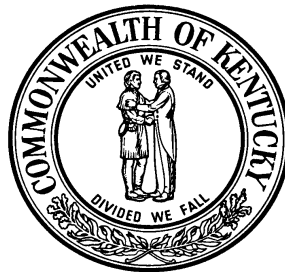


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME II

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

April 21, 2021

Honorable Andy Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

As the Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of the Commonwealth of Kentucky-Volume II for the year ended June 30, 2020. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report, 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*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance* and federal award findings and questioned costs identified during our audit and includes a referral to the Office of the Kentucky Attorney General in regard to finding #2020-030 that certain unemployment insurance office employees wrongfully accessed their own personal unemployment claims.

The Auditor of Public Accounts determines the federal programs to be audited for internal controls and compliance based on Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

On behalf of the Auditor of Public Accounts' Office, 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 Auditor of Public Accounts.

Respectfully Submitted,

Mike Harmon
Auditor of Public Accounts



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INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2020**

Single Audit

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 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 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 Comprehensive Annual Financial Report. 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 contains elements required under the Uniform Guidance, including the *Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance*, and the Schedule of Findings and Questioned Costs.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the type of audit reports issued and lists major programs audited. The Financial Statement Findings section is reported in SSWAK Volume I. The Federal Award Findings and Questioned Costs section, presented within this report, lists findings related to federal awards. For the Federal Award Findings, material weaknesses and material instances of noncompliance are presented first, then significant deficiencies and reportable instances of noncompliance. Management responses are presented after each Financial Statement and Federal Award Finding, if provided.

Corrective Action Plans and the Summary Schedule of Prior Audit Findings

Corrective Action Plans, prepared by management of the various agencies audited, related to audit findings reported in the Schedule of Findings and Questioned Costs for fiscal year (FY) 2020, as well as the Summary Schedule of Prior Audit Findings, are included in the data collection package submitted to the Federal Audit Clearinghouse and can be found at <https://harvester.census.gov/facweb/>.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2020**

Audit Approach

The scope of the FY 2020 SSWAK included:

Financial

- 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;
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants, and tests of internal controls, where applicable; and
- Findings related to internal controls over financial reporting when noted during the audit of the Comprehensive Annual Financial Report.

Federal Awards

- An audit of compliance with the compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each major federal program; and
- Tests of internal control over compliance in accordance with the Uniform Guidance.
- Findings related to internal controls over compliance and on compliance when noted during the audit of major federal programs.

Component Units

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending federal awards. Component units are included in the audit of the basic financial statements, but are not included in the Commonwealth's audit of major federal programs. Component units expending more than \$750,000 in federal awards obtain separate audits in accordance with the Uniform Guidