4,129		4,129

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, 2020
(Continued)**

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.938	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance (Note 15)	EDU CHFS			
93.940	HIV Prevention Activities Health Department Based	CHFS	2,700,175		997,705
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance (Note 15)	CHFS			
93.945	Assistance Programs for Chronic Disease Prevention and Control	CHFS EDU	651,647		
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	CHFS	221,370		
93.958	Block Grants for Community Mental Health Services	CHFS	8,397,761		7,533,067
93.959	Block Grants for Prevention and Treatment of Substance Abuse	CHFS KSP	21,474,777		19,125,760
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants (Note 10)	CHFS	1,086,904	412,034	
93.981	Improving Student Health and Academic Achievement through Nutrition, Physical Activity and the Management of Chronic Conditions in Schools	EDU	383,638		252,055
93.991	Preventive Health and Health Services Block Grant	CHFS	2,434,055		87,722
93.994	Maternal and Child Health Services Block Grant to the States	CHFS	11,127,467		687
93.U01	Other Federal Assistance (Note 1) (Note 16)	KSP	12,104		
93.U02	Medicare Nursing Home Care (Note 1) (Note 16)	VA	1,158,480		
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections (Note 1) (Note 16)	PPC	499,068		
93.U04	Veterans State Nursing Home Care (Note 1) (Note 16)	VA	1,480,472		
93.U04	CARES-Veterans State Nursing Home Care (Note 1) (Note 14) (Note 16)	CHFS	658,356		
Total U.S. Department of Health and Human Services			<u>\$ 10,397,380,915</u>	<u>\$ 56,247,084</u>	<u>\$ 227,750,556</u>
U.S. Corporation for National and Community Service					
Direct Programs:					
94.003	State Commissions	CHFS	\$ 288,369	\$	\$
94.006	AmeriCorps	CHFS DWI	5,411,659 333,538		5,329,039 324,314
94.009	Training and Technical Assistance	CHFS	282,214		16,499
Foster Grandparent/Senior Companion Cluster:					
94.011	Foster Grandparent Program (Note 15)	CHFS			
Total Foster Grandparent/Senior Companion Cluster:					
94.021	Volunteer Generation Fund	CHFS	411,371		17,960
Total U.S. Corporation for National and Community Service			<u>\$ 6,727,151</u>	<u>\$</u>	<u>\$ 5,687,812</u>
U.S. Office of National Drug Control Policy					
Direct Program:					
95.001	High Intensity Drug Trafficking Areas Program	KSP OAG	\$ 901,716 78,165	\$	\$
Total U.S. Office of National Drug Control Policy			<u>\$ 979,881</u>	<u>\$</u>	<u>\$</u>
U.S. Social Security Administration					
Direct Programs:					
Disability Insurance/SSI Cluster:					
96.001	Social Security Disability Insurance (Note 2)	CHFS OAG	\$ 47,170,856 457,864	\$	\$
Total Disability Insurance/SSI Cluster:			<u>47,628,720</u>		
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	PUBAD	488,329		
Total U.S. Social Security Administration			<u>\$ 48,117,049</u>	<u>\$</u>	<u>\$</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, 2020
(Continued)**

CFDA	Program Title	State Agencies	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U. S. Department of Homeland Security					
Direct Programs:					
97.012	Boating Safety Financial Assistance	F&W	\$ 1,475,526	\$	\$
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	EEC	367,828		
97.029	Flood Mitigation Assistance	MIL	2,628,893		2,626,333
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	TC	8,596,430		
		MIL	17,223,764		14,567,508
		PARKS			
		KSP			
97.039	Hazard Mitigation Grant	MIL	4,815,538		4,320,410
97.040	Chemical Stockpile Emergency Preparedness Program	MIL	14,123,374		11,874,605
		EEC	50,342		
97.041	National Dam Safety Program	EEC	110,021		
97.042	Emergency Management Performance Grants	MIL	5,138,307		2,190,311
		EEC			
97.045	Cooperating Technical Partners	EEC	4,086,028		
97.046	Fire Management Assistance Grant	MIL	179,583		
97.047	Pre-Disaster Mitigation	MIL	370,666		262,404
97.056	Port Security Grant Program	KSP	4,053		
		F&W			
97.067	Homeland Security Grant Program	KOHS	3,994,424		3,171,956
97.082	Earthquake Consortium (Note 15)	MIL			
97.089	Driver's License Security Grant Program (Note 15)	TC			
97.107	National Incident Management System (NIMS) (Note 15)	MIL			
97.108	Homeland Security, Research, Testing, Evaluation, and Demonstration of Technologies	EEC	194,526		
97.110	Severe Repetitive Loss Program (Note 15)	MIL			
Total U.S. Department of Homeland Security			<u>\$ 63,359,303</u>	<u>\$</u>	<u>\$ 39,013,527</u>
Other Federal Assistance					
Direct Programs:					
99.U01	Tennessee Valley Authority (Note 1) (Note 15) (Note 16)	F&W	\$	\$	\$
Total Other Federal Assistance			<u>\$</u>	<u>\$</u>	<u>\$</u>
Total All State Agencies			<u>\$ 16,569,382,040</u>	<u>\$ 969,298,243</u>	<u>\$ 1,418,846,629</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, 2020

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, 2020. 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 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 2020. 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.

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 16.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)**

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

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 2020. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 2020, 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	\$ 840,751,801
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	82,931,719
Child Nutrition Cluster		
10.553	School Breakfast Program	78,184,563
10.553	CARES - School Breakfast Program	6,112,953
10.555	National School Lunch Program	213,989,700
10.555	CARES - National School Lunch Program	14,239,152
10.556	Special Milk Program for Children	10,931
10.556	CARES - Special Milk Program for Children	780
10.559	Summer Food Service Program for Children	44,982,225
10.559	CARES - Summer Food Service Program for Children	44,852,536

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)**

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	101,911,220
10.558	Child and Adult Care Food Program	38,878,865
10.558	CARES - Child and Adult Care Food Program	3,175,504
15.252	Abandoned Mine Land Reclamation	30,477,434
16.575	Crime Victim Assistance	32,469,828
17.225	Unemployment Insurance	1,141,962,609
17.225	CARES - Unemployment Insurance	2,279,658,766
WIOA Cluster		
17.258	WIOA Adult Program	10,507,297
17.259	WIOA Youth Activities	12,256,530
17.278	WIOA Dislocated Worker Formula Grants	17,071,431
Highway Planning and Construction Cluster		
20.205	Highway Planning and Construction	918,617,780
20.219	Recreational Trails Program	574,013
21.019	CARES - Coronavirus Relief Fund	103,376,904
64.015	Veterans State Nursing Home Care	30,057,583
84.010	Title I Grants to Local Educational Agencies	230,614,094
Special Education Cluster (IDEA)		
84.027	Special Education Grants to States	161,739,613
84.173	Special Education Preschool Grants	9,447,739
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	49,729,375
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	30,765,689

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)**

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
93.268	Immunization Cooperative Agreements	59,500,304
93.558	Temporary Assistance for Needy Families	189,836,152
93.563	Child Support Enforcement	43,512,904
93.568	Low-Income Home Energy Assistance	52,144,745
CCDF Cluster		
93.575	Child Care and Development Block Grant	84,556,494
93.575	CARES - Child Care and Development Block Grant	43,517,161
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	34,505,380
93.658	Foster Care Title IV-E	50,758,167
93.658	FFCRA - Foster Care Title IV-E	1,005,639
93.659	Adoption Assistance	68,522,797
93.659	FFCRA - Adoption Assistance	3,001,984
93.767	Children's Health Insurance Program	233,364,595
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	2,842,744
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	9,543,730
93.778	Medical Assistance Program	9,064,371,702
93.778	ARRA - Medical Assistance Program	23,352,841
93.778	FFCRA - Medical Assistance Program	254,254,625
93.788	Opioid STR	34,589,497
Disability Insurance/Supplemental Security Income Cluster		
96.001	Social Security Disability Insurance	47,628,720
Total Type A Programs		\$ 16,830,158,815

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(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, 2020 outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY 2020.

Note 4A - Unemployment Insurance (CFDA 17.225)

The Commonwealth paid out \$1,114,361,139 in benefits in FY 2020. The amounts shown on the accompanying schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$27,601,470 of federal funds expended for administration of the program, resulting in a combined total of \$1,141,962,609 in federal expenditures. There were no benefit payments included in this amount funded by the American Recovery and Reinvestment Act (ARRA).

Note 4B - CARES-Unemployment Insurance (CFDA 17.225)

The Commonwealth paid out \$2,279,598,675 in benefits in FY 2020. The amounts shown on the accompanying schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$60,091 of federal funds expended for administration of the program, resulting in a combined total of \$2,279,658,766 in federal expenditures.

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 2020. 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 \$1,068,903 for FY 2020.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(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
10.912	Environmental Quality Incentives Program	COT	\$ 100,000
10.924	Conservation Stewardship Program	COT	50,669
15.605	Sport Fish Restoration	F&W	563,376
15.611	Wildlife Restoration and Basic Hunter Education	F&W	140,975
15.615	Cooperative Endangered Species Conservation Fund	F&W	56,462
15.634	State Wildlife Grants	F&W	823,852
15.657	Endangered Species Conservation - Recovery Implementation Funds	F&W	60,000
15.808	U.S. Geological Survey Research and Data Collection	COT	150,385
16.585	Drug Court Discretionary Grant Program	AOC	48,212
17.261	WIOA Pilots, Demonstrations, and Research Projects	DWI	142,317
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	AOC	355,785
93.778	Medical Assistance Program	CHFS	2,040,724
Total Research and Development Expenditures			\$ 4,532,757

**COMMONWEALTH OF KENTUCKY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2020
 (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 Corp 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	Taylorville 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, 2020
(Continued)

Note 10 - Noncash Expenditure Programs

The Commonwealth's noncash programs and a description of the method/basis of valuation for FY 2020 are as follows:

CFDA	Program Title & (Method/Basis of Valuation)	Amount
10.178	Trade Mitigation Program Eligible Recipient Agency Operational Funds <i>(Commodities issued for FY 2020 per WBSCM report)</i>	\$ 20,688,454
10.551	Supplemental Nutrition Assistance Program <i>(EBT Issuance)</i>	840,751,801
10.555	National School Lunch Program <i>(Commodities issued for FY 2020 per WBSCM report)</i>	28,924,034
10.565	Commodity Supplemental Food Program <i>(Commodities issued for FY 2020 per WBSCM report)</i>	9,442,212
10.569	Emergency Food Assistance Program (Administrative Costs) <i>(Commodities issued for FY 2020 per WBSCM report)</i>	11,542,317
10.569	Emergency Food Assistance Program <i>(Commodities issued for FY 2020 per WBSCM report)</i>	1,240,787
12.700	Donations/Loans of Obsolete DOD Property <i>(Acquisition Cost determined by the Department of Defense)</i>	151,252
39.003	Donation of Federal Surplus Personal Property <i>(22.47% of federal acquisition cost (\$274,873))</i>	41,904
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act <i>(Environmental Protection Agency contracts with Eastern Research Group for sample analysis)</i>	190,783
66.605	Performance Partnership Grants <i>(In-kind services valued by the donor, the U.S. Environmental Protection Agency)</i>	77,615
93.069	Public Health Emergency Preparedness <i>(NGA)</i>	151,717
93.268	Immunization Cooperative Agreements <i>(CDC Report)</i>	54,926,653
93.889	National Bioterrorism Hospital Preparedness Program <i>(DPH Warehouse, KYEM, and CHFS OATS Staffs)</i>	756,680
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants <i>(Grant Award Document)</i>	412,034
Total Noncash Expenditures		\$ 969,298,243

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(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 30, 2020 is as follows:

Commodity Supplemental Food Program
CFDA 10.565

Beginning Inventory, July 1, 2019	\$	1,215,974
Price Adjustment		493,040
Adjusted Inventory, July 1, 2019		<u>1,709,014</u>
Received Commodities		10,700,246
Issued to Recipients		(9,442,212)
Net Value of Inventory Adjustments, June 30, 2020		(215,362)
Ending Inventory, June 30, 2020	\$	<u><u>2,751,686</u></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 Grantor Schedule

ARRA - American Recovery and Reinvestment Act

Note 14 - Pertaining to Novel Coronavirus Pandemic Relief

In order to identify CARES, CPRSCA, FFCRA and PPP funds on the Schedule of Expenditures of Federal Awards, the prefix will precede the Program Title on the Grantor Schedule.

CARES - Coronavirus Aid, Relief and Economic Security Act

CPRSA - Coronavirus Preparedness and Response Supplement Act

FFCRA - Families First Coronavirus Relief Act

PPP - Paycheck Protection Program and Healthcare Enforcement Act

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)

Note 15 - Zero Expenditure Programs

These programs had no expenditures related to the respective state organization during FY 2020. 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.

Note 16 - 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 2020 are listed below:

CFDA	Program Title	Agency	Award Identifier	Expenditures
10.U02	HWA Participating Agreement with Daniel Boone National Forest	EEC	16-PA-11080200-009	\$ 52,871
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	EEC	ACWPRG-04-BBB0	1,860,740
16.U01	Drug Enforcement Administration	KSP	MULTIPLE	2,046,575
16.U02	Federal Bureau of Investigation	KSP	MULTIPLE	60,633
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program	KSP	MOA# 10-LOU-AFF MOA# 19-LOU-168-AFF	29,997
16.U04	District Fugitive Task Force	KSP	MOU	16,817
16.U05	Equitable Sharing- Asset Forfeiture	KSP	ASSET FORFEITURE US DOJ	760,242
21.U02	Equitable Sharing- Asset Forfeiture	KSP	ASSET FORFEITURE US TREASURY	115,861
21.U03	State Small Business Credit Initiative	CED	GEXP-6-11SB200Z	2,048
93.U01	Other Federal Assistance	KSP	2019-CIO-715-0457 2020-CIO-715-0457	12,104
93.U02	Medicare Nursing Home Care	VA	KY-074-1324-DA00-R604	1,158,480
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections	PPC	FDAPRG-FDA00-19-BB00/BG00	499,068
93.U04	Veterans State Nursing Home Care	VA	KY-074-12CV-DA00	1,480,472
93.U04	CARES Veterans State Nursing Home Care	CHFS	12CV-CREPRF-20-TSA0	658,356
Total \$				8,754,264

**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 Andy Beshear, 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, 2020, 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 17, 2020. 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of financial statement findings, we did identify 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 deficiencies described in the accompanying schedule of financial statement findings as items 2020-001, 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, 2020-008, 2020-009, and 2020-010 to be material weaknesses.

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 deficiencies described in the accompanying schedule of financial statement findings as items 2020-011, 2020-012, 2020-013, 2020-014, 2020-015, 2020-016, 2020-017, 2020-018, 2020-019, 2020-020, 2020-021, 2020-022, 2020-023, 2020-024, and 2020-025 to be significant deficiencies.

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 noncompliance 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 H", with a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 17, 2020

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-001: The Finance and Administration Cabinet Failed To Implement Adequate Internal Controls Over Financial Reporting Of Fixed Assets And Capital Leases**

The Finance and Administration Cabinet (FAC) failed to implement adequate internal controls over the tracking, classification, and financial reporting of capital leases for the Department of Parks (Parks). During fiscal year (FY) 2020, a review of Park's fixed asset database, capital lease spreadsheet, and related journal entries revealed a journal entry had been incorrectly recorded resulting in a material misstatement on the Park's financial statements. The recorded entry incorrectly understated commodities and supplies expense by \$15,165,676, overstated depreciation expense by \$2,166,525, and incorrectly recorded a loss on the disposal of assets for \$12,999,151.

A Park's energy lease, which was acquired on July 1, 2018, was being tracked as an improvement outside of eMARS, the Commonwealth's accounting system, and then manually added during the financial statement compilation process as part of a journal entry. During FY20, this energy lease was added to eMARS as a building improvement for tracking purposes. Due to an oversight, the entries surrounding the inclusion of the energy lease in eMARS were treated as a new acquisition and disposition rather than reclassifying the amounts from improvements to buildings.

Failure to track, classify, and report on capital assets properly resulted in a material misstatement on Park's financial statements. Inaccurate financial statements could negatively impact operational decisions by management or provide incorrect information to interested external parties reviewing the financial data.

Sound internal controls dictate capital assets be properly tracked and accounted for to ensure complete and accurate financial reporting. Guidance on the recording, reporting, and depreciating of capital assets is discussed within Governmental Accounting Standards Board (GASB) Statement 34, as amended.

Recommendation

We recommend FAC strengthen policies, procedures, and internal controls over the tracking and recording of capital assets to ensure they are recognized and properly reported in accordance with accounting requirements and established policy. Prepared journal entries should be reviewed and verified to ensure the accuracy and completeness of the financial statements.

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

FINDING 2020-001: The Finance And Administration Cabinet Failed To Implement Adequate Internal Controls Over Financial Reporting Of Fixed Assets And Capital Leases (Continued)

Management's Response and Planned Corrective Action

We agree with the auditors' comments. An adjusting entry was made and the statements accurately reflect the commodities and supplies expense, depreciation expense, and loss on the disposal of assets in the financial statements. FAC will review, modify, and strengthen the policies, procedures, and internal controls over the tracking and recording of capital assets. Specifically, the procedures and internal controls for assets that are not entered in eMARS, for greater than a year, but have been accurately reported on the financial statements and then added to the accounting system in subsequent years.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-002: The Finance And Administration Cabinet Did Not Accurately Compile The Financial Statements For The Unemployment Compensation Fund

During the 2020 audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR), the Unemployment Compensation fund financial statements were reviewed. Misstatements in the statement of proprietary fund net position and statement of revenues, expenses, and changes in proprietary fund net position were identified related to the other liabilities, accounts payable, unemployment insurance receipts, grants and subsidies expense, and intergovernmental revenue accounts. The misstatements in the financial statements were corrected by the Finance and Administration Cabinet (FAC).

- FAC classified \$42,996,952 in employer tax overpayments as current accounts payable when it should have been classified as a noncurrent other liability.
- FAC classified \$505,102,010 in unemployment benefits payable as a noncurrent other liability when it should have been classified as a current accounts payable.
- FAC accrued \$42,996,952 in employer tax overpayments to grants and subsidies expense when it should have reduced unemployment insurance revenue.
- FAC classified \$42,160,590 in federal receipts as operating unemployment insurance revenues when it should have been classified as non-operating intergovernmental revenues.
- Due to an incomplete journal entry, unemployment insurance revenue and grants and subsidies expense were understated by \$20,608,630.

There were additional errors in the statement of cash flows for the Unemployment Compensation fund.

- The statement of cash flows reconciliation did not accurately account for cash on deposit with the federal government, requiring a restatement of \$645,915,398 to the beginning cash balance.
- Cash received from customers was overstated by \$216,269,211.
- Cash flows from noncapital financing activities were overstated by \$405,088,897 due to the inclusion of cash not yet collected.
- Due to the above changes, the reconciliation of operating income to net cash provided by operating activities was also adjusted.

Significant Office of Unemployment Insurance adjustments to the closing packages resulted in numerous changes to the UI financial statements and inadequate review of the closing package adjustments resulted in misclassifications.

Regarding the employer tax overpayment issue, this process was corrected in fiscal year (FY) 19, but this correction did not carry forward to FY20.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-002: The Finance And Administration Cabinet Did Not Accurately Compile The Financial Statements For The Unemployment Compensation Fund (Continued)

Regarding the statement of cash flows, cash on deposit with the federal government was not included as part of the cash balance.

The unemployment insurance receipts, grants and subsidies expense, accounts payable, other liabilities, and intergovernmental revenue accounts were misstated in the Unemployment Compensation fund financial statements.

The statement of cash flows misstated the lines titled cash received from customers, intergovernmental, and cash and cash equivalents at July 1, along with the corresponding reconciliation items.

The errors in the accounts payable and other liabilities accounts and statement of cash flows were material to the financial statements.

Sound internal controls over financial reporting dictate transactions and events be recorded in the proper accounts and financial information be appropriately presented.

According to Generally Accepted Accounting Principles (GAAP), current liabilities are those that are expected to liquidate within a year or normal operating cycle, whichever is longer. Current liabilities are reported separately from noncurrent liabilities.

According to the Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2020-1:

The CARES Act provides certain resources that should be classified as operating revenue for accounting and financial reporting purposes because the structure of the program results in payments for services...However, a significant portion of the resources provided pursuant to the CARES Act is provided as reimbursement of costs incurred, which result in subsidies (rather than payments for services), and, as a result, are identified as nonoperating revenue.

GASB Statement No. 9 states:

A statement of cash flows should explain the change during the period in cash and cash equivalents regardless of whether there are restrictions on their use...The total amounts of cash and cash equivalents at the beginning and end of the period shown in the statement of cash flows should be easily traceable to similarly titled line items or subtotals shown in the statements of financial position as of those dates.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-002: The Finance And Administration Cabinet Did Not Accurately Compile The Financial Statements For The Unemployment Compensation Fund (Continued)**

Recommendation

Changes to the closing package process to accurately account for the employer tax overpayment liability should be discussed between FAC and OUI.

As federal money continues to be received for unemployment compensation, FAC should review the closing package process, specifically for OUI, for possible changes or adjustments to properly classify financial statement line items.

FAC should review its compilation process to accurately account for the financial activity of the Unemployment Compensation fund.

Management's Response and Planned Corrective Action

We agree with the auditors' comments. These errors were reported on the CAFR draft. An adjusting entry was made and the final CAFR statements accurately reflect the unemployment insurance receipts, grants and subsidies expense, accounts payable, other liabilities, non-operating intergovernmental revenue accounts, and the Statement of Cash Flows activity in the Unemployment Compensation Fund financial statements.

In early March 2020, the COVID-19 Pandemic had the Commonwealth, and the Country, quickly moving to assist those hit hardest by the pandemic. The largest amount of public assistance was provided through the Unemployment Compensation Fund by means of Unemployment Insurance (UI) Benefits. The timeline on a state and federal level was adjusting and reacting to something not seen since the inception of the UI program and of the Federal-State Unemployment Compensation (UC) program created by the Social Security Act of 1935. All items and areas mentioned in the finding occurred due to the fast paced need to provide immediate UI benefits to the greatest record of claimants in the shortest amount of time. Additionally, the Commonwealth received a record amount of Federal assistance in order to pay UI Benefits and the Office of Unemployment Insurance (OUI) was not prepared on how to accurately record, track, and report the funds discussed in this finding.

The FAC acknowledges and will work towards providing further guidance and instruction to the OUI to correct these errors in recording, tracking, and reporting similar activity in future years.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law

Background

The Governor declared a State of Emergency on March 6, 2020 in response to the COVID-19 pandemic. Seven days later, the President declared a nationwide emergency, and three days after that, on March 16, the Governor signed Executive Order 2020-316 to close all restaurants and bars to in-person traffic. On March 18, Executive Order 2020-317 ordered:

...all public-facing businesses that encourage public congregation, or that by the nature of their service to the public, cannot comply with the CDC guidelines concerning social distancing, shall cease all in-person operations. These public-facing businesses that must close include: entertainment, hospitality and recreational facilities, community and recreation centers, gyms and exercise facilities, hair salons, nail salons, spas, concert venues, theaters, and sporting event facilities.

These business closures led to thousands of Kentuckians becoming unemployed. There were 49,023 new unemployment claims filed during the week ending March 21, 2020 and an additional 113,149 new claims filed during the week ending March 28, 2020.

Traditional Unemployment Insurance

Certain employers pay unemployment taxes to cover employees who become unemployed through no fault of their own. If a person is self-employed or works for an employer who does not pay unemployment taxes, the person would not be eligible to receive traditional unemployment compensation for the loss of their job.

Unemployed workers access the Kentucky Electronic Workplace for Employment Services (KEWES) system on OUI's website to both apply for unemployment benefits and to request their checks biweekly. When an application for unemployment compensation is approved, a weekly benefit amount is calculated, based on the wages reported in the last four quarters. To request benefits, a claimant can enter information into the KEWES system for each of the two weeks, report any wages that were earned in those two weeks, and certify they are still able, available, and actively seeking work. If the claimant reports earned wages during a week, the system will calculate 80% of the earned wages and reduce the weekly benefit amount. If 80% of the wages earned is more than the weekly benefit amount, the weekly benefit amount would be reduced to \$0, and the claimant would not receive a payment for that week. In fiscal year 2020, the maximum weekly benefit amount for traditional unemployment insurance was \$552.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)

Changes to the Traditional Unemployment Insurance Program brought on by the CARES Act

The CARES Act, signed into law by the President on March 27, 2020, created three temporary federal unemployment compensation programs:

1. Pandemic Unemployment Assistance (PUA), which provided unemployment benefits for workers not otherwise eligible for regular unemployment benefits, self-employed individuals, contract workers, and business owners. Individuals who qualify for PUA must self-certify weekly that they are unemployed, partially employed, or unable or unavailable to work because of a COVID-19 related reason. The minimum payment for PUA was \$176.
2. Pandemic Emergency Unemployment Compensation (PEUC), which provided an additional 13 weeks of unemployment benefits for unemployed workers who have exhausted regular unemployment benefits.
3. Federal Pandemic Unemployment Compensation (FPUC), which provided an additional \$600 per week to all unemployed workers receiving traditional unemployment compensation, PUA, or PEUC. To qualify to receive the FPUC payment, a claimant had to be eligible to receive at least \$1 of compensation through the traditional unemployment insurance, PEUC, or PUA program for that week.

Each of these new programs created by the CARES Act needed to be added to the current unemployment application system by OUI. The decisions made in response to these new programs, and in an effort to expedite unemployment benefit payments, led to management overriding key system controls, indicating a weak control environment. In some instances, these decisions were in direct conflict with federal law. The control environment is the “tone” of the organization and is the foundation for all other controls.

OUI’s management at the time did not display an appropriate tone at the top. Based on interviews and the review of documents and emails, the auditors noted the following:

- OUI management directed employees to set up an automatic payment of traditional UI and PUA claims, which automatically sent benefit payments to claimants, regardless of whether the claimant was eligible for payment in those weeks (a policy known as “auto-pay”).
- As a result of auto-pay, OUI did not provide PUA claimants the opportunity to perform the federally required self-certifications each week to confirm they were unemployed due to a COVID-19 related reason.
- As a result of auto-pay, OUI did not calculate the correct amount of partial unemployment benefits or, when applicable, reduce the benefit amount to zero for individuals who were working either full-time or part-time while collecting benefits.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)

- All claims for PUA were backdated to March 1, 2020, even if the claimant lost his or her job in later weeks, resulting in claimants receiving benefits for weeks in which they were still employed.
- Initially, OUI used non-applicable Department of Labor guidance to determine the minimum PUA weekly benefit amount. Instead of paying a minimum PUA of \$176, OUI paid claimants a minimum PUA benefit of \$180.
- Individuals receiving PUA were automatically paid the minimum benefit amount, and were not given the opportunity to submit documentation of their base year earnings that could result in a higher benefit amount.
- Approximately 400,000 emails sent through the UI assistance email link on the OUI website have been archived and remain unread as of November 9, 2020.

Auto-pay

Certain Department for Workforce Investment employees became Commonwealth Office of Technology (COT) employees during the COT consolidation in 2014. These employees, despite this reorganization, still work and provide services exclusively to OUI. On March 25, 2020, OUI management met with COT personnel and discussed the need to develop a plan to automatically pay claims. This was done in the hopes of expediting the approval and claims payment process. Later that day, COT personnel met with OUI personnel to discuss the requirements and implementation plan for auto-pay. As a result of the decision to automatically pay claims, when PUA claimants received notice of their weekly benefit amount in the mail, the letter stated that PUA benefits would be paid every two weeks and there was no need to request benefits. Those eligible for traditional UI would be automatically paid for the first two weeks, but unlike PUA, would have to request benefits biweekly thereafter.

Federal law requires states to determine eligibility and benefit amounts through verified documentation and to provide a weekly certification process for claimants. One component of the weekly certification process is for claimants to report any income earned while collecting unemployment compensation. States must use this information to ensure that claimants meet the definition of unemployment, to confirm the claimant continues to be eligible for benefits each week, and to calculate the correct amount of partial unemployment benefits for individuals who are earning wages while collecting benefits. Federal law also requires that PUA claimants need to certify that they are unemployed due to COVID-19 related issues. During the period in which auto-pay was in effect, these determinations and certifications were not performed.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)

Auto-pay also removed another key control for preventing overpayments to claimants. By removing the requirement for claimants to request benefits biweekly, there was no mechanism available for claimants to report earned wages. Per state statute, weekly benefit payments are reduced by 80% of the claimant's earnings for any given week. If the claimant earned enough during a given week, their weekly benefit amount could be eliminated. Per federal law, a claimant had to be eligible for at least \$1 of unemployment benefits to qualify for the supplemental \$600 FPUC payment. As a result, because benefits were not being reduced based on wages earned, claimants who were not entitled to unemployment benefits should not have received the extra \$600 FPUC payment.

Backdating PUA Claims

According to Department of Labor guidance for the PUA program in Unemployment Insurance Program Letter (UIPL) 16-20, PUA claims "must be backdated to the first week during the Pandemic Assistance Period in which the individual meets the definition of a covered individual." Management, however, determined that when a claimant was approved for PUA, their claim date would be effective March 1, 2020, even if the claimant lost his or her job in later weeks.

In addition to this, PUA was automatically paid for those weeks, so each PUA claimant did not have the opportunity to report any earnings that would have reduced the amount paid in his or her benefit check. If 80% of the claimant's earnings for any given week in which he or she worked was more than the amount of the benefit check, the claimant would not receive a check for that week. Since a claimant had to be eligible to receive at least \$1 of underlying benefits to qualify for FPUC, the claimant would not have received the additional \$600 payment for that week, either. With auto-pay in place, PUA claimants received at least \$776 a week, even for weeks in which they may have still been employed, as discussed in the finding 2020-006.

Using Non-applicable Guidance To Determine The PUA Benefit

When the Department of Labor communicated the requirements for the PUA program to state agencies, states were to refer to prior guidance for the minimum PUA benefit amount. OUI used UIPL 11-20, which set the minimum disaster unemployment assistance weekly benefit amount for the time period from April 1 to June 30, 2020 at \$180. With the CARES Act becoming effective on March 27, OUI should have followed UIPL 03-20, which covered the time period from January 1 to March 31, 2020 and showed a minimum payment for Kentucky at \$176.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)

Potential for Underpayment of PUA Claims

Individuals eligible for PUA include those who are not eligible for traditional unemployment insurance, including those who are self-employed, those seeking part-time employment, individuals lacking sufficient work history, and those who otherwise do not qualify for extended benefits or PEUC. For these expanded eligibility groups, PUA provides up to 39 weeks of benefits to qualifying individuals who were otherwise able and available for work except that they were unemployed, partially unemployed, or unable or unavailable to work due to one of the COVID-19 related reasons specified in section 2102 of the CARES Act.

The weekly benefit amount for PUA was a minimum of \$176 in the Commonwealth, but claimants could report wages sufficient to establish a higher benefit amount. Because of the auto-pay policy, however, individuals receiving PUA were automatically paid the minimum benefit amount and were not given the opportunity to submit documentation of their base year earnings that could have resulted in receiving a higher weekly benefit amount.

Archiving Emails

Due to a high volume of emails received through the UI assistance email link on the OUI website, OUI moved all emails received between March 19, 2020 and April 19, 2020 from the OUI Assistance Inbox to the OUI Assistance Backlog Inbox. More emails were moved between April 23, 2020 and May 10, 2020. Staff from other agencies had assisted in sorting and categorizing the emails, but these staff members are no longer working on this assignment. As of November 9, 2020, there were more than 400,000 emails in the OUI Assistance Backlog Inbox that had not been read. These emails from claimants could include indications of issues or problems for OUI to address, not to mention general questions from unemployed Kentuckians. In fact, a user confidentiality issue earlier in the year was only discovered because of an email from a claimant.

Business closures due to COVID-19-related Executive Orders greatly increased the number of unemployed Kentuckians in a short amount of time. The former Executive Director of the Office of Unemployment Insurance, in his testimony to the Interim Joint Committee on Economic Development and Workforce Investment on July 30, 2020, stated that neither he nor the former Deputy Secretary for the Kentucky Education and Workforce Development Cabinet were included in meetings with the Governor's Office regarding the decision or timing on the business closures. According to the former Executive Director, management at OUI was not aware of when closures would be made, leaving them no time to prepare for the influx of unemployment claims.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)

The former Executive Director stated in an email “Keep in mind, the goal is to put money in people’s hands ASAP to help them survive.” This external pressure incentivized management to override system controls at OUI. Inappropriate override of controls is important because automated processes and controls may reduce the risk of inadvertent error but do not overcome the risk that individuals may inappropriately override such automated processes. That is what occurred in this case.

According to the United States Department of Labor’s interpretation, the CARES Act prohibits states from waiving PUA overpayments. The Commonwealth has requested flexibility from the United States Department of Labor regarding the possible waiving of PEUC, FPUC, and PUA non-fraudulent overpayments. Recent and continuing developments with federal legislation may increase the Commonwealth’s flexibility in waiving PUA overpayments in certain situations.

For traditional unemployment insurance and PUA, overpayments due to office error or oversight can be collected by the Commonwealth by intercepting future unemployment benefit claims. However, many of the overpayments that occurred because of auto-pay were to categories of claimants not historically eligible for traditional unemployment benefits who may not be eligible for benefits in the future. This would leave the Commonwealth with few options to recover the overpayments outside of recoupments directly from the recipients.

PUA claimants who were eligible for more than the minimum payment, based on earnings they submitted, were only paid the minimum benefit while auto-pay was in effect. OUI is taking steps to issue correcting payments to these underpaid claimants.

Due to the lack of controls over payments during the auto-pay period, we cannot precisely estimate total overpayments or underpayments. While auto-pay was in effect, \$17,774,387 was paid in traditional UI benefits, \$129,923,478 was paid in PUA benefits, and \$507,688,800 was paid in FPUC. While not all of these payments were improper, they were paid in a control environment highly conducive to improper or even fraudulent payments.

Effective internal controls include establishing an environment in which program integrity is prioritized regardless of external incentives or pressures. In the case of unemployment insurance, system and/or automated controls are even more important in periods of higher than normal volume such as the COVID-19 pandemic.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)**

According to the COSO Control Environment Principle 1:

01.01 The oversight body and management should demonstrate the importance of integrity and ethical values through their directives, attitudes, and behaviors.

01.04 The oversight body and management reinforce the commitment to doing what is right, not just maintaining a minimum level of performance necessary to comply with applicable laws and regulations, so that these priorities are understood by all stakeholders, such as regulators, employees, and the general public.

Section OV2.22 of the GAO Greenbook states:

In the government sector, objectives related to compliance with applicable laws and regulations are very significant. Laws and regulations often prescribe a government entity's objectives, structure, methods to achieve objectives, and reporting of performance relative to achieving objectives. Management considers objectives in the category of compliance comprehensively for the entity and determines what controls are necessary to design, implement, and operate for the entity to achieve these objectives effectively.

Section OV2.23 of the GAO Greenbook states:

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

Recommendation

The COVID-19 pandemic continues to pose challenges to the country's economy, public health, and governments at all levels. Although the needs of the Commonwealth are great, internal controls exist to ensure that, regardless of the situation, government programs can be executed in the most efficient and effective manner that maintains program integrity, protects taxpayers, and ensures those eligible, and only those eligible, receive all of the benefits to which they are entitled. We recommend, if internal controls must be adjusted based on extraordinary circumstances, program integrity should remain a key objective of the entity.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)

Management's Response and Planned Corrective Action

The Unemployment Insurance a social insurance program, offers the first economic line of defense against effects of unemployment. The core mission is to provide payments directly to eligible unemployed workers, it ensures for at least a significant proportion of the necessities of life most importantly food, shelter and clothing. UI is a partial wage replacement when the claimant has a need and is eligible.

To qualify for benefits, jobless workers must demonstrate workforce attachment, must be able to work and available for work, and generally must meet other eligibility requirements while they seek work. UC benefits are financed almost wholly through an employer tax that is based upon their experience in the unemployment compensation system; that is, the length of time they have operated in the state, the amount of unemployment tax paid, the amount of unemployment benefits paid to their workers, and the employer's industry. The regular state UC program is a federal-state partnership based upon Federal law but administered by state employees under state law. Because of this structure, the program is unique among the country's social insurance programs. All states are to follow the core mission and principles when administering their states programs.

In early March 2020 COVID19 Pandemic forced state and local governments to close or restrict certain businesses to reduce interpersonal contact, and, by extension, viral spread. As a result both the federal and state government was forced to move quickly and decisively to assist those newly jobless workers in great need. However, due to the sheer volume of closures and corresponding jobless claims, state and federal agencies were faced and continue to be faced with circumstances unknown inception of UI program; the Federal-State Unemployment Compensation (UC) program created by the Social Security Act of 1935. The findings mentioned above occurred in a short period of time during a once-in-a-century global pandemic.

Due to an executive branch reorganization, on August 16, 2020, the Kentucky Labor Cabinet officially took on the oversight of Kentucky Unemployment Insurance. As it moves forward with completing the reorganization, the Labor Cabinet will ensure foundational controls are in place to maintain a program dedicated to quality, integrity, and accuracy in order to promote and fulfill the core values of the program. Cabinet leadership and management is to and will be expected to seek guidance from experts, including: Kentucky OUI Staff, IT (Program Professionals), Regional Department of Labor (DOL) technical assistance staff, National Association of State Workforce Agencies (NASWA) other States, as well as Cabinet policymakers. This environment and culture is to place quality and learning at all levels and at all points during the Pandemic and for the future of the KY UI program.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-003: The Office Of Unemployment Insurance's Weak Control Environment Led To Management Decisions That Were In Direct Conflict With Federal Law (Continued)****Management's Response and Planned Corrective Action (Continued)**

We believe that our guidance, engagement, and inclusion provides, and demonstrates the Committee of Sponsoring Organizations (COSO) Control Environment Principle 01.0 and 1.04 as stated in this finding. We are providing an attitude that is open and we are seeking information through our meetings at and on all levels within UI. Seeking DOL guidance and clarity as and when it is needed for or on any UI subject matter that the state is unclear. The oversight body and management from the Secretary, Deputy Secretary, and Executive Director to do what is right. Work daily to make sure that programs services are in compliance, claimants and employers are being served.

Section OV2.22 and OV2.23 of the Green Book Standards (GAO) references the oversight to the objectives, structure and methods to achieve objectives and reporting of performance outcomes. Management uses Unemployment Insurance Guidance Letters (UIPLS) from DOL as its primary source of guidance while implementing UI programs, including traditional UI and pandemic-related relief. Management monitors these guidance letters as they evolve in response to the COVID-19 pandemic. Management implements any and all guidance directives as they are issued in a timely and accurate manner, seeking peer and coordinate federal agency guidance as appropriate.

As stated at the beginning of this document, COVID-19 both rapidly and greatly increased the number of unemployed Kentuckians. Like other states, Kentucky is working diligently and tirelessly to implement and administer all of the traditional UI programs along with the various pandemic assistance programs as quickly as is possible to do so effectively and effective manner. At all times, program integrity will remain the primary objective of the Cabinet and the Office of Unemployment Insurance.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-004: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System

The Fiscal Year 2020 audit revealed the Office of Unemployment Insurance (OUI) has not configured the Kentucky Electronic Workplace for Employment Services (KEWES) system to identify data entry errors keyed by staff. In addition, technical documentation describing system validations, edits, audits, and errors established within KEWES was not readily available. KEWES is the system used by OUI to process unemployment insurance (UI) for the Commonwealth of Kentucky.

During our audit, it was determined data was incorrectly input into KEWES for two state employees who claimed UI benefits. One employee filed a UI claim on March 19, 2020; however, the effective date captured for the claim was June 28, 2020, which is three months after the file date. Discussions with agency personnel revealed Pandemic Unemployment Assistance (PUA) claims can be manually adjusted by OUI staff and the file date entered for this employee was not correct. While traditional UI and PUA benefits have been configured within KEWES to limit the manual entry of data, manual adjustments to the PUA data can be made by OUI staff via the mainframe. The second employee had a stop code of '7' applied to six UI claims filed; however, this stop code has not been configured within KEWES. KEWES does not generate error reports to flag or identify data that is incorrectly input by OUI staff.

Furthermore, UI claims were not paid in a timely manner. As of October 29, 2020, the claims backlog of unprocessed, initial jobless claims totaled approximately 80,000. Additional concerns about the payment of claims are discussed in two other findings related to Commonwealth employees receiving UI benefits (2020-008) and benefit eligibility errors (2020-006).

Upon request by the auditor, OUI staff developed a validations listing associated with KEWES fields. During the audit, OUI also developed a file depicting the proposed flow of data to register an account, file a claim, and claim weeks. Neither of these documents described system edits, audits, or errors processed by the system. The edit function verifies the accuracy, validity, required presence, format, consistency, allowable values, and integrity of data submitted. Audits determine if there are any restrictions based on historical claims. An error message alerts users of a problem that has already occurred.

In addition, the auditor identified three interfaces that OUI reported as active; however, they are not currently being utilized. First, the 'REOS Peer Second FTR' interface pertains to the failure to report; however, no one at OUI could explain the purpose of this interface or when it was created and by whom. The 'IB1' interface relates to UI applications filed in a state other than Kentucky. This interface was last used on April 15, 2004. The 'Claimant Outstanding Overpayments' interface does not have a processing date associated with it and OUI staff confirmed that they don't utilize this interface.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-004: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System (Continued)**

Furthermore, COT Production Services Branch is responsible for batch operations and scheduling Workforce Development's UI job streams. The auditor was provided 44 schedules reflecting the nightly UI jobs running in production. Neither COT nor OUI could provide a description or explanation about the purpose of these schedules. Also, review of the jobs running via each of these schedules revealed 10 out of 849 UI jobs running on the mainframe, or 1.2%, did not have an adequate description to explain what the job was doing in production.

System information was incorrectly entered by OUI staff. The system has not been configured to alert OUI staff of data entry errors. Also, OUI staff have not developed or maintained adequate technical documentation to explain mainframe jobs running in production, as well as edits, audits, and errors processed by KEWES.

Validations and verifications ensure a system complies with state and federal regulations, business requirements and specifications, or an imposed condition. They also ensure the system meets the operational needs of the user. Validation of data results in fewer errors and less risk to business processes and data integrity. It also reduces long term system and project costs by minimizing the cost of maintenance and system changes.

Failure to accurately document system audits and edits increases the risk of erroneous UI claims being processed or valid UI claims being denied. It could also result in transactions for inaccurate or excessive amounts being processed successfully, or transactions not being paid timely or accurately. If a population of edits and audits cannot be provided by OUI, then the existence of basic controls cannot be confirmed such as a single social security number being prevented from receiving multiple claims. This is highly concerning given the volume of claims that have been processed by OUI and will be processed in the future as the pandemic continues.

According to the Control Objectives for Information and Related Technology, specifically the section labeled Deliver, Services and Support 06.04 – Manage Errors and Exceptions, agencies should “Manage business process exceptions and errors and facilitate remediation, executing defined corrective actions and escalating as necessary. This treatment of exceptions and errors provides assurance of the accuracy and integrity of the business information process.”

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-004: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System (Continued)

The System and Information Integrity (SI) section of the National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, specifically SI-10 – Information Input Validation, states: “The information system checks the validity of [Assignment: organization-defined information inputs].” Supplemental guidance also states:

Checking the valid syntax and semantics of information system inputs (e.g., character set, length, numerical range, and acceptable values) verifies that inputs match specified definitions for format and content...

... Input validation helps to ensure accurate and correct inputs and prevent attacks such as cross-site scripting and a variety of injection attacks.

In addition, NIST section SI-11 – Error Handling, states that an information system should generate error messages that provide information necessary for corrective actions without revealing information that could be exploited by adversaries and reveals error messages only to defined personnel or roles.

The System and Services Acquisition (SA) section of the NIST, specifically SA-5 Information System Documentation, states that the organization:

- a. Obtains administrator documentation for the information system, system component, or information system service that describes:
 1. Secure configuration, installation, and operation of the system, component, or service;
 2. Effective use and maintenance of security functions/mechanisms; and
 3. Known vulnerabilities regarding configuration and use of administrative (i.e., privileged) functions;
- b. Obtains user documentation for the information system, system component, or information system service that describes:
 1. User-accessible security functions/mechanisms and how to effectively use those security functions/mechanisms;
 2. Methods for user interaction, which enables individuals to use the system, component, or service in a more secure manner; and
 3. User responsibilities in maintaining the security of the system, component, or service;
- c. Documents attempts to obtain information system, system component, or information system service documentation when such documentation is either unavailable or nonexistent and takes [Assignment: organization-defined actions] in response;
- d. Protects documentation as required, in accordance with the risk management strategy; and
- e. Distributes documentation to [Assignment: organization-defined personnel or roles].

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-004: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System (Continued)**

Recommendation

We recommend OUI develop formal system documentation explaining all processing performed by KEWES and UI-related mainframe batch jobs and interfaces, including critical security functionality enabled. We also recommend OUI ensure the proposed flow documentation is completed. Also, all error warnings generated as well as edits and audits established within KEWES should be thoroughly documented to support the processing being performed by KEWES.

Management's Response and Planned Corrective Action

The COT Office of IT Architecture and Governance is in agreement with the APA recommendation to develop formal system documentation. This documentation will detail the mainframe related batch jobs, workflows, interfaces and security features. Branch Manager of the COT UI Systems Branch will be leading the effort to produce the necessary documentation with targeted delivery date of June 30, 2021.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-005: The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process

The fiscal year (FY) 2020 audit of the Office of Unemployment Insurance (OUI) program modification controls over the Kentucky Electronic Workplace for Employment Services (KEWES) system revealed the Standard Procedures for Unemployment Insurance System Modification and Enhancement Process, which describes the responsibilities and procedures to be followed when making system changes to Unemployment Insurance (UI) systems, has not been updated and does not reflect the actual process being used by OUI. In addition, the established procedures were not adhered to when making critical system changes.

The following documentation is required per the Standard Procedures for Unemployment Insurance System Modification and Enhancement Process, which was last revised in 2015:

- A request for work received by the Office of Technology Services (OTS) and/or the Commonwealth of Technology (COT);
- A Scope of Work (SOW), which captures information such as project requirements, constraints, risks, and deliverables. The SOW must receive approval and sign off from the authorized agency representative before work can begin;
- A User Acceptance Testing (UAT) Test Plan, which includes test cases and expected results;
- Approval for the promotion of the successfully tested program code to production; and
- A Project Acceptance and Closure document, which is completed after the code has been moved to production.

To determine if the noted documentation was being maintained by OUI, a sample of 26 changes made to KEWES during FY 2020 were tested. Testing revealed adequate documentation was not maintained for 100% of the changes reviewed. OUI had emails on file to support the request for work performed for all sampled changes; however, one system change had a description of 'Issue.' This does not adequately describe the system change that was being requested. In addition, none of the 26 changes had a formal SOW on file. Review of the emails requesting work be performed showed six of these changes, or 23.1%, had limited details explaining the change being requested. Also, none of the 26 changes had a UAT Test Plan on file. In addition, 23 of the 26 changes, or 88.5%, did not have adequate test documentation on file to explain the testing conducted and by whom, the results of testing, or approvals to support testing was completed prior to being moved into production.

Furthermore, none of the 26 changes, or 100% of the population, had a completed Project Acceptance and Closure form on file. Discussions with the agency revealed OUI staff stopped using the Project Acceptance and Closure form approximately three years ago. Currently, if no problems are noted within five business days after the code has been moved to production, then OTS and/or COT staff will close out the ticket. As such, there is no documented review or acceptance that the changes made are working as intended.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-005: The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process (Continued)

OUI staff indicated the Standard Procedures for Unemployment Insurance System Modification and Enhancement Process has not been updated to reflect this change in procedure due to the Systems Management Branch Manager position being vacant. The Systems Management Branch Manager is typically responsible for performing administrative tasks such as creating, maintaining, and disseminating documentation such as the system modification procedure and closure documents. In addition, the position of Quality Assurance Testing Lead is currently vacant. This position supports and facilitates unit, system, and user acceptance testing and communicates to business staff, management, and developers to bring modifications to the production environment.

Further, the auditor's review of three changes made to the WFUIBN8 mainframe program, which determines UI eligibility as well as the weekly benefit amount (WBA), revealed COT did not obtain adequate testing documentation prior to promoting them to production. While COT had a Production Cutover Form on file for these changes and the Application Developer properly completed the section to show what changes were made, the Librarian did not complete this form to show when the changes were tested and by whom, the job number used to move the code to production, or if the move to production was completed without error. Therefore, the auditor could not verify that adequate segregation of duties was in place, ensuring the changes were properly promoted to production and the program properly worked once implemented.

Due to the COVID-19 pandemic, changes were implemented to KEWES based on OUI Executive Management's understanding of the initial guidance issued by the United States Department of Labor (USDOL) pertaining to UI. One of these changes, referred to as Auto Pay, allowed UI claimant's benefits to be automatically paid without the claimant reporting wage information. Seasoned OUI and COT staff expressed concerns about implementing this functionality; however, the changes were implemented on March 23, 2020 in order to pay UI claimants as soon as possible. After receiving updated guidance from the USDOL, OUI stopped the automatic payment of PUA benefits on May 22, 2020.

While OUI has developed the Standard Procedures for Unemployment Insurance System Modification and Enhancement Process document, which is outdated and does not reflect the current process being used, the documented process was not followed. Testing conducted by the auditor covered changes made to KEWES between July 1, 2019 and June 30, 2020. OUI was not following established procedures prior to March 2020 when the COVID-19 pandemic began to impact the Commonwealth. As such, the pandemic did not cause a deviation from established processes as those processes were not being followed prior to the pandemic.

Discussions with agency staff revealed OUI Executive Leadership were working to pay UI claimants as fast as they possibly could due to the COVID-19 pandemic. Documentation obtained during the audit showed that OUI staff were not given complete system requirements, were rushed to get changes into production, and did not thoroughly document what actions were taken.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-005: The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process (Continued)

Failure to update and consistently apply proper program modification control procedures increases the risk that incorrect or unauthorized changes to KEWES could be placed into the live production environment and adversely affect processing results. Although the intent in this situation appears to have been issuing payments as quickly as possible, if procedures are not followed there is a risk that system related issues could delay payments or incorrect benefit amounts could be issued which could cause problems for recipients at a later date. If benefits are issued to ineligible claimants due to inadequate system testing, in many cases the Commonwealth would have to attempt to recoup these overpayments from the recipient.

Program modification control procedures are to be formalized and consistently applied to ensure only appropriately authorized changes to KEWES are made and implemented within the production environment. The Standard Procedures for Unemployment Insurance System Modification and Enhancement Process provides a defined framework to be followed for program modifications to ensure no departure from the established procedures occurs. These written procedures state that the following procedures are to be followed by OTS and COT when making changes for UI systems:

Initiate:

1. A request for work is received by the Office of Technology Services (OTS) and/or the Commonwealth Office of Technology (COT) from the agency via service desk ticket, which will include preliminary requirements. OTS and COT follow a change control process to address functional enhancements requested by the business through the service desk ticket, which COT also uses for tracking purposes.

Design:

3. A Scope of Work (SOW) will be created among identified Office of Employment and Training (OET) designed scope leads, OTS and COT Business Analysts and Developers based on business requirements initiated through meetings or service desk ticket. The SOW must receive approval and sign off from the authorized agency representative before work will begin.

Build/Unit Test:

7. Preliminary functional testing will be completed by the technology staff to determine if the code is initially operating, developers may follow up with Business Analysts should questions arise.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-005: The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process (Continued)

System/User Acceptance

9. OTS and/or COT Business Analysts and Quality Assurance/Testing Staff test in Test Environment, recording any items that do not function properly in Test Track for the developers to recode; once items are recoded, they are sent back to Business Analysts and Quality Assurance/Testing Staff for continued testing in the Test Environment. This will continue until Business Analysts, Quality Assurance/Testing Staff and Developers agree the code is ready for User Acceptance Testing (UAT).
10. The authorized agency representative shall be notified that User Acceptance Testing should begin. Agency staff will perform UAT based on items in the agency's UAT Test Plan.
12. Once testing has been deemed successful and complete by the authorized agency representative, approval for the promotion of the code to production is obtained through email to the OTS and COT points of contact.

Implement/Deploy

13. The authorized code move to Production Environment is relayed through an email to the OTS Developers, OTS Business Analysts, and other appropriate OTS and COT staff so the code move can be scheduled. All notifications for production code moves for COT will be through service desk tickets.

Closeout

16. A Project Acceptance and Closure document will be prepared by OTS and/or COT and sent to the authorized agency representative after the code has been moved. If no other problems are identified by the agency staff, the authorized agency representative will sign the Project Acceptance and Closure Document and return to OTS denoting that the code move has been closed successfully. COT accepts an electronic Project Acceptance and Closure document that is stored in the Altiris database. During that time, service desk tickets will continue to be monitored for issues. Once OTS and COT receive the final Project Acceptance and Closure document, the service desk tickets and Test Track tickets will be closed successfully.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-005: The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process (Continued)

A well-defined system development life cycle provides the foundation for the successful development, implementation, and operation of organizational information systems. The System and Services Acquisition (SA) section of the National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, specifically SA-3 – System Development Life Cycle, states:

The organization:

- a. Manages the information system using [Assignment: organization-defined system development life cycle] that incorporates information security considerations;
- b. Defines and documents information security roles and responsibilities throughout the system development life cycle;
- c. Identifies individuals having information security roles and responsibilities; and
- d. Integrates the organizational information security risk management process into system development life cycle activities.

According to COBIT 5 – Build, Acquire and Implement – BAI03.07 ‘Prepare for solution testing’ states: “Establish a test plan and required environments to test the individual and integrated solution components. Include the business processes and supporting services, applications and infrastructure.” The following activities support this process:

1. Create an integrated test plan and practices commensurate with the enterprise environment and strategic technology plans. Ensure that the integrated test plan and practices will enable the creation of suitable testing and simulation environments to help verify that the solution will operate successfully in the live environment and deliver the intended results and that controls are adequate.
2. Create a test environment that supports the full scope of the solution. Ensure that the test environment reflects, as closely as possible, real-world conditions, including the business processes and procedures, range of users, transaction types, and deployment conditions.
3. Create test procedures that align with the plan and practices and allow evaluation of the operation of the solution in real-world conditions. Ensure that the test procedures evaluate the adequacy of the controls, based on enterprise wide standards that define roles, responsibilities and testing criteria, and are approved by project stakeholders and the sponsor/business process owner.
4. Document and save the test procedures, cases, controls and parameters for future testing of the application.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-005: The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process (Continued)

Recommendation

First, we would like to acknowledge how difficult the COVID-19 pandemic was and continues to be. We also realize there was a sense of urgency at the onset of the pandemic to assist the public. However, if management had applied the change controls established, some if not all of the weaknesses commented on within this finding could have been prevented. As such, we recommend OUI update and consistently apply the policies and procedures outlined in the Standard Procedures for Unemployment Insurance System Modification and Enhancement Process document, such as specifically retaining documentation to support the program modification process, including approvals necessary. At a minimum, each change request should include:

- date submitted;
- name of the person submitting the request;
- name of the person assigned to complete the request;
- SOW or detailed steps to resolving the request;
- testing procedures performed;
- results of testing;
- date of testing;
- name of tester;
- time and date the request is considered resolved; and
- name of the person approving the proposed resolution.

The policy should also address emergency situations or non-standard requests where a departure from the normal approval process is appropriate and authorized by the agency. The policy should provide examples of what constitutes an emergency situation or a non-standard request. All policies and procedures related to the program modification process should be distributed to the appropriate personnel and OUI should ensure the policies are consistently applied.

These policies and procedures are crucial to enabling OUI to ensure that individuals only receive benefits in accordance with statutory provisions. OUI plays a fundamental role in ensuring the integrity of their UI program. OUI should continue to operate its programs, both new and existing, in conformity and compliance with federal laws and guidance and promote program integrity.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-005: The Office of Unemployment Insurance Did Not Adhere To Change Control Procedures Established In The Standard Procedures For Unemployment Insurance System Modification And Enhancement Process (Continued)

Management's Response and Planned Corrective Action

The Unemployment Insurance a social insurance program, offers the first economic line of defense against effects of unemployment. The core mission is to provide payments directly to eligible unemployed workers, it ensures for at least a significant proportion of the necessities of life most importantly food, shelter and clothing. UI is a partial wage replacement when the claimant as a need and is eligible.

To qualify for benefits, jobless workers must demonstrate workforce attachment, must be able to work and available for work, and generally must meet other eligibility requirements while they seek work. UC benefits are financed almost wholly through an employer tax that is based upon their experience in the unemployment compensation system; that is, the length of time they have operated in the state, the amount of unemployment tax paid, the amount of unemployment benefits paid to their workers, and the employer's industry. The regular state UC program is a federal-state partnership based upon Federal law but administered by state employees under state law. Because of this structure, the program is unique among the country's social insurance programs. All states are to follow the core mission and principles when administering their states programs.

In early March 2020 COVID19 Pandemic had this Country and this state quickly moving to assist those in great need. The timeline on a state and federal level was adjusting and reacting to something not seen since the inception of UI program of the Federal-State Unemployment Compensation (UC) program created by the Social Security Act of 1935. All items and areas mentioned in the finding occurred within this fast paced hitting time.

On August 16, 2020 the Kentucky Labor Cabinet officially took on the oversight of the Kentucky Unemployment Insurance. It is the goal of this Cabinet to make sure foundational controls are in place that establishes and ensures quality, integrity, openness, honesty and a daily ethical behavior that always keeps the core value of the program in focus. The daily management is to seek guidance from experts that are but not excluding: Kentucky UI Staff, IT (Program Professionals), Regional Department of Labor technical assistance staff, National Association of State Workforce, Other States as well Cabinet Leadership. This environment and culture is to place quality and learning at all levels and at all points during this Pandemic and for the future of the KY UI program.

The latest version of the Systems Modification and Enhancement Process will be updated with the combination of the IT Director in Labor, the Office of Unemployment Insurance Executive Director and COT managers. This process will define the steps from the need in OUI to the appropriate development staff to assess the need and effort of work. There will also be processes added for emergency situations that may arise, such as COVID-19 and the impact on OUI.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-006: The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants**

During the audit of the Office of Unemployment Insurance (OUI), traditional unemployment insurance along with new federal programs established in response to the COVID-19 pandemic were reviewed.

For traditional unemployment insurance, certain employers pay unemployment taxes to cover employees who become unemployed through no fault of their own. If a person is self-employed or works for an employer who does not pay into the system, the person would not be eligible to receive traditional unemployment compensation for the loss of their job. Unemployed workers who are eligible for traditional unemployment insurance (UI) can receive a weekly benefit check if they meet certain criteria, such as being able and available for work. The maximum weekly benefit allowable is \$552.

Three significant new unemployment insurance programs were created via the CARES Act: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC).

PUA funds unemployment claims for claimants who historically have not been eligible for traditional unemployment compensation, such as self-employed individuals or “gig” workers. Because a significant portion of the Commonwealth’s economy was shut down over a short period, and in order to pay claims as quickly as possible, OUI determined that anyone who applied for PUA benefits, and was deemed eligible, would receive the minimum PUA benefit of \$176 per week.

PEUC provides 13 weeks of additional unemployment benefits to eligible individuals whose traditional unemployment benefits have been exhausted.

FPUC provides an additional \$600 of benefits per week to all eligible claimants receiving at least \$1 of traditional unemployment compensation, PUA, or PEUC. For claimants receiving the maximum weekly benefit for traditional unemployment compensation, this would amount to \$1,152 per week. For claimants receiving PUA, and initially receiving the minimum of \$176 per week, this would amount to \$776 per week.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-006: The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants (Continued)

Testing of a sample of claim weeks revealed that OUI failed to ensure beneficiaries were eligible for the benefits received, that the amounts paid were correct, and that the amounts paid to beneficiaries were charged to the correct employer accounts. The number of testing exceptions and amounts associated with those exceptions are detailed below:

Table 1

Benefit Program	Charges Unassigned to Employers		Employer Account Errors			Benefit Miscalculations		
	Number of Exceptions	Amount	Number of Exceptions	Over Charged	Under Charged	Number of Exceptions	Overpayment	Underpayment
Traditional UI	9	\$ 3,990	4	\$ 1,438	\$ 822	4	\$ 1,438	\$ 822
PEUC	1	\$ 1,104	0			0		
PUA	0		17	\$ 4,392	1,104	17	\$ 4,392	1,104
FPUC	0		10	\$ 12,000		10	\$ 12,000	
Total	10	\$ 5,094	31	\$ 17,830	\$ 1,926	31	\$ 17,830	\$ 1,926

Charges Unassigned to Employers and Employer Account Errors

Charges to employer accounts for traditional unemployment claims are used to calculate the employers' contribution rate. In one instance, for a PEUC payment of \$1,104, neither the employer nor the temporary pool appeared to have been charged. The PEUC error was corrected by OUI when they were notified of the exception. In addition, testing identified payments for nine claim weeks which were charged to a temporary pool and had not yet been assigned to any employer.

For 31 claim weeks, incorrect amounts were posted to employer accounts.

Benefit Miscalculations

OUI incorrectly calculated benefit payments for 31 claim weeks across traditional UI, PEUC, PUA, and FPUC. Given our total sample size of 99 claim weeks, the number of exceptions in relation to the total was indicative of a pervasive eligibility issue.

For traditional UI:

- Two exceptions occurred because the claimants were not eligible for benefits at all.
- One exception occurred because the claimant was eligible for PUA but instead was paid via traditional UI.
- One exception occurred because the claimant was eligible for traditional UI but instead was paid via PUA.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-006: The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants (Continued)

For PUA:

- As referenced for traditional UI, one exception occurred because the claimant was eligible for traditional UI but instead was paid via PUA.
- As referenced for traditional UI, one exception occurred because the claimant was eligible for PUA but was instead paid via traditional UI.
- Nine of these claimants were paid PUA benefits but did not submit the required weekly self-certifications for the tested claim weeks.
- Six exceptions occurred because OUI paid an incorrect minimum weekly benefit amount of \$180 instead of the required \$176.

For FPUC:

- Two exceptions occurred because the claimant was not eligible for traditional UI.
- Eight exceptions occurred because the claimant was not eligible for PUA.

In addition to the benefit miscalculations identified above, overpayments were also identified related to OUI backdating PUA claims to March 1 as described in finding 2020-003. Instances were noted where PUA and FPUC benefits were issued to individuals who were still working during the weeks for which the benefits were paid, as seen in the Table 2.

Table 2

	Claimants	Amount
PUA	19	\$ 13,467
FPUC	4	\$ 5,400

The reason the identified overpayment is greater in Table 2 than in Table 1 is because Table 2 reflects a review of claims from March 1 to the claimants' last day of work whereas for Table 1 only two weeks of payments were reviewed.

The federal government permitted backdating of PUA claims to February 2, 2020 as long as the individuals otherwise met the eligibility requirements to receive PUA as of that date, including the requirement that the individual's unemployment was due to COVID-19 related reasons. The first week for which FPUC could be paid was the week ending April 4, 2020. For the four claims for which FPUC overpayments were identified in Table 2, the claim weeks were after FPUC was allowable but these claimants were not eligible for the payments.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-006: The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants (Continued)

The procedure used by OUI prior to the onset of the COVID-19 pandemic to determine if a claimant was eligible for UI benefits was for either the claimant to submit a claim along with biweekly self-certifications or their employer could submit an e-claim for a group of employees. An e-claim might occur if, for example, a large manufacturer was ceasing operations temporarily for maintenance. Under either approach, OUI would manually review claims applications that had issues flagged by the system. If the exceptions could be cleared and a claimant was deemed eligible, then payments would be calculated, paid, and charged to the appropriate employer account. OUI's typical procedures for manually reviewing claims were impacted by the increase in unemployment claims due to COVID-19.

Some causes of the issues identified in this finding include:

- A larger than usual number of claims were submitted by employers rather than by the claimant.
- The requirement to submit biweekly self-certifications was suspended for PUA claims from March 23, 2020 through May 22, 2020. This was part of the auto-pay policy further discussed in findings 2020-008 and 2020-003.
- The large increase in claims overwhelmed OUI's ability to review and correct identified exceptions in a timely manner.

The result of the first two changes was that, in some cases, the information needed to determine if a claimant qualified for benefits was sometimes inaccurate, incomplete, or missing entirely.

Two other causes were present which resulted in errors in PUA claims:

- From program initiation until mid-May 2020, OUI assigned a minimum weekly PUA claim amount of \$180 instead of the correct amount of \$176.
- In addition, when PUA was initially launched, OUI management determined that all PUA claims would be automatically backdated to March 1, 2020, as described in finding 2020-003. As a result, claimants could be paid for weeks in which they were still employed.

If employers are not charged correctly for unemployment claims, and these errors are not corrected timely, this could affect the accuracy of their contribution rate. This would result in employers overpaying or underpaying for their unemployment insurance coverage.

For benefits improperly paid with federal funds, the federal government could seek restitution from the Commonwealth.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-006: The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants (Continued)**

Per KRS 341.370(1) regarding benefits disqualification, states in relevant part:

“A worker shall be disqualified from receiving benefits for the duration of any period of unemployment with respect to which: (a) He has failed without good cause ... to accept suitable work when offered him...; or (b) He has been discharged for misconduct or dishonesty connected with his most recent work...; or (c) He has left his most recent suitable work ... without good cause attributable to the employment.”

Per UIPL 16-20 (C 1) PUA qualification:

“To be a “covered individual” under PUA, an individual must also self-certify that he or she is otherwise able to work and available for work, as provided under state law, except that the individual is unemployed, partially unemployed, unable to work or unavailable for work due to at least one of the following” COVID-19-related reasons.

KRS 341.270(4) regarding employer contributions, states that “contribution rates shall be determined upon the basis of an individual employer’s reserve ratio”

KRS 341.530(2) regarding charges to employer reserve accounts, states that “all regular benefits paid to an eligible worker in accordance with KRS 341.380...shall be charged against the reserve account...of his most recent employer.”

Per UIPL 03-20. The minimum weekly payment for PUA is \$176.

Recommendation

We recommend OUI restore and strengthen its internal controls to ensure benefits are only granted to eligible claimants. We also recommend OUI implement a process to identify and recapture benefit overpayments caused by the exceptions identified above to the extent required by state and federal law.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-006: The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants (Continued)**

Management's Response and Planned Corrective Action

Due to an executive branch reorganization, on August 16, 2020, the Kentucky Labor Cabinet officially took on the oversight of Kentucky Unemployment Insurance. As it moves forward with completing the reorganization, the Labor Cabinet will ensure foundational controls are in place to maintain a program dedicated to quality, integrity, and accuracy in order to promote and fulfill the core values of the program. Cabinet leadership and management is to and will be expected to seek guidance from experts, including: Kentucky OUI Staff, IT (Program Professionals), Regional Department of Labor (DOL) technical assistance staff, National Association of State Workforce Agencies (NASWA) other States, as well as Cabinet policymakers. This environment and culture is to place quality and learning at all levels and at all points during the Pandemic and for the future of the KY UI program.

During this review period COVID-19 both rapidly and greatly increased the number of unemployed Kentuckians. Like other states, Kentucky is working diligently and tirelessly to implement and administer all of the traditional UI programs along with the various pandemic assistance programs as quickly as is possible to do so effectively and effective manner. At all times, program integrity will remain the primary objective of the Cabinet and the Office of Unemployment Insurance.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-007: The Office of Unemployment Insurance Did Not Recognize Accounts Receivable For Federal Unemployment Compensation Funds On The Closing Package

As part of the audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR), the Office of Unemployment Insurance's (OUI) accounts receivable balance was reviewed by auditors. OUI failed to ensure the accuracy of its closing package as submitted to the Finance and Administrative Cabinet (FAC) for inclusion in the CAFR. The audit determined the accounts receivable balance submitted by OUI did not include all the receivables from other states or the federal government for benefits paid.

The current procedure used by OUI to determine accounts receivable from other states is to extract data from a report which reflects all the amounts owed to the Commonwealth from other states for unemployment benefits paid by the Commonwealth. This report was not produced in fiscal year 2020.

The OUI-Integrity Branch operations manual outlines the general procedure used to create their closing package input but it does not have alternative procedures to create an estimate of the state receivable amount when this report cannot be produced.

Regarding the receivable for federal funds, the delay in processing benefit payments due to the COVID-19 pandemic created a situation where a significant amount of federally-funded benefits were due to claimants but were not paid until after June 30, 2020. OUI was not aware that a receivable should be recorded for these payments.

The OUI-Integrity Branch operations manual outlines the general procedure used to create their closing package input but it does not address how to account for federal receivables. When notified of the need to report these receivables, OUI submitted a receivable amount of \$386,843,249. Auditor analysis revealed this amount understated the actual receivables amount by \$32,123,536, and OUI was notified accordingly. OUI then submitted a federal receivable amount that overstated the receivable by \$5,354,578. After the auditor notified OUI of the overstatement, OUI submitted a corrected federal receivable amount of \$418,966,785.

Because no receivable was initially recorded, OUI understated the federal receivable by \$418,966,785.

We cannot determine the misstatement related to the receivable from other states at this time, but based on prior year amounts, this misstatement is likely not material to the financial statements.

Generally Accepted Accounting Principles (GAAP) require revenues to be recorded in the period in which they are earned, not received, in accordance with the matching principle. GAAP also requires information reported in the financial statements to be comparable and consistent.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-007: The Office Of Unemployment Insurance Did Not Recognize Accounts Receivable For Federal Unemployment Compensation Funds On The Closing Package (Continued)**

FAC's closing package instructions state, "Reimbursement grants are funded after certain allowable expenditures/expenses have been made. Recognize revenue when the allowable expenditures/expenses have been incurred."

Recommendation

We recommend OUI modify its operating manual to require appropriate steps to quantify and verify accurate receivable amounts associated with funds owed to Kentucky from other states and the federal government. This is especially pertinent for the federal receivable due to continued financial support from the federal government for the unemployment insurance program.

Management's Response and Planned Corrective Action

The Office of Kentucky Unemployment Insurance management team will review their operations manual and ensure that procedures are adequate to verify the appropriate steps to quantify and verify accurate receivable amounts associated with funds owed to Kentucky from other states and the federal government. As noted in the recommendation for the federal receivable due to continued financial support from the federal government for the unemployment insurance program.

Going forward, UI will take into consideration revising the Closing Package instructions as recommend by the audit team. As known, COVID-19 both rapidly and greatly increased the number of unemployed Kentuckians. Like other states, Kentucky is working diligently and tirelessly to implement and administer all of the traditional UI programs along with the various pandemic assistance programs as quickly as is possible to do so effectively and effective manner. At all times, program integrity will remain the primary objective of the Cabinet and the Office of Unemployment Insurance.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-008: The Office Of Unemployment Insurance Paid Unemployment Benefits To Full-Time Employees Of The Commonwealth**

During the audit of the Office of Unemployment Insurance (OUI), traditional unemployment insurance along with new federal programs established in response to the COVID-19 pandemic were reviewed.

For traditional unemployment insurance, certain employers pay unemployment taxes to cover employees who become unemployed through no fault of their own. If a person is self-employed or works for an employer who does not pay into the Commonwealth's Unemployment Insurance Trust Fund, the person would not be eligible to receive traditional unemployment compensation for the loss of their job. Unemployed workers who are eligible for traditional unemployment insurance (UI) can receive a weekly benefit check if they meet certain criteria, such as being able and available for work. The maximum weekly benefit allowable is \$552.

Three significant new unemployment insurance programs were created via the CARES Act: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC).

PUA funds unemployment claims for claimants who historically have not been eligible for traditional unemployment compensation, such as self-employed individuals or "gig" workers. Because a significant portion of the Commonwealth's economy was shut down over a short period, and in order to pay claims as quickly as possible, the OUI determined that anyone who applied for PUA benefits, and was deemed eligible, would receive the minimum PUA of \$176 per week.

PEUC provides 13 weeks of additional unemployment benefits to eligible individuals whose traditional unemployment benefits have been exhausted.

FPUC provides an additional \$600 of benefits per week to all eligible claimants receiving at least \$1 of traditional unemployment compensation, PUA, or PEUC. For claimants receiving traditional unemployment compensation, this would amount to \$1,152 per week. For claimants receiving PUA, and initially receiving a minimum of \$176 per week, this would amount to \$776 per week.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-008: The Office Of Unemployment Insurance Paid Unemployment Benefits To Full-Time Employees Of The Commonwealth (Continued)

A sample of 37 Commonwealth employees who filed for and received traditional unemployment insurance, PUA, FPUC, and in some cases all three, was selected for review. That review determined that OUI paid unemployment benefits to full-time employees of the Commonwealth who retained their full-time positions, but may have lost income from outside employment. Twenty-three of the 37 employees sampled worked for the Department of Workforce Investment. The following issues were noted:

- Sixteen Commonwealth employees received both traditional UI and FPUC for the loss of part-time jobs while working full-time for the Commonwealth, resulting in a total overpayment of \$91,566 because these employees were not eligible for any unemployment compensation due to their wages earned from full time employment.
- One claimant, who had retired from Commonwealth employment and was working a different full-time job, should have received traditional UI but instead received PUA. The claim was backdated two weeks, resulting in the claimant being paid a total of \$1,560 for two weeks during which the claimant was still employed. The claimant then received the minimum weekly PUA amount instead of traditional UI for four additional weeks, resulting in an underpayment of \$1,488. The effect of the overpayment and underpayment, cumulatively, resulted in a total overpayment of \$72.
- Two Commonwealth employees initially received traditional UI, were then transitioned to PUA, and received FPUC for the loss of their part-time jobs while working full-time for the Commonwealth, resulting in an overpayment of \$5,484 because these employees were not eligible for any compensation due to their wages earned from full time employment.
- Two Commonwealth employees received both PUA and FPUC for the loss of part-time jobs while working full-time for the Commonwealth, resulting in an overpayment of \$5,666 because these employees were not eligible for any compensation due to their wages earned from full time employment.
- Two Commonwealth employees received traditional UI for the loss of part-time jobs while working full-time for the Commonwealth. One of these was an imposter claim that was only detected because it was brought to OUI's attention by the person for whom the claim had been inappropriately filed. OUI overpaid \$15,220 on these claims.
- One employee, who resigned from their Commonwealth job and lost their part-time job due to COVID-19, received traditional UI when they should have received PUA. The claimant's payment for traditional UI was \$73 per week. The PUA payment would have been \$176 per week, resulting in an underpayment of \$1,030.
- The net overpayment amount identified in the sample was \$116,978.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-008: The Office Of Unemployment Insurance Paid Unemployment Benefits To Full-Time Employees Of The Commonwealth (Continued)

In some cases, the benefits received from the loss of part-time work were greater in the aggregate than the wages the claimants had actually earned from that part-time employment.

- One full-time Commonwealth employee, who earned approximately \$1,100 from their part-time employment in the nine months prior to losing that employment, received \$2,640 in unemployment benefits in just four weeks.
- One full-time Commonwealth employee, who earned approximately \$1,900 from their part-time employment in the year prior to losing that employment, received \$2,088 in unemployment benefits in just two weeks.
- One full-time Commonwealth employee, who earned approximately \$10,798 from their part-time employment in the year prior to losing that employment, was paid a total of \$21,449 in unemployment benefits over 24 weeks.

The primary cause for these improper payments was that full-time employees of the Commonwealth filed for unemployment benefits for the loss of income from part-time employment. Most of these Commonwealth employees received benefits via traditional UI. When the full-time Commonwealth employees applied for benefits, the OUI wage reporting system assumed the claimants were eligible for traditional UI based on their Commonwealth wages. In effect, the system believed the claimants had lost their Commonwealth jobs rather than income from part-time employment.

Claimants are required to report any earnings during the week for which they are claiming benefits. 80% of those reported earnings is deducted from the weekly benefit amount prior to payment of the claim. In the case of the Commonwealth employees, the wages earned from their full time positions should have reduced the traditional UI and/or PUA benefit to \$0, and by extension, eliminated their additional FPUC benefit. However, the adoption of an “auto-pay” policy eliminated this system control and therefore weekly benefit amounts were not reduced based on earned wages reported.

OUI management made the decision to institute an auto-pay policy on March 23, 2020 for UI and PUA claims, as discussed in the finding 2020-003. The auto-pay policy was in place for two weeks for traditional UI and eight weeks for PUA. The auto-pay environment left the traditional UI and PUA claimants no method of reporting any wages earned for these weeks or to perform the self-certifications required by federal law. Because of auto-pay, OUI did not require earnings to be reported for the first two weeks of unemployment compensation claims for 18 of the 21 Commonwealth employees. For the two Commonwealth employees who received PUA, there was no ability to report wages or self-certify for up to eight weeks. If the Commonwealth employees had been able to file for their weekly benefits, and had reported the wages they had earned from their full-time Commonwealth employment, their benefit checks would have been reduced by 80% of their wages, and possibly reduced to \$0, disqualifying them from the \$600 FPUC payment as well. However, seven of the claimants did not report wages earned from full-time employment when the auto-pay period had ended despite having the ability to do so.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-008: The Office Of Unemployment Insurance Paid Unemployment Benefits To Full-Time Employees Of The Commonwealth (Continued)

When claimants apply for unemployment benefits, they certify that they accept the responsibility of reading the Rights and Responsibilities pamphlet, which clearly states each claimant is to report all wages earned. Knowingly failing to report wages earned while drawing benefits would be a criminal offense under KRS 341.990(5). However, as noted above, while the auto-pay policy was in effect, employees who filed claims had no opportunity to report their wages earned for these weeks or to perform the self-certifications required by federal law.

Section 303(a)(5) Social Security Act and section 3304(a)(4) Federal Unemployment Tax Act states that the money from a state's unemployment trust fund may only be used to pay unemployment compensation to claimants if they are in fact experiencing unemployment.

Per the United States Department of Labor's UI Agreement's Comparison of State UI Laws,

“A week of total unemployment is commonly defined as a week in which the individual performs no work and with which remuneration is not payable. In a few states, an individual is considered totally unemployed in a week even though certain small amounts of wages are earned. In most states, an individual is partially unemployed in a week of less than full-time work and earnings of less than the weekly benefit amount. In some states, an individual is partially unemployed in a week of less than full-time work when less than the weekly benefit amount plus an allowance is earned, either from odd-job earnings or from any source...”

KRS 341.390 states “There shall be deducted from the benefit rate determined for a worker...Eighty percent (80%), adjusted to the nearest multiple of one dollar (\$1), of the amount of wages earned by such worked during the week of unemployment with respect to which he claims benefits.”

Section 2102(a)(3)(A)(ii)(I) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) states that a covered individual is one who “provides certification that the individual is otherwise able to work and available for work within the meaning of applicable state law, except the individual is unemployed, partially unemployed, or unable or unavailable to work” due to one of the COVID-19 related reasons listed in that section.

Section 2102(b) Pandemic Unemployment Assistance of the CARES Act permits states to pay PUA to covered individuals who are “unemployed, partially unemployed, or unable to work for the weeks of such unemployment with respect to which the individual is not entitled to any other unemployment compensation.”

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-008: The Office Of Unemployment Insurance Paid Unemployment Benefits To Full-Time Employees Of The Commonwealth (Continued)**

Section 2102(d)(1)(A)(i) Pandemic Unemployment Assistance of the CARES Act states:

The assistance authorized under subsection (b) for a week of unemployment, partial unemployment, or inability to work shall be the weekly benefit amount authorized under the unemployment compensation law of the State where the covered individual was employed, except that the amount may not be less than the minimum weekly benefit amount described in section 625.6 of title 20, Code of Federal Regulations, or any successor thereto.

Unemployment Insurance Program Letter No. 15-20 Attachment I(D)(4)(a) Determining entitlement to FPUC states:

- i. States will calculate the weekly benefit amount, for the programs outlined above.
- ii. If the individual is eligible to receive at least one dollar (\$1) of underlying benefits for the claimed week, the claimant will receive the full \$600 FPUC.

Recommendation

The Office of Unemployment Insurance should review claims paid to fully-employed claimants to identify possible improper payments. If improper payments are identified, overpayment amounts should be established and, when required by law, recoveries of the funds should be made.

Key system controls are in place to reduce the risk of improper or fraudulent payments. Those controls should not be removed in the interest of expediency. If management wishes to issue legitimate benefits more expediently, those benefits should be paid without compromising program integrity.

Management's Response and Planned Corrective Action

The Office of Kentucky Unemployment Insurance management team are reviewing claims paid to fully-employed Commonwealth claimants to identify possible improper payments. If improper payments are identified, overpayment amounts are being established and, when required by State, and Federal law, recovery of the funds will be made.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-008: The Office of Unemployment Insurance Paid Unemployment Benefits to Full-Time Employees of the Commonwealth (Continued)**

Management's Response and Planned Corrective Action (Continued)

As known, COVID-19 both rapidly and greatly increased the number of unemployed Kentuckians. Like other states, Kentucky is working diligently and tirelessly to implement and administer all of the traditional UI programs along with the various pandemic assistance programs as quickly as is possible to do so effectively and in an effective manner without compromising program integrity. At all times, program integrity will remain the primary objective of the Labor Cabinet and the Kentucky Office of Unemployment Insurance. Key system controls are in place to reduce the risk of improper or fraudulent payments. Those controls will not be removed in the interest of expediency on any programs unless State, and Federal law provides the directives.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-009: The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of Its Closing Package**

This is a repeat finding as reported in the fiscal year 2019 Statewide Single Audit of Kentucky (SSWAK) Volume I as finding 2019-003.

As part of the audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR), the Office of Unemployment Insurance's (OUI) accounts payable balance was reviewed. OUI failed to ensure the accuracy of its closing package as submitted to the Finance and Administration Cabinet (FAC) for inclusion in the CAFR. The accounts payable balance submitted by OUI included two expenses incurred and paid in fiscal year 2020 (FY20) totaling \$96,651,020. In addition, the initial accounts payable balance did not include expenses which were incurred but not paid in FY20 which resulted in understating the accounts payable by \$271,113,055. The net result of these two errors was an understatement of accounts payable by \$174,462,035.

The current procedure used by OUI to determine accounts payable is to create a database to produce the data needed.

The OUI Integrity Branch operations manual outlines the general procedure used to compile its closing package but it does not have procedures to verify the appropriateness of the date range, the completeness of the database, or the appropriateness of the query used to determine accounts payable amounts.

Inadequate review of information used to produce the accounts payable balance increases the risk of inaccurate financial reporting. In this case, accounts payable was understated by \$174,462,035.

Generally Accepted Accounting Principles (GAAP) require expenses to be recorded in the period in which they are incurred but not paid 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, includes liabilities incurred for goods received or services performed as of June 30 for which payment has not been made. Amounts reported on this form should include only amounts that will be paid with 'new year' funds." These instructions also state that in the absence of actual invoices for payments owed, "...the department should estimate the liability to the best of their ability."

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-009: The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of Its Closing Package (Continued)**

Recommendation

We recommend the OUI Integrity Branch review their operations manual and ensure that procedures are adequate to verify the appropriateness of the accounts payable date range, the completeness of the accounts payable database, and the appropriateness of the query used to determine accounts payable amounts.

In light of ongoing federal financial support for unemployment insurance during the COVID-19 pandemic, we also recommend that OUI consider changing their closing package compilation process to account for these new funding sources.

Management's Response and Planned Corrective Action

The Office of Kentucky Unemployment Insurance management team will review their operations manual and ensure that procedures are adequate to verify the appropriateness of the accounts payable date range, the completeness of the accounts payable database, and the appropriateness of the query used to determine accounts payable amounts.

Without having gone through a Pandemic before, UI was not aware the backlog of outstanding claims needed to be taken into account for the Closing Package Accounts Payable amount. UI staff based the Accounts Payable amounts on the information provided by COT because the information could be supported by reports ran. With knowing how many claims still need adjudicating, UI would only be able to give an estimate of how many of the claims could possibly be payable without any support.

Going forward, UI will take into consideration revising the Closing Package instructions as recommend by the audit team. As known, COVID-19 both rapidly and greatly increased the number of unemployed Kentuckians. Like other states, Kentucky is working diligently and tirelessly to implement and administer all of the traditional UI programs along with the various pandemic assistance programs as quickly as is possible to do so effectively and effective manner. At all times, program integrity will remain the primary objective of the Cabinet and the Office of Unemployment Insurance.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-010: The Office Of Unemployment Insurance Could Not Provide A Reasonable Or Reliable Estimate Of Remaining Fiscal Year 2020 Claims**

The Office of Unemployment Insurance (OUI) did not develop a reasonable and reliable estimate of unpaid claims to be reported in the accounts payable balance in the unemployment compensation fund. While OUI developed an estimate of unpaid claims, that estimate evolved materially based on auditor inquiry and was contradicted by additional evidence.

Initially, OUI was unaware of the need to produce a reasonable and reliable estimate. Auditors reviewing the fiscal year (FY) 2020 closing package brought the issue to the attention of OUI due to the publicly reported backlog of FY20 claims that had yet to be addressed by October 2020. The need for an estimate of unpaid FY20 claims was discussed with the agency on October 20, 2020.

Initially, OUI estimated that there were \$731,753,750 in yet-to-be-paid claims that had not been included in the benefit payable balance. However, limited supporting documentation was provided to support this estimate. There was no distinction between the types of unemployment claims included; therefore, it was impossible to determine if all elements of benefits yet-to-be-paid were captured. Because of this, auditors determined that this estimate did not include Pandemic Unemployment Assistance (PUA) or the Federal Pandemic Unemployment Compensation (FPUC) portion of the claims, significantly understating the estimate. When just the FPUC amount was included, this estimate increased to \$2,082,683,750. Auditors requested OUI revisit this estimate to ensure the correct timeframe was captured, all categories of benefit payments were included, key assumptions - such as percentage of claim weeks likely to be paid - were accurate, and that no duplication of claim weeks was occurring.

Auditors then received a third estimate of \$144,543,020. Significant changes in assumptions included the timeframe of the underlying data, estimates of claim weeks to be paid, a lower average weekly benefit amount, and focusing primarily on claims with which there were problems. Auditors asked additional questions about certain inputs that did not have supporting documentation, particularly the percentage of claim weeks likely to be paid, and the estimate was decreased to \$88,949,551. This final estimate included more supporting documentation and appeared to be based on actual experience during FY20.

Shortly after evaluating the \$88,949,551 estimate, however, claims information was provided which indicated that estimate was inadequate. That information indicated the amount of FY20 claims paid through December 2, 2020 exceeded the total of both the known benefit payable and the additional \$88,949,551 estimate. Based on this information, the estimate was deemed unreliable.

Auditors determined that OUI was still receiving, and in some cases finding, new FY20 claims even into October 2020. This inhibited OUI's ability to accurately measure and estimate the benefits payable balance.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-010: The Office Of Unemployment Insurance Could Not Provide A Reasonable Or Reliable Estimate Of Remaining Fiscal Year 2020 Claims (Continued)**

Additionally, as documented in other findings, audit procedures detected instances of improper payments primarily due to the implementation of the auto-pay policy. Because of the likely significant number of improper payments during the auto-pay period, it brings into question OUI's ability to estimate the validity of unprocessed claims for inclusion in an estimate of additional FY20 claims to be paid.

The OUI-Integrity Branch operations manual outlines the general procedure used to compile its closing package, but it does not address the need or the methodology needed to develop a reliable and verifiable estimate when evidence indicates there are material payables not covered by the current scope of the manual.

In addition, OUI did not have adequate internal controls over their data compilation and aggregation process to generate a reasonable and reliable estimate.

As a result, there is not sufficient and appropriate audit evidence to provide reasonable assurance that the benefit payable balance is complete and accurate. Based on the magnitude of each revision to the estimate, the evidence indicates that this unrecorded estimate is material to the financial statements. However, this issue appears to be confined to the benefit payable and claims expense balances and therefore does not indicate a pervasive effect on the financial statements.

In accordance with the matching principle, Generally Accepted Accounting Principles (GAAP) require expenses to be recorded in the period in which they are incurred but not paid.

FAC's closing package instructions state, "[a]ccounts payable, as applied to the Commonwealth of Kentucky's GAAP reporting system, includes liabilities incurred for goods received or services performed as of June 30 for which payment has not been made. Amounts reported on this form should include only amounts that will be paid with 'new year' funds." These instructions also state that in the absence of actual invoices for payments owed, "the department should estimate the liability to the best of their ability."

The AICPA Codification of Statements on Auditing Standards Section 705 (AU-C 705.08) states that the auditor should express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Sound internal controls dictate that data used to formulate accounting estimates be adequately reviewed prior to finalizing an estimate.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-010: The Office Of Unemployment Insurance Could Not Provide A Reasonable Or Reliable Estimate Of Remaining Fiscal Year 2020 Claims (Continued)****Recommendation**

We recommend the OUI- Integrity Branch review their operations manual and ensure that procedures are adequate to develop reasonable and verifiable estimates for any material benefit payable amounts that cannot be captured by their normal process. OUI should develop procedures that establish internal controls over the determination of the need for estimates and the formulation of those estimates.

Management's Response and Planned Corrective Action

We appreciate the opportunity to respond. The information provided was questioned and those reviewing asked for more or varied information. Each time we worked to meet those requests. We do have verifiable, appropriate data that provides reasonable assurance on our programs. Never, before has UI had to provide a "Potential Accounts Payable" estimate for their Closing Package. This new requirement was unexpected however, we tried to work with the APA guidance to provide what was needed.

The Office of Kentucky Unemployment Insurance management team will review our operations manual and ensure that all procedures would strengthen reasonable and verifiable estimates for any material benefit payable amounts that cannot be captured by their normal process. OUI will review and develop any procedures that would strengthen our internal controls over the determination of the need for estimates and the formulation of those estimates.

Going forward, UI will take into consideration revising the Closing Package instructions as recommend by the audit team. As known, COVID-19 both rapidly and greatly increased the number of unemployed Kentuckians. Like other states, Kentucky is working diligently and tirelessly to implement and administer all the traditional UI programs along with the various pandemic assistance programs as quickly as is possible to do so effectively and effective manner. At all times, program integrity will remain the primary objective of the Cabinet and the Office of Unemployment Insurance.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-011: The Commonwealth Office Of Technology Did Not Maintain Sufficient Logical Security Controls For The LINUX Servers

While informal logical security procedures exist for granting and revoking access to the enhanced Management Administrative and Reporting System (eMARS) Linux production servers, the Commonwealth Office of Technology (COT) did not consistently apply the established procedures. As a result, numerous users had unauthorized access to these servers during FY 2020. For FY 2020, one database server and three application servers were reviewed.

A COT-F181 form is required to be submitted within HEAT, the COT service tracking application, to grant or remove user access to the Linux servers. Testing performed revealed the following exceptions:

- Eight accounts did not have the required documentation on file. One account belongs to a Finance Cabinet employee that has access to one of the three application servers. These accounts belong to Finance, COT and vendors.
- Four of the eight user accounts with access to one of the four Linux servers were determined to have retired or separated employment from the Commonwealth and no longer required this access. All four individuals worked for Finance. Upon notification, agency management submitted the required documentation to have this access removed. At the time of testing, these accounts had not been used for more than a year.
- Services running on the four eMARS Linux/Unix servers are approved and installed by the COT Application Team. A service is a program that runs in the background. While this is a function the Application Team should perform, the eMARS business owner, or the Finance Cabinet, is not asked to review or provide approval of services running on these servers.
- Six user accounts associated with Linux/Unix Administrators had a maximum password age of 99999 days established as opposed to the required 60 days. The maximum password age is the number of days after which the user will have to change their password. In regards to the three eMARS application servers, 22 accounts were found to have an incorrect maximum password age setting.

For security purposes, detailed information concerning the specific user accounts and profiles contributing to these findings is being intentionally omitted from this comment. However, these issues were thoroughly documented and communicated to the appropriate agency personnel.

COT has not implemented a formal policy or process governing access to the eMARS Linux/Unix servers. While a form and HEAT ticket are required, COT has not taken the initiative to actively monitor and maintain the access granted to these servers. Also, COT has not partnered with the eMARS business owner to ensure only authorized services are running on these servers.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-011: The Commonwealth Office Of Technology Did Not Maintain Sufficient Logical Security Controls For The LINUX Servers (Continued)

The Enterprise Identity Management (EIM) is COT's system designed to standardize account creation, modification, and removal for users in the Commonwealth. EIM primarily manages Active Directory, Email, Skype, and the home folder on behalf of the Commonwealth's users. EIM does not remove system-level access. However, agencies may be under the impression that EIM is automatically removing the user's access to the eMARS Linux production servers when they transfer jobs or terminate employment with the Commonwealth.

Failure to implement and consistently apply logical security controls could lead to lack of understanding by management and users that could result in failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources. When a user retains access to a system after transferring or exiting the agency, the opportunity increases for unauthorized modification to financial information, destruction of assets, interruption of services, or inappropriate or illegal use of system resources.

The CIO-072 IT Access Control and User Access Management Policy states, "The Commonwealth Office of Technology (COT) and agencies shall restrict access to resources based on the principles of need-to-know and least privilege to ensure only authorized users have access to Commonwealth of Kentucky resources and data."

Per ENT-201 Enterprise Security Controls and Best Practices, agencies and service providers shall:

7. Notify account managers when:
 - a. accounts are no longer required,
 - b. users are terminated or transferred,
 - c. individual information system usage or need-to-know changes, and
 - d. users will not be accessing their respective account for greater than 30 days.

COT-156 Password Management Process states that passwords must "Be changed at least every 60 days for all elevated privileged accounts, and every 90 days for all non-privileged accounts." Only services required for the operation of the operating system should be enabled. Unnecessary services not authorized or approved by the eMARS business owner should be disabled.

Recommendation

We recommend COT create written logical security procedures related to the Linux servers to ensure only authorized access is granted. Once finalized, the procedures should be distributed to applicable COT and agency staff to ensure all staff is aware of the requirements for gaining and removing access to servers administered by COT. Within these procedures, COT should ensure agency staff are aware that EIM does not automatically remove a user's access to the Linux production servers upon exiting the agency.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-011: The Commonwealth Office Of Technology Did Not Maintain Sufficient Logical Security Controls For The LINUX Servers (Continued)**

Recommendation (Continued)

In addition, we recommend COT develop listings of users with access to Linux servers administered by COT on a periodic basis and provide these to the agency owners for review. COT should request that they review the access rights within the listing and provide confirmation of necessity for all accounts. Any accounts that are no longer needed should be reported to COT with a request for the access to be removed. This type of communication to applicable agencies will help ensure the procedures in place are followed consistently, only necessary and approved accounts remain active, and user accounts are revoked timely, as necessary.

Furthermore, we recommend COT review all password settings established on the four eMARS Linux/Unix servers to ensure they comply with enterprise policies.

Finally, we recommend COT provide a list of all services running on the four eMARS Linux/Unix servers to the Finance Cabinet for review and approval. This process should be performed anytime a new service is installed on the servers. Approvals provided by the Finance Cabinet should be maintained for audit purposes.

Management's Response and Planned Corrective Action

The Commonwealth acknowledges the gap identified by the APA during the recent security assessment of the eMARs Linux environment. COT will formalize written procedures to govern Linux Systems.

- COT will create security procedures to ensure only authorized access is granted to Linux Systems. The procedures will be distributed to appropriate audiences for compliance.*
- COT will conduct a quarterly review of Linux access rights and services installed on servers with Agencies.*
- COT will perform a yearly review of Linux account management policies to ensure standards are applied consistently.*

COT is taking immediate action with an anticipated completion date of January 1, 2021.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-012: The Commonwealth Office Of Technology Does Not Comply With The Risk Assessment Enterprise Policy

This is a repeat finding as reported in the fiscal year 2019 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2019-002.

The Commonwealth Office of Technology (COT) does not comply with enterprise policy CIO-093, Risk Assessment Policy, since they have not developed a System Security Plan (SSP) for the core infrastructure systems – Windows, Unix/Linux, Network, Directory Services, and Database infrastructure.

CIO-093, which became effective of November 29, 2016 and was most recently revised on January 10, 2019, establishes controls related to risk assessments, which are conducted to identify risks in a particular system, assess the risk, and take steps to reduce the risk to an acceptable level. This policy requires agencies to identify and categorize the information systems within their control by assigning a Security Categorization (SC). The designated SC should be documented within an SSP for the information system. In addition, each agency must conduct a risk assessment annually, which includes the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system.

The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-30, Guide for Conducting Risk Assessments, defines Risk Assessment as the process of identifying, estimating, and prioritizing risks to organizational operations (including mission, functions, image, and reputation), organizational assets, individuals, other organizations, and the Nation, resulting from the operation of an information system. NIST SP 800-30 defines the SSP as a formal document that provides an overview of the security requirements for an information system and describes the security controls in place or planned for meeting those requirements.

COT's corrective action plan for FY 2019 stated "To formalize the platform documentation strategy, the Commonwealth Office of Technology will develop a system security plan for each platform. Through this process COT will review and assess infrastructure risks. COT will maintain and review the SSPs for the platforms annually and will make them available to the system owners upon request as they conduct their system level reviews." The estimated completion date for this corrective action plan was March 31, 2020. However, due to the COVID pandemic, COT was unable to complete this project.

Information systems are subject to serious threats that can have adverse effects on organizational operations and assets, individuals, and other organizations by exploiting both known and unknown vulnerabilities to compromise the confidentiality, integrity, or availability of the information being processed, stored, or transmitted by those systems. Management must understand their responsibilities and should be held accountable for managing information security risk; that is, the risk associated with the operation and use of information systems that support the missions and business functions of their organizations.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-012: The Commonwealth Office Of Technology Does Not Comply With The Risk Assessment Enterprise Policy (Continued)**

CIO-093, Risk Assessment Policy, states:

Agencies shall categorize the information systems within their control in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Agencies shall assign a Security Categorization (SC) and document the security categorization results, including supporting rationale, in the SSP for the information system...

Each agency shall conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits. Agencies shall document the risk assessment results, review risk assessment results at least annually, disseminate the risk assessment results to the appropriate personnel, and update the risk assessment at least every three years or whenever there are significant changes to the information system or environment of operation...

Agencies shall request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported...

Agencies shall analyze the vulnerability scan reports and results from the security control assessments and remediate legitimate vulnerabilities in accordance with an organizational assessment of risk...

Recommendation

We recommend COT comply with CIO-093 by developing SSPs for the core infrastructure systems maintained by COT – Windows, Unix/Linux, Network, Directory Services, and Databases. All SSPs developed should be updated in a timely manner. Finally, all documentation developed to comply with CIO-093 should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2020-012: The Commonwealth Office Of Technology Does Not Comply With The Risk Assessment Enterprise Policy (Continued)**

Management's Response and Planned Corrective Action

The Commonwealth acknowledges the gap identified by the APA during the recent Risk Assessment. The gap identified indicates that COT is missing formalized system security plans for the Core Infrastructure Teams (Windows, UNIX/Linux, Network, Directory Services and Database). The COVID-19 pandemic has temporarily forced a shift in focus for COT to supporting a remote workforce while maintaining security of the infrastructure. COT remains focused and committed to ensuring that these system security plans are created and maintained to reduce the overall risk exposure to the Enterprise. Core Infrastructure Teams (Windows, UNIX/Linux, Network, Directory Services and Database) are actively engaged in the creation of the SSPs. COT is taking a structured approach to these documents with an anticipated completion of June 30, 2021.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-013: The Commonwealth Office Of Technology Does Not Have A Comprehensive Listing Of Machines**

The Commonwealth Office of Technology (COT) does not have a complete list of all machines they manage and maintain for the Commonwealth. COT also does not have a list designating which agencies are consolidated and non-consolidated.

The Auditor Of Public Accounts (APA) initiated a project to identify all systems being used throughout the Commonwealth. COT was contacted for this information for consolidated agencies. COT provided a listing of agency systems and associated information; however, they acknowledged the information was not complete or accurate. This was confirmed with numerous agencies; however, agencies were concerned about the incorrect and lack of information held by COT.

While COT has documented information technology contacts per agency on their website, they have not identified which agencies are consolidated and non-consolidated.

COT implemented ServiceNow in June 2020, which will serve as the primary Configuration Management Database (CMDB) to house application and server information. However, a complete systems listing could not be provided prior to the end of FY 2020.

Inquiry revealed COT made multiple attempts in the past to gather system information through self-reporting from the agencies; however, the data provided was found to be incomplete and open to interpretation. Also, due to budget reductions, COT is not currently staffed to support this type of data gathering.

COT has not documented in a formal listing which agencies are consolidated and which are non-consolidated.

Agency servers may not be properly secured if COT is unaware of them. Services may be improperly charged to agencies if COT does not differentiate between consolidated and non-consolidated agencies.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-013: The Commonwealth Office Of Technology Does Not Have A Comprehensive Listing Of Machines (Continued)

The Executive Order (EO) 2012-880 transferred the responsibility for and ownership of Information Technology (IT) infrastructure from specific individual agencies to COT. 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.

In order to properly manage the IT infrastructure, COT should be aware of all machines and services running on the Commonwealth's network.

Recommendation

We recommend COT ensure ServiceNow is fully implemented and used to track all machines they manage on behalf of the Commonwealth. COT should work with the all state agencies to determine which machines house critical or sensitive information and ensure these are properly secured. We also recommend COT designate which agencies are consolidated on their contact listing.

Management's Response and Planned Corrective Action

The Commonwealth acknowledges the gap identified by the APA during the recent audit. The gap speaks to identification of COT hardware and application assets for consolidated agencies. The discovery of COT's hardware and application inventory will be implemented as a two phased approach for all consolidated agencies. Non- consolidated agency hardware or applications is not currently tracked by COT.

Phase 1 – COT plans an implementation of new software to help track all hardware and software\applications installed on the state network. COT is in the process of implementing the following components of ServiceNow. The implementation and discovery could potentially take up to 12 months for completion.

- *Hardware Asset Management database (HAM) – tracks hardware assets for consolidated agencies. COT will also maintain a need to rely on the various application teams to provide data points and inventory which we may not be reaching via our Discovery Tools.*

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-013: The Commonwealth Office Of Technology Does Not Have A Comprehensive Listing Of Machines (Continued)**

Management's Response and Planned Corrective Action (Continued)

- *Implementation of IT Operations Management (ITOM) and an Configuration Management Database (CMDB) – ITOM implements discovery tools that will scan COT's existing network. This will enable COT to track the status of individual IT infrastructure components, (Configuration Items (CI)) and correlate their relationships and allow COT to manage data center change management and ticketing requests, providing the ability to account for moves, adds or changes. The CMDB is in the process of being populated and is a fluid database. COT will also maintain a need to rely on the various application teams to provide data points and inventory which we may not be reaching via our Discovery Tools.*

- *ITOM Visibility – COT is currently evaluating with the intent to purchase this component from ServiceNow. This product will allow us to discover and identify the various CI's associated with specific applications and the hardware configuration which supports the application.*

COT anticipates completion of Phase 1 by the end of Q4 2021

Phase 2 – COT will work with the agencies to evaluate what ServiceNow has discovered and continue to build on the application database on items that were not previously discovered. COT has established a data classification standard and developed a Business Impact Assessment. These tools are available to agencies to assist with the classification of systems and the assignment of security controls.

COT anticipates completion of Phase 1 by the end of Q4 2022

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-014: The Department Of Revenue Does Not Comply With Certain Enterprise Policies Related To System Security

Our fiscal year (FY) 2020 audit revealed the Department of Revenue (Revenue) does not comply with certain state enterprise policies related to information system security as it pertains to the Compliance and Receivables System (CARS), the Accounts Receipts Posting System (ARPS), and the Enterprise Electronic Payment System (EEPS).

Revenue does not comply with the Commonwealth Office of Technology (COT) enterprise policy, CIO-093 Risk Assessment Policy. CIO-093 requires agencies to identify and categorize the information systems within their control by assigning a Security Categorization (SC), which should be documented in a System Security Plan (SSP) for the information system. CIO-093 also requires agencies to annually conduct a risk assessment, which includes the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system. Inquiry with Revenue staff revealed they do not have SSPs due to the number of systems they have.

Also, Revenue does not comply with the COT enterprise policy, CIO-106 Enterprise Privacy Policy. CIO-106 requires agencies to conduct a Privacy Impact Assessment (PIA), which can be used to assess individuals' privacy risk associated with the information processed by their critical systems. Inquiry with Revenue staff revealed they do not have a PIA for any of their systems.

Revenue has not created SSPs and PIAs due to the number of systems they have. They plan to develop these documents for the Department Of Revenue Integrated System (DORIS) once in production. DORIS is expected to replace all legacy Revenue applications.

Information systems are subject to serious threats that can have adverse effects on organizational operations and assets, individuals, and other organizations by exploiting both known and unknown vulnerabilities to compromise the confidentiality, integrity, or availability of the information being processed, stored, or transmitted by those systems. Management must understand their responsibilities and should be held accountable for managing information security risk; that is, the risk associated with the operation and use of information systems that support the missions and business functions of their organizations.

NIST Special Publication 800-30, Guide for Conducting Risk Assessments, defines Risk Assessment as the process of identifying, estimating, and prioritizing risks to organizational operations (including mission, functions, image, and reputation), organizational assets, individuals, other organizations, and the Nation, resulting from the operation of an information system. This guide defines an SSP as a formal document that provides an overview of the security requirements for an information system and describes the security controls in place or planned for meeting those requirements.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-014: The Department Of Revenue Does Not Comply With Certain Enterprise Policies Related To System Security (Continued)**

Enterprise policy CIO-093, Risk Assessment Policy, states:

Agencies shall categorize the information systems within their control in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Agencies shall assign a Security Categorization (SC) and document the security categorization results, including supporting rationale, in the SSP for the information system...

Each agency shall conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits. Agencies shall document the risk assessment results, review risk assessment results at least annually, disseminate the risk assessment results to the appropriate personnel, and update the risk assessment at least every three years or whenever there are significant changes to the information system or environment of operation...

Agencies shall request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported...

Agencies shall analyze the vulnerability scan reports and results from the security control assessments and remediate legitimate vulnerabilities in accordance with an organizational assessment of risk...

Enterprise policy CIO-106, Enterprise Privacy Policy, states:

AR-2 Privacy Impact and Risk Assessment: The agency must:

- a. Document and implement a privacy risk management process that assesses privacy risk to individuals resulting from the collection, sharing, storing, transmitting, use, and disposal of PI; and
- b. Conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk in accordance with applicable law, policy, or any existing agency policies and procedures.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-014: The Department Of Revenue Does Not Comply With Certain Enterprise Policies Related To System Security (Continued)

Recommendation

We recommend Revenue ensure compliance with enterprise policies CIO-093 and CIO-106. To comply with these policies, Revenue should assess the privacy impact associated with CARS, EEPS, and ARP by completing the PIA documentation developed by COT. Revenue should also develop an SSP that assigns a Security Categorization for CARS, EEPS, and ARP and conduct and document a risk assessment for these applications. The risk assessment should be repeated at least annually and be updated in a timely manner. Once the documentation has been developed, it should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth. We recommend Revenue apply the same recommendations to DORIS once in production.

Management's Response and Planned Corrective Action

*The Department of Revenue (DOR) acknowledges the above finding. Currently, the Department is in development of a new integrated tax system named **doris** (DOR integrated system) to replace the legacy systems covered by this finding. Consequently the Department does not have the staff or resources to complete these requirements for the current systems, due to the over 100 disparate applications and databases. There are compensating controls in place for the mentioned findings. The Department treats each system as sensitive and protects the data as such. The firewall, VPN, servers, databases, etc. are all secured by strict standards to ensure data is protected. In addition, the Department was one of the first agencies within the Commonwealth to move to multi-factor authentication for remote access further securing our environment and accessing these systems.*

*DOR continues to take the security of data and adherence to policies very seriously. To that end, the Department is working on creating a System Security Plan (SSP) along with Department-specific Risk Assessment and Privacy policies that will be centered on the **doris** project. The plan and policies will cover all aspects of CIO-093 and CIO-106. The Department included in its master agreement for the **doris** project a requirement for a risk assessment. Additionally, as part of the SSP planning, we will complete a security categorization effort as required.*

Concerning the Privacy Impact Assessment for critical systems, DOR received access to the COT-developed electronic Privacy Impact Assessment application on 11/30/2020. We intend to complete the PIA for the three critical systems (Compliance and Receivables System (CARS), Accounts Receipts Posting System (ARPS), and Enterprise Electronic Payment System (EEPS)) identified for this audit. Our anticipated completion date for those three PIAs is January 29, 2021.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-015: The Finance And Administration Cabinet Does Not Comply With Certain Enterprise Policies Related To System Security**

This is a repeat finding as reported in the fiscal year 2019 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2019-008.

The fiscal year 2020 audit of the Finance and Administration Cabinet (Finance) revealed Finance does not comply with certain Commonwealth enterprise policies related to information system security as it pertains to the state's accounting system, enhanced Management Administrative and Reporting System (eMARS).

Finance is required to follow enterprise policies established by the Office of the Chief Information Officer (CIO) of the Commonwealth Office of Technology (COT) and the specific policy in relation to risk assessment. CIO-093, Risk Assessment Policy, requires agencies to identify and categorize the information systems within their control by assigning a Security Categorization (SC), which should be documented in a System Security Plan (SSP) for the information system. CIO-093 also requires agencies to annually conduct a risk assessment, which includes the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system. Inquiry with Finance staff revealed an SSP has not been developed and a risk assessment has not performed for eMARS.

Finance is also required to follow the specific enterprise policy in relation to accountability, audit, and risk management for eMARS. CIO-106 requires agencies conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk. Inquiry with Finance staff revealed this document has not been developed for eMARS.

Finance staff indicated they would conduct a Risk Assessment in accordance to CIO-093 for the eMARS Application. However, Finance has not developed a PIA at the time of this audit.

The PIA is a tool developed by COT which state agencies can use to evaluate privacy in information systems and provide assurance that privacy issues have been identified and adequately addressed. The objective of the PIA is to identify the risks and potential effects of collecting, maintaining, and disseminating personally identifiable information (PII) and to examine and evaluate alternative processes for handling information to mitigate potential privacy risks. Without a PIA, privacy risks associated with eMARS may not be identified. In addition, lack of a PIA and risk assessment could damage the agency's reputation and credibility.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-015: The Finance And Administration Cabinet Does Not Comply With Certain Enterprise Policies Related To System Security (Continued)**

Enterprise policies must be followed by all agencies to manage risks and protect privacy of individuals. CIO-093, Risk Assessment Policy, states:

Agencies shall categorize the information systems within their control in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Agencies shall assign a Security Categorization (SC) and document the security categorization results, including supporting rationale, in the SSP for the information system...

Each agency shall conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits. Agencies shall document the risk assessment results, review risk assessment results at least annually, disseminate the risk assessment results to the appropriate personnel, and update the risk assessment at least every three years or whenever there are significant changes to the information system or environment of operation...

Agencies shall request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported...

Agencies shall analyze the vulnerability scan reports and results from the security control assessments and remediate legitimate vulnerabilities in accordance with an organizational assessment of risk...

CIO-106, Enterprise Privacy Policy, specifically section AR-2 Privacy Impact and Risk Assessment, states that agencies must:

Document and implement a privacy risk management process that assesses privacy risk to individuals resulting from the collection, sharing, storing, transmitting, use, and disposal of PI; and Conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk in accordance with applicable law, policy, or any existing agency policies and procedures.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-015: The Finance And Administration Cabinet Does Not Comply With Certain Enterprise Policies Related To System Security (Continued)**

Recommendation

We recommend Finance ensure compliance with all enterprise policies by:

- Developing an SSP that assigns a Security Categorization for eMARS that complies with CIO-093.
- Conducting and documenting a risk assessment for eMARS to comply with CIO-106. For compliance with CIO-106, the risk assessment should be repeated at least annually and be updated in a timely manner. In addition, once developed, the SSP should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth.
- Fully assess the privacy impact associated with eMARS by completing the PIA documentation developed by COT.

Management's Response and Planned Corrective Action

At this time no System Security Plan has been implemented or created for the eMARS Application. Due to staff restrictions and the state of emergency we have not been able to allocate resources to develop the Privacy Impact Assessments. The Office of the Controller will work to identify any vulnerability and complete the assessments no later than 3/30/2021.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-016: The Finance And Administration Cabinet Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information**

The fiscal year (FY) 2020 audit revealed weaknesses in the Finance and Administration Cabinet's (Finance) procedures regarding the security of confidential and sensitive data. Finance is required to follow Commonwealth Office of Technology (COT) enterprise policies and standards, several of which address data protection. Some types of data are not adequately protected from potentially intentional or unintentional access or misuse of information.

Compensating controls are in place to help strengthen the data security environment where possible. In addition, Finance created a secured, shared directory that stores sensitive and confidential information which only ten Finance employees can access. One of these employees had unnecessary access to the shared folder for approximately four months. Finance identified and corrected this error after providing a list of all employees with access to the auditor.

Detailed information that could possibly increase the risk that agency security is compromised was intentionally omitted from this comment.

Although Finance indicated plans were developed to identify and protect sensitive and confidential data, these plans were not fully completed during FY 2020. Finance did not ensure only authorized users had access to sensitive information.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors.

Per KRS 42.726(1)(p), COT is responsible for developing "a coordinated security framework and model governance structure relating to the privacy and confidentiality of personal information collected and stored by state executive branch agencies." Numerous policies, procedures and standards have been developed by COT that address data protection. Data classified as confidential and internal must be protected from unauthorized users or exposure to the general public.

With respect to access control, CIO-092 states:

Only authorized individuals are permitted access to media containing State information. In addition to controlling physical access, user authentication will provide audit access information. Any access must also comply with any applicable regulatory requirements. Non-digital media should be hidden from the view of individuals that do not have authorization to access the information contained on or within the media.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2020-016: The Finance And Administration Cabinet Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information (Continued)**

Recommendation

We recommend Finance:

- Sufficiently protect data classified as confidential or internal in compliance with COT enterprise policies and standards by completing current work plans to enhance security over certain confidential and internal data.
- Develop a process to periodically review access granted to Finance employees to ensure the shared directory is properly secured.

Management's Response and Planned Corrective Action

A quarterly audit of the [system name omitted] has been implemented to review all individuals who have access to this share drive. The eMARS System Administrator will request a list of users quarterly to determine if anyone has been given access to this share folder. The most recent request was completed on 11/30/2020.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-017: The Finance and Administration Cabinet Did Not Maintain Adequate Internal Controls Over The Calculation of Compensated Absences

Compensated absences represent the Commonwealth's liability for accumulated unpaid vacation and compensatory time accruals with the associated expense of each recorded during the period earned. The amounts reported for the compensated absences liability and costs are calculated as of and for the fiscal year ended June 30th by the Finance and Administration Cabinet (FAC) as part of the compilation of the Commonwealth's Comprehensive Annual Financial Report (CAFR). During this calculation of yearend balances, an error was made and the compensated absences liability and corresponding expenditure initially recorded for the Department of Parks were overstated by \$2,960,959. Upon inquiry, both the expenditure and liability were corrected.

Internal controls over the review of the calculation of compensated absences for the entries entered into the accounting system were inadequate in ensuring the proper balances were accurately recorded. Calculating compensated absences is a manual process prone to error if incorrect data is utilized or referenced. The amounts initially entered into the accounting system regarding compensated absences and the associated personnel expenses were incorrect. The Commonwealth's CAFR is derived from these accounting records, and without subsequent corrections made, incorrect amounts would have carried over into the final financial statements for the Department of Parks.

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 and inclusive of all activities and transactions reflected in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and/or misstatements.

Recommendation

We recommend FAC review the internal controls related to the calculation of the compensated absences liability and ensure amounts initially reported are accurate.

Management's Response and Planned Corrective Action

We agree with the auditors' comments. An adjusting entry was made and the statements accurately reflect the compensated absences liability and associated costs in the financial statements. FAC will review and modify the internal controls related to the calculation of the compensated absences liability in order to ensure amounts initially reported are accurate.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-018: The Kentucky Department Of Agriculture Failed To Accurately Report Non-Cash Expenditures For The Food Distribution Cluster On The Schedule Of Expenditures Of Federal Awards**

Each state agency of the Commonwealth provides information to the Finance and Administration Cabinet's Office of the Controller to assist in the compilation of the Commonwealth's Schedule of Expenditures of Federal Awards (SEFA). Initially, the Kentucky Department of Agriculture (KDA) reported \$29,662,003 in non-cash expenditures for programs within the Food Distribution Cluster for fiscal year (FY) 2020. Upon further inquiry, KDA determined they had made an error, and subsequently submitted revised information to report only \$22,225,316 of non-cash expenditures for the Food Distribution Cluster for FY 2020. This resulted in a decrease of \$7,436,687, or 25%, in total non-cash expenditures from the originally submitted financial information for the Food Distribution Cluster.

KDA indicated they had originally used reports that were not in final status to support non-cash expenditures and that reports were overstated because they had run their reports based on a calendar year instead of the Commonwealth's fiscal year which runs from July 1st to June 30th. Some of the originally reported data was related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act which did not have activity until FY 2021.

The SEFA is a required component of the Statewide Single Audit of Kentucky which is uploaded to the federal government. Inaccurate reporting on the SEFA could negatively impact operational decisions by management or provide incorrect information to interested external parties reviewing and relying on the data. Errors on the SEFA could lead to additional noncompliance as information reported is utilized as part of the major program determination mandated by federal requirements.

2 CFR 200.510(b) requires the SEFA be prepared covering the period of the financial statements and include the total federal awards expended as determined in accordance with 2 CFR 200.502. Reported financial information should be supported, complete, and accurate as validated through an established internal control structure.

Recommendation

We recommend KDA implement adequate internal controls to confirm and validate information provided for the preparation of the SEFA prior to submission. KDA should consult with the Office of the Controller as deemed necessary to ensure compliance with reporting requirements.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-018: The Kentucky Department Of Agriculture Failed To Accurately Report Non-Cash Expenditures For The Food Distribution Cluster On The Schedule Of Expenditures Of Federal Awards (Continued)**

Management's Response and Planned Corrective Action

KDA does accept the following recommendation that the auditors have suggested and below is our response to the finding.

KDA will ensure that the correct date range is run to complete the required SEFA reporting time frame. Food Assistance Branch Manager will run the Order Status Report from July 1st to June 30th out of the Web Based Supply Chain Management computer system, instead of the Entitlement Summary Report that is based on the calendar year for The Emergency Feeding Assistance Program and other programs funding of non-cash expenditures. The Food Assistance Branch Manager will submit supporting documents along with the SEFA to the Director of Budget & Fiscal Management for KDA to verify the correct time frame being reported.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-019: The Kentucky Department Of Education Did Not Close Out Grants On The Schedule Of Expenditures Of Federal Awards

The Kentucky Department of Education (KDE) submits a Schedule of Expenditures of Federal Awards (SEFA) worksheet, which contains the beginning and ending balances for each federal grant by Catalog of Federal Domestic Assistance (CFDA) number, to the Finance and Administration Cabinet (FAC) in an Excel spreadsheet. The SEFA worksheet reports financial activity and ending balances by program period code for each CFDA. The ending balances for each program period code for all CFDAs on a reimbursement basis should have a zero or negative balance indicating expenditures were greater than or equal to receipts. There were 22 federal grants that had net positive balances indicating receipts were greater than expenditures as of June 30, 2020. While KDE has not identified the status of the availability of excess receipts for all grants with excess receipts, some of which go back multiple years, KDE is currently working with FAC to evaluate and correct the federal program balances.

KDE did not close out grants on the SEFA worksheet and determine if funds were due back to the federal government.

In total, 22 federal grants on the SEFA worksheet have a cumulative net positive balance of \$5,921,125. Federal fund receipts not needed to reimburse allowable expenditures would be due back to the federal government. This could potentially create an accounts payable on the financial statements. The individual CFDAs may have grant periods with both positive and negative amounts to arrive at the net total. Without knowing the specific cause for the excess receipts for each CFDAs' grant period, an accurate accounts payable amount cannot be determined.

FAC provides guidance on preparing the SEFA worksheet, and the training instructions on FAC's website include a Frequently Asked Question section. The response to the last question on the rule for removing old grant periods states:

There is not a specific rule for how long an old grant period should stay on the SEFA. If the grant period were closed, with a zero ending balance it would be recommended to remove that line from the SEFA 2. If the grant period has an ending balance, it is recommended leaving on the SEFA 2. Only when the Department/Cabinet decides it will not be able to recoup any outstanding balances should the line item be removed. Additionally, the grant period should not be removed if cumulative revenues exceeds cumulative expenditures. When this is the case, the Department should issue a refund and pay the grantor back the excess funds plus any additional interest that may have been earned.

Recommendation

We recommend KDE:

- Evaluate cash balances for closed grants which are unobligated.
- Consult with its federal grantor to determine if any repayment is necessary.
- Work with the FAC to ensure proper recording of any changes.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-019: The Kentucky Department Of Education Did Not Close Out Grants On The Schedule Of Expenditures Of Federal Awards (Continued)**

Management's Response and Planned Corrective Action

The Kentucky Department of Education (KDE), Division of Budgets and Financial Management (DBFM) will review internal policies to minimize the time between the manual draw and disbursement of payments. If necessary, we will update our internal controls and properly manage grant activities to ensure compliance with cash management and grant closeout requirements in accordance Federal regulations.

If KDE DBFM encounters an issue during the 90 liquidation period, a Late Liquidation request in accordance with Department of Education policy will be submitted to the federal awarding agency.

DBFM will coordinate with Controller's Office and request the required federal accounts which did not roll from eMARS 3.10 to 3.11 in July 2019 be manually uploaded to eMARS 3.11. We do not know the complexity of the process, but until process is complete, DBFM is unable to address concerns relating to these expired accounts. Providing the upload to eMARS 3.11 occurs, DBFM staff will reconcile the federal program receipts to expenditures which will reflect on the corresponding KDE SEFA. However, we want to make you aware that ending balances on KDE SEFA may not always reflect a \$0 due to the current activity for both expired and active accounts. Because the state fiscal year crosses federal fiscal years and ongoing audit activity, a \$0 balance is not always the case.

DBFM staff will closely monitor the federal allotments to ensure sufficient funding for each quarter. If DBFM staff anticipate an allotment adjustment is needed for future quarters, an allotment adjust request will be provided to the Office of the State Budget Director (OSBD) by the required deadlines set forth by (OSBD). This is an ongoing process.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-020: The Kentucky Transportation Cabinet Did Not Verify The Accuracy Of Salt On Hand In Their Inventory System When Inventory Counts Occurred**

In order to accurately track the value and existence of assets, the Kentucky Transportation Cabinet (KYTC) performs an annual inventory in all districts. The results are submitted to KYTC's central office in Frankfort for review. In order to prepare for inclement weather around the Commonwealth, KYTC stores road salt in each of the twelve districts. To ensure the districts remain well supplied, a central salt supply is maintained in Louisville. While reviewing the inventory procedures for FY 2020, auditors determined that documentation of site visits to the Louisville salt repository was not maintained which is a deviation from KYTC's current procedures for annual inventory counts. Based on inquiry with KYTC, personnel monitor the Louisville salt repository via intermittent site visits throughout the year to inspect for issues or problems at the site but no documentation is maintained to support the balance of salt as reported in KYTC's inventory tracking system. The current recorded value for the Louisville salt repository is \$7,009,909.

The cause of this issue is that KYTC does not have an established process and does not document visits to the central salt repository.

If the salt on hand is not monitored, the statewide accounting system could value salt incorrectly. Also, without an established monitoring process, KYTC personnel may not have accurate information when assessing the need for additional salt purchases.

Proper internal controls dictate that the existence of assets reported in the Commonwealth's CAFR be verified via adequate processes which can be confirmed via documentation.

Recommendation

We recommend KYTC integrate the monitoring of the central salt repository into its existing asset count process and document the results.

Management's Response and Planned Corrective Action

[Name Withheld] has developed a materials inventory check-off document that will be placed in the Office Trailer that the Cabinet has placed at the inventory site. [Name Withheld] will make quarterly inspections of the Sodium Chloride (Rock Salt) that is stored in "The Cave" under a lease agreement with Louisville Underground to assure that the stockpile quantity is accurate. In the event that [Name Withheld] is unavailable to make a scheduled inspection at this facility, another member of the Roadside Environment staff will be assigned to make the quarterly inspection. The inspection document will be readily available for review at any time and will be made available for auditors at the time of any annual inventory inspection. This action will be effective as of today, Friday, October 30, 2020.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-021: The Kentucky Transportation Cabinet Did Not Accurately Submit The Annual Financial Report To The Finance And Administration Cabinet

The Kentucky Transportation Cabinet (KYTC) submits an Annual Financial Report (AFR) to the Finance and Administration Cabinet (FAC) for purposes of compiling the Commonwealth's Comprehensive Annual Financial Report (CAFR). In fiscal year 2020, KYTC submitted an inaccurate AFR which resulted in revenues, deferred inflows of resources, and accounts receivable being misstated in the transportation fund in the Commonwealth's CAFR. When brought to KYTC's attention, KYTC corrected the errors prior to the publishing of the Commonwealth's CAFR.

Based on procedures recommended by the APA prior to 2004, KYTC submitted two versions of the AFR. The first version provided historic accounts receivable balances, and the second version provided data intended to assist KYTC in classifying receipts between amounts collected during July and amounts collected after July 31. Because of employee turnover, the purpose of the second version of the AFR had not been documented and in fiscal year 2020 all of the receipts from the second version of the AFR were recorded as having been collected after July 31 when that was not the case.

Because of the error in recording the timing of receipts on the AFR, revenue was understated by \$9,761,278, deferred inflows of resources was overstated by \$9,547,151, and accounts receivable was understated by \$214,127.

GASB 65 Paragraph 9 states:

Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements.

Furthermore, GASB 65 Paragraph 30 states:

...that revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

The AFR 32 instructions require KYTC to accurately report revenue earned but not received as of the fiscal year end. The form also requires KYTC to accurately report any of the receipts earned, but received within 30 days of the fiscal year end separately.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2020-021: The Kentucky Transportation Cabinet (KYTC) Did Not Accurately Submit the Annual Financial Report to the Finance And Administration Cabinet (Continued)**

Recommendation

We recommend KYTC revisit and revise its AFR compilation procedures to ensure that receipts are recorded in the proper period so that deferred inflows of resources and revenues are accurately presented in the transportation fund in the Commonwealth's CAFR.

Management's Response and Planned Corrective Action

DMC has created a Standard Operating Procedure (SOP) to outline the Annual FY Closing Process. All data for revenue earned by 6/30 will be collected through data reports for all accounts receivables. DMC will also collect from eMARS the revenue for Period 1 and calculate the percentage of revenue that will be collected during Period 2 and 3. The CAFR Package will be submitted to KYTC Accounts and Audits for review. KYTC Accounts will submit finalized CAFR to Finance Cabinet.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-022: The Office Of Unemployment Insurance Does Not Comply With Certain Federal And State Enterprise Policies Related To System Security

Our fiscal year (FY) 2020 audit revealed the Office of Unemployment Insurance (OUI) did not comply with certain federal and state enterprise policies related to information system security as it pertains to the Kentucky Electronic Workplace for Employment Services (KEWES) system.

OUI does not comply with the Commonwealth Office of Technology (COT) enterprise policy, CIO-093 Risk Assessment Policy. CIO-093 requires agencies to identify and categorize the information systems within their control by assigning a Security Categorization (SC), which should be documented in a System Security Plan (SSP) for the information system. CIO-093 also requires agencies to annually conduct a risk assessment, which includes the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system. Inquiry of OUI staff revealed they had not developed an SSP or performed a risk assessment for KEWES.

Also, OUI does not comply with the COT enterprise policy, CIO-106 Enterprise Privacy Policy. CIO-106 provides a structured set of privacy controls which are based on National Institute of Standards and Technology (NIST) best practices. These controls were designed to assist agencies' compliance with applicable state and federal laws, policies and procedures pertaining to privacy. Inquiry of OUI staff revealed they had not conducted a Privacy Impact Assessment (PIA) for KEWES, which is required by CIO-106.

Furthermore, OUI did not comply with vulnerability assessment standards established by the Internal Revenue Service (IRS) as it pertains to KEWES. IRS Publication 1075: Tax Information Security Guidelines For Federal, State and Local Agencies require state agencies processing federal tax information to perform, at a minimum, monthly vulnerability scans. Agency staff confirmed COT randomly selects servers to scan and KEWES is not scanned every single month. Only two monthly scans were completed for KEWES during FY 2020, specifically in May 2020 and June 2020. The vulnerability scan completed in May was considered an informal or "surface" assessment, the results of which were not documented. A detailed assessment was not performed due to the number of unemployment insurance claims being processed, recent security breaches that had occurred, and the significant changes made to KEWES as a result of COVID-19. Furthermore, the last time an in-depth vulnerability scan was conducted for KEWES was June 14, 2018, which was performed by an external vendor.

OUI did not do their due diligence and create an SSP or PIA in order to comply with CIO-093 and CIO-106.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-022: The Office Of Unemployment Insurance Does Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)

Given the circumstances brought on by the COVID-19 pandemic, auditors believe a thorough, in-depth, and documented vulnerability assessment should have been performed. OUI stated that a formal scan was not completed due to the volume of UI claimants as well as the work of staff to continue processing these claims. Agency discussions were held for establishing a formalized follow up vulnerability assessment. However, these discussions were not documented and the efforts had not entered the planning phase prior to transitioning the UI program to the Department of Labor (DOL).

Information systems are subject to serious threats that can have adverse effects on organizational operations and assets, individuals, and other organizations by exploiting both known and unknown vulnerabilities to compromise the confidentiality, integrity, or availability of the information being processed, stored, or transmitted by those systems. Management must understand their responsibilities and should be held accountable for managing information security risk; that is, the risk associated with the operation and use of information systems that support the missions and business functions of their organizations.

Vulnerability scanning is an inspection of the potential points of exploit on a computer or network to identify security holes. The absence of a strong vulnerability assessment program increases the likelihood that security vulnerabilities exist undetected on agency computer systems. This increases the risk that an intruder could exploit security vulnerabilities to compromise computer resources.

NIST Special Publication 800-30, Guide for Conducting Risk Assessments, defines Risk Assessment as the process of identifying, estimating, and prioritizing risks to organizational operations (including mission, functions, image, and reputation), organizational assets, individuals, other organizations, and the Nation, resulting from the operation of an information system. This guide defines an SSP as a formal document that provides an overview of the security requirements for an information system and describes the security controls in place or planned for meeting those requirements.

Enterprise policy CIO-093, Risk Assessment Policy, states:

Agencies shall categorize the information systems within their control in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Agencies shall assign a Security Categorization (SC) and document the security categorization results, including supporting rationale, in the SSP for the information system...

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-022: The Office Of Unemployment Insurance Does Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)**

Each agency shall conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits. Agencies shall document the risk assessment results, review risk assessment results at least annually, disseminate the risk assessment results to the appropriate personnel, and update the risk assessment at least every three years or whenever there are significant changes to the information system or environment of operation...

Agencies shall request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported...

Agencies shall analyze the vulnerability scan reports and results from the security control assessments and remediate legitimate vulnerabilities in accordance with an organizational assessment of risk...

Enterprise policy CIO-106, Enterprise Privacy Policy, states:

AR-2 Privacy Impact and Risk Assessment: The agency must:

- c. Document and implement a privacy risk management process that assesses privacy risk to individuals resulting from the collection, sharing, storing, transmitting, use, and disposal of PI; and
- d. Conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk in accordance with applicable law, policy, or any existing agency policies and procedures.

Per IRS Publication 1075 Tax Information Security Guidelines For Federal, State, and Local Agencies, specifically section 9.3.14.3 Vulnerability Scanning (RA-5), the agency must “a. Scan for vulnerabilities in the information system and hosted applications at a minimum of monthly for all systems and when new vulnerabilities potentially affecting the system/applications are identified and reported ...”

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-022: The Office Of Unemployment Insurance Does Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)

In addition, NIST Special Publication 800-53 Revision 4: Security and Privacy Controls for Federal Information Systems and Organizations, section RA-5 Vulnerability Scanning, an organization:

- a. Scans for vulnerabilities in the information system and hosted applications [Assignment: organization-defined frequency and/or randomly in accordance with organization-defined process] and when new vulnerabilities potentially affecting the system/applications are identified and reported;
- b. Employs vulnerability scanning tools and techniques that facilitate interoperability among tools and automate parts of the vulnerability management process by using standards for:
 1. Enumerating platforms, software flaws, and improper configurations;
 2. Formatting checklists and test procedures; and
 3. Measuring vulnerability impact;
- c. Analyzes vulnerability scan reports and results from security control assessments;
- d. Remediates legitimate vulnerabilities [Assignment: organization-defined response times] in accordance with an organizational assessment of risk; and
- e. Shares information obtained from the vulnerability scanning process and security control assessments with [Assignment: organization-defined personnel or roles] to help eliminate similar vulnerabilities in other information systems (i.e., systemic weaknesses or deficiencies).

Recommendation

We recommend OUI ensure compliance with enterprise policies CIO-093 and CIO-106. To comply with these policies, OUI should assess the privacy impact associated with KEWES by completing the PIA documentation developed by COT. OUI should also develop a SSP that assigns a Security Categorization for KEWES and conduct and document a risk assessment for KEWES. The risk assessment should be repeated at least annually and be updated in a timely manner. Once the documentation has been developed, it should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth.

We also recommend OUI assist the DOL and COT with performing monthly, detailed vulnerability assessments against KEWES production servers. OUI should work with DOL and COT to analyze vulnerability scan reports and remediate any weaknesses identified. All vulnerability scan reports, including remediation taken, should be documented and maintained for audit purposes.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-022: The Office Of Unemployment Insurance Does Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)****Management's Response and Planned Corrective Action**

The Unemployment Insurance a social insurance program, offers the first economic line of defense against effects of unemployment. The core mission is to provide payments directly to eligible unemployed workers, it ensures for at least a significant proportion of the necessities of life most importantly food, shelter and clothing. UI is a partial wage replacement when the claimant as a need and is eligible.

To qualify for benefits, jobless workers must demonstrate workforce attachment, must be able to work and available for work, and generally must meet other eligibility requirements while they seek work. UC benefits are financed almost wholly through an employer tax that is based upon their experience in the unemployment compensation system; that is, the length of time they have operated in the state, the amount of unemployment tax paid, the amount of unemployment benefits paid to their workers, and the employer's industry. The regular state UC program is a federal-state partnership based upon Federal law but administered by state employees under state law. Because of this structure, the program is unique among the country's social insurance programs. All states are to follow the core mission and principles when administering their states programs.

In early March 2020 COVID19 Pandemic had this Country and this state quickly moving to assist those in great need. The timeline on a state and federal level was adjusting and reacting to something not seen since the inception of UI program of the Federal-State Unemployment Compensation (UC) program created by the Social Security Act of 1935. All items and areas mentioned in the finding occurred within this fast paced hitting time.

On August 16, 2020 the Kentucky Labor Cabinet officially took on the oversight of the Kentucky Unemployment Insurance. It is the goal of this Cabinet to make sure foundational controls are in place that establishes and ensures quality, integrity, openness, honesty and a daily ethical behavior that always keeps the core value of the program in focus. The daily management is to seek guidance from experts that are but not excluding: Kentucky UI Staff, IT (Program Professionals), Regional Department of Labor technical assistance staff, National Association of State Workforce, Other States as well Cabinet Leadership. This environment and culture is to place quality and learning at all levels and at all points during this Pandemic and for the future of the KY UI program.

The PIA documentation developed by COT will be completed within 60 days of this audit. A SSP that assigns a Security Categorization for KEWES will also be completed within 60 days of this audit.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2020-022: The Office Of Unemployment Insurance Does Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)**

Management's Response and Planned Corrective Action (Continued)

The current development team will work with COT ASAP to conduct and complete a risk assessment during off hours of the current KEWES system. Currently this has been scheduled for every two years, with the last one conducted in 2018; however, the schedule will be updated to be annually.

The IT Director in Labor will establish monthly vulnerability scans with COT and a process for reviewing the assessments.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-023: The Office Of Unemployment Insurance Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act**

The fiscal year (FY) 2020 audit of the Office of Unemployment Insurance (OUI) revealed instances where the reporting and notification requirements outlined in Kentucky Revised Statutes (KRS) 61.931-61.934, relating to Personal Information Security and Breach Investigation Procedures and Practices, were not followed. In addition, the Commonwealth Office of Technology (COT) Enterprise Policy CIO-090: Information Security Incident Response Policy and the Education and Workforce Development Cabinet (EWDC) Policy EDU-00: Security Incident Handling Policy were not adhered to.

When an agency determines a security breach has occurred, or is notified of a security breach, a breach notification form should be completed. Additionally, the agency must notify officers specifically outlined in the procedures as soon as possible, but within 72 hours. For three incidents reported in FY 2020, OUI did not notify these specific officers within the required 72 hour timeframe. On April 23, 2020, and April 24, 2020, security breaches occurred where an Unemployment Insurance (UI) claimant reported the ability to view other claimant's uploaded documents including Social Security Number Cards, Birth Certificates, and Driver's Licenses. OUI determined both instances to be a breach in Personally Identifiable Information (PII) as defined in KRS 61.931(a). The Auditor of Public Accounts (APA), which is one of the officers that must be notified within 72 hours, was not notified for at least one month after the incidents were reported to OUI.

OUI reported that these breaches occurred due to a technical issue with the online UI Portal. To resolve the issue, OUI worked with COT and took the UI Portal offline for a brief period until system changes could be implemented to prevent claimants from viewing uploaded documents. Also, OUI patched the software to permanently correct the problem. While OUI claimed to have permanently fixed the issue, a third breach involving similar circumstances as the previous two breaches occurred on May 6, 2020. Notification of this breach was not made to the APA until approximately two months later. OUI originally determined that this incident was not a breach that involved PII; the notification made to the APA was done so out of an abundance of caution. However, documentation provided by OUI showed that the UI claimant saw another claimant's health information. As such, OUI should have followed the breach procedures established and reported it within 72 hours of identification.

Discussions with agency staff revealed that if the functionality to view uploaded documentation was turned back on today, there was no guarantee that another breach would not happen again. As such, a permanent fix has not been implemented to date. OUI stated that a project is currently underway to upgrade the system, which will enhance security, which should permanently fix the issues surrounding the uploading of documents. This project is anticipated to be completed by December 31, 2020.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-023: The Office Of Unemployment Insurance Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)**

OUI management did not follow the procedures outlined within the Personal Information Security and Breach Investigation Procedures and Practices Act, CIO-090 Information Security Incident Response Policy, and EDU-00 Security Incident Handling Policy when a potential data breach was identified. OUI did not make the appropriate notifications to the state officers until after the media learned of the breaches.

Failure to follow information security incident reporting procedures is a noncompliance with the Personal Information Security and Breach Investigation Procedures and Practices Act. This increases the risk that PII or other sensitive or confidential data could be accessed or made available to the general public without the appropriate remediation and notification of the incident.

The COT Enterprise Policy pertaining to security incidents, CIO-090 Information Security Incident Response Policy, states, “The Commonwealth Office of Technology (COT) and affected agencies shall adhere to KRS 61.931 through KRS 61.934 and all federal, state, and local laws as well as COT policies to ensure appropriate reporting and remediation of a security breach.”

The EWDC policy pertaining to security incidents, EDU-00 Security Incident Handling Policy, states:

When EDU identifies or suspects a potential security incident or a breach or loss of personally identifiable information, including Social Security Administration provided information (SSPI) and Federally Transmitted Information (FTI), EDU OTS Security are required to contact the Commonwealth Service Desk (CommonwealthServiceDesk@ky.gov or (502) 564-7576) to report the incident. EDU OTS Security is required to notify the SSA contact with in one (1) hour and the IRS contact within twenty-four (24) hours of a potential Security Breach of their respective information.

All other incidents shall be handled in accordance with KRS 61.931-61.933, Personal Information Security and Breach Investigations and are to be reported within seventy-two (72) hours.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-023: The Office Of Unemployment Insurance Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)**

The Personal Information Security and Breach Investigation Procedures and Practices Act is found within KRS 61.931 to KRS 61.934. KRS 61.933, which became effective January 1, 2015, states:

Any agency that collects, maintains, or stores personal information that determines or is notified of a security breach relating to personal information collected, maintained, or stored by the agency or by a nonaffiliated third party on behalf of the agency shall as soon as possible, but within seventy-two (72) hours of determination or notification of the security breach:

1. Notify the commissioner of the Kentucky State Police, the Auditor of Public Accounts, and the Attorney General. In addition, an agency shall notify the secretary of the Finance and Administration Cabinet or his or her designee if an agency is an organizational unit of the executive branch of state government; notify the commissioner of the Department for Local Government if the agency is a unit of government listed in KRS 61.931(1)(b) or (c) that is not an organizational unit of the executive branch of state government; notify the commissioner of the Kentucky Department of Education if the agency is a public school district listed in KRS 61.931(1)(d); and notify the president of the Council on Postsecondary Education if the agency is an educational entity listed under KRS 61.931(1)(e). Notification shall be in writing on a form developed by the Commonwealth Office of Technology.

After the investigation is complete, the agency must notify the same parties whether the misuse of personal information has occurred.

KRS 61.933 also requires the notification to be in writing and on a form designated by COT. The Enterprise policy references the Finance Form FAC-001 Determined Breach Notification Form listed in 200 KAR 1:015. According to the regulation, agencies should complete the form for a suspected or determined data breach. Additionally, this form is to be used to notify the respective agencies within 48 hours of the conclusion of the investigation.

Recommendation

We recommend OUI management ensure all steps within the security breach process are consistently completed. Specifically, if a potential breach is identified, designated OUI staff should be contacted immediately. COT should then be notified, as well as the Kentucky State Police, APA, Attorney General, and Finance Secretary within 72 hours. After the incident has been investigated, OUI should inform these same agencies whether the misuse of personal information has occurred. If a breach has occurred, OUI should then follow the procedures regarding notifying individuals impacted.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-023: The Office Of Unemployment Insurance Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)**

Recommendation (Continued)

All OUI staff should be made aware of the agency's internal procedures related to the requirements of the EDU-00, CIO-090, and associated statutes. OUI staff should be knowledgeable concerning the appropriate actions involved with the identification, reporting, and notification of potential security incidents.

Finally, OUI should work to ensure the system upgrade is completed to permanently fix the document upload functionality as soon as possible.

Management's Response and Planned Corrective Action

The Unemployment Insurance a social insurance program, offers the first economic line of defense against effects of unemployment. The core mission is to provide payments directly to eligible unemployed workers, it ensures for at least a significant proportion of the necessities of life most importantly food, shelter and clothing. UI is a partial wage replacement when the claimant as a need and is eligible.

To qualify for benefits, jobless workers must demonstrate workforce attachment, must be able to work and available for work, and generally must meet other eligibility requirements while they seek work. UC benefits are financed almost wholly through an employer tax that is based upon their experience in the unemployment compensation system; that is, the length of time they have operated in the state, the amount of unemployment tax paid, the amount of unemployment benefits paid to their workers, and the employer's industry. The regular state UC program is a federal-state partnership based upon Federal law but administered by state employees under state law. Because of this structure, the program is unique among the country's social insurance programs. All states are to follow the core mission and principles when administering their states programs.

In early March 2020 COVID19 Pandemic had this Country and this state quickly moving to assist those in great need. The timeline on a state and federal level was adjusting and reacting to something not seen since the inception of UI program of the Federal-State Unemployment Compensation (UC) program created by the Social Security Act of 1935. All items and areas mentioned in the finding occurred within this fast paced hitting time.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-023: The Office Of Unemployment Insurance Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)**

Management's Response and Planned Corrective Action (Continued)

On August 16, 2020 the Kentucky Labor Cabinet officially took on the oversight of the Kentucky Unemployment Insurance. It is the goal of this Cabinet to make sure foundational controls are in place that establishes and ensures quality, integrity, openness, honesty and a daily ethical behavior that always keeps the core value of the program in focus. The daily management is to seek guidance from experts that are but not excluding: Kentucky UI Staff, IT (Program Professionals), Regional Department of Labor technical assistance staff, National Association of State Workforce, Other States as well Cabinet Leadership. This environment and culture is to place quality and learning at all levels and at all points during this Pandemic and for the future of the KY UI program.

The EWDC/OTS security breach procedures have been shared with Labor staff, specifically the IT Director in Labor. The Labor Cabinet has identified staff to transition the steps that OTS security staff are currently responsible for within the procedure.

The staff with OUI will be given the procedures with directions on the immediate steps required in the event of a breach. The Office of Unemployment Insurance Executive Director will be responsible for communicating that with staff.

All of this work/changes should be completed within 60 days of the audit by the Labor Cabinet staff.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-024: The Office of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace for Employment Services System Was Properly Secured

The Fiscal Year 2020 audit of the Office of Unemployment Insurance (OUI) revealed while formal procedures are in place over the granting and modifying of access to the Kentucky Electronic Workplace for Employment Services (KEWES) system, these procedures were not adhered to.

For KEWES access, a KEWES Access Request Form is required. KEWES is a web-based program that obtains its data from the mainframe. Most users who access KEWES also have mainframe access; however, mainframe access is not required. Therefore, the entire Request for RACF Mainframe Clearance Form may be completed, or just the RACF and KEWES sections, as necessary. The form is submitted by the user's supervisor or manager to the OET Computer Access Request Mailbox. The OET authorized requestor approves the request and submits it to the EDU Security Requests Mailbox. The Administrative and Program Support Branch within the Office of Technology Services (OTS) is responsible for creating KEWES user IDs. Once the KEWES user ID has been established, OTS creates the account and grants the necessary access to the application. Once access is granted to the system, KEWES users have access to information including Social Security Administration Provided Information (SSPI) and Internal Revenue Service/Federal Tax Information (IRS/FTI).

To ensure the controls were in place and working as intended, testing was performed which revealed eight out of 16 sampled new users, or 50% of the population, did not have a completed KEWES Access Request Form on file to support their access to KEWES. Review of the documentation provided in support of the sampled users revealed that, due to the COVID-19 Pandemic, OUI granted access to KEWES without new users completing the appropriate documents beforehand. OUI staff indicated that they would obtain the necessary forms after access had already been granted.

Additionally, four users were granted access to the SADMIN account, which is the Siebel Administrator account. OUI staff confirmed the SADMIN Account is used for application administration tasks and is not supposed to be used for account updates unless there are times where it has to be used to reset passwords for accounts. Even though the four users were told to not use the SADMIN Account for changing user access, one of the sampled accounts was updated by the SADMIN account.

Further noted, KEWES has not been configured to require periodic changes of passwords. As such, KEWES is not compliant with the Commonwealth Office of Technology (COT) policy, COT-156 Password Management Process, which requires passwords be changed every 90 days for non-privileged accounts.

OTS did not follow the formal policy governing access to KEWES during FY 2020. While it was stated that due to the COVID-19 Pandemic, new users could be granted access without the proper paperwork being completed first, this change in procedures was not documented within the Computer Access Request Procedures.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2020-024: The Office of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace for Employment Services System Was Properly Secured (Continued)**

OUI has not configured KEWES to require periodic password changes by users. Due to a recent compliance review by the SSA, OUI is working to make this system change; however, it had not been completed prior to the end of FY 2020.

Failure to consistently apply logical security controls could lead to lack of understanding by management and users that could result in failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources.

The Computer Access Request Procedures state:

When requesting access to Unemployment Insurance programs in Kynet or KEWES, the manager or supervisor must send the RACF form electronically via encrypted email to the Computer Access Request Mailbox...” Also, “When requesting ‘additional’ computer access or Revisions to current access for staff, the manager or supervisor must send an email to the Computer Access Request Mailbox...”

In addition, COT-156 Password Management Process states that passwords shall “be changed at least every 60 days for all elevated privileged accounts, and every 90 days for all non-privileged accounts.”

Furthermore, COT’s ENT-201: Enterprise Security Controls and Best Practices, specifically section AC-2 – Account Management, states that agencies and service providers shall:

8. Establish processes and procedures for users to obtain access to required information systems on an emergency basis. These emergency procedures shall:
 - a. allow access to live systems and associated data only to identified and authorized personnel,
 - b. document all emergency actions in detail,
 - c. report emergency action to management and review action in a timely manner, and
 - d. disable emergency accounts within 24 hours of returning to normal business operations

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-024: The Office of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace for Employment Services System Was Properly Secured (Continued)****Recommendation**

We recommend OUI continuously follow the procedures documented in the Computer Access Request Procedures. Also, we recommend OUI update the Computer Access Request Procedures to address the granting of access during emergencies that will allow OUI better control over access to KEWES, along with other systems. In addition, we recommend OUI perform a periodic review of accounts with access to KEWES to ensure they are required. The results of this review, including actions taken, should be documented and retained for audit purposes. We also recommend access to the SADMIN User account be limited.

Additionally, we recommend OUI ensure system changes are made to require periodic password changes within KEWES.

Management's Response and Planned Corrective Action

The Unemployment Insurance a social insurance program, offers the first economic line of defense against effects of unemployment. The core mission is to provide payments directly to eligible unemployed workers, it ensures for at least a significant proportion of the necessities of life most importantly food, shelter and clothing. UI is a partial wage replacement when the claimant as a need and is eligible.

To qualify for benefits, jobless workers must demonstrate workforce attachment, must be able to work and available for work, and generally must meet other eligibility requirements while they seek work. UC benefits are financed almost wholly through an employer tax that is based upon their experience in the unemployment compensation system; that is, the length of time they have operated in the state, the amount of unemployment tax paid, the amount of unemployment benefits paid to their workers, and the employer's industry. The regular state UC program is a federal-state partnership based upon Federal law but administered by state employees under state law. Because of this structure, the program is unique among the country's social insurance programs. All states are to follow the core mission and principles when administering their states programs.

In early March 2020 COVID19 Pandemic had this Country and this state quickly moving to assist those in great need. The timeline on a state and federal level was adjusting and reacting to something not seen since the inception of UI program of the Federal-State Unemployment Compensation (UC) program created by the Social Security Act of 1935. All items and areas mentioned in the finding occurred within this fast paced hitting time.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-024: The Office of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace for Employment Services System Was Properly Secured (Continued)****Management's Response and Planned Corrective Action (Continued)**

On August 16, 2020 the Kentucky Labor Cabinet officially took on the oversight of the Kentucky Unemployment Insurance. It is the goal of this Cabinet to make sure foundational controls are in place that establishes and ensures quality, integrity, openness, honesty and a daily ethical behavior that always keeps the core value of the program in focus. The daily management is to seek guidance from experts that are but not excluding: Kentucky UI Staff, IT (Program Professionals), Regional Department of Labor technical assistance staff, National Association of State Workforce, Other States as well Cabinet Leadership. This environment and culture is to place quality and learning at all levels and at all points during this Pandemic and for the future of the KY UI program.

With the transition of the Office of Unemployment Insurance to the Labor Cabinet, the IT Director in Labor and his staff will be developing a revised version of the Computer Access Request Procedures, with new contacts included. The revision should include a process for periodic review of staff's access. Part of those procedures will include granting access in emergency situations, such as COVID-19 when immediate access was needed for so many.

The SADMIN account will be reviewed by the IT Director in Labor to determine who has access and defining the need, removing it where it is no longer needed.

The system is being revised to force a password change. This change will be implemented by the Labor Cabinet's IT team.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-025: The Office Of Unemployment Insurance Did Not Fully And Appropriately Separate CARES Act Expenditures From Non-CARES Act Expenditures On The Schedule Of Expenditures Of Federal Awards**

The Office of Unemployment Insurance (OUI) provides funds for unemployed workers affected by COVID-19, as prescribed by federally established programs and guidelines. These Coronavirus Aid, Relief, and Economic Security (CARES) Act expenditures are paid using federal money, and should be reported in the Commonwealth's Schedule of Expenditures of Federal Awards (SEFA) under the applicable Catalog of Federal Domestic Assistance (CFDA) number. Based on direction from the United States Office of Management and Budget, these CARES Act expenditures must be identified separately from the non-CARES Act expenditures on the SEFA. In fiscal year 2020, OUI did not fully and appropriately separate \$7,134,763 of CARES Act expenditures from non-CARES Act expenditures on the SEFA worksheet.

OUI used an incorrect template to record these CARES Act expenditures in the Enhanced Management Administrative and Reporting System (eMARS). The expenditures were recorded in a program related to the 2008 recession that should have been closed, but was still active. When OUI completed their SEFA worksheet, the expenditures in this program were recorded as non-CARES Act expenditures.

Had the error not been detected during the audit of the Commonwealth's SEFA, the non-CARES Act expenditures would have been overstated and the CARES Act expenditures would have been understated by \$7,134,763.

According to the June 18, 2020 Memorandum to the Heads of Executive Departments and Agencies (M 20-26) from the Office of Management and Budget (OMB): "Additionally, in order to provide adequate oversight of the COVID-19 Emergency Acts funding and programs, recipients and subrecipients must separately identify the COVID-19 Emergency Acts expenditures on the Schedules of Expenditures of Federal Awards and audit report findings."

Recommendation

We recommend that OUI review the SEFA submission to ensure all CARES Act expenditures are reported separately from the non-CARES Act expenditures.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2020-025: The Office Of Unemployment Insurance Did Not Fully And Appropriately Separate CARES Act Expenditures From Non-CARES Act Expenditures On The Schedule Of Expenditures Of Federal Awards (Continued)**

Management's Response and Planned Corrective Action

The recommendation that OUI review the SEFA submission to ensure all CARES Act expenditures are reported separately from the non-CARES Act expenditures.

*The JV2E 531 21*3101 to move the expenditures from 227EU08 to 227EB20 expenses in the amount of \$7,134,763.00 were transferred on 11/16/20 with the SEFA (Schedule of Expenditures of Federal Award). Modified and submitted on 11/19/20. This was completed with the assistance of the Education and Workforce Cabinet and the Labor Cabinet.*

The previous Cabinet oversight of the COVID-19 Emergency Acts funding and programs, recipients and sub recipients must separately identify the COVID-19 Emergency. The Education and Workforce Cabinet did have the appropriate oversight. Those that were responsible was the Commissioner and the Unemployment Insurance Executive Director as well as the Interim Executive Director. Assistance came from administrative services and fiscal management.

On August 16, 2020 the Kentucky Labor Cabinet officially took on the oversight of the Kentucky Unemployment Insurance.

The Following are individuals who have responsibility:

*Secretary of the Cabinet
Deputy Secretary of the Cabinet
General Counsel
Executive Director of Unemployment Insurance
Deputy Executive Director
Fiscal Management Division Director*

Communication with all parties needed are brought into discuss any elements whether it is fiscal or programmatic.

APPENDIX

COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2020

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 2020 are required, please contact Holly M. Johnson, Finance and Administration Cabinet Secretary, at (502)564-4240 or hollymccoy.johnson@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's Workers' Compensation Program
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

Teachers' Retirement System of the State of Kentucky
479 Versailles Road
Frankfort, Kentucky 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2020
(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, 2020
(Continued)**

Kentucky Infrastructure Authority
100 Airport Road, 3rd Floor
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, 2020
(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
501 High Street, 2nd Floor
Frankfort, KY 40601

Workers' Compensation Program
500 Mero Street, 3rd Floor
Frankfort, KY 40601

Kentucky Department of Labor - Special Fund
46 Millcreek Park, Box 5
Frankfort, KY 40601

Kentucky Horse Park Foundation
4075 Iron Works Parkway, Building D
Lexington, Kentucky 40511

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

Kentucky Communications Network Authority
500 Mero Street
Frankfort, KY 40601

Louisville Arena Authority
1 Arena Plaza
Louisville, KY 40202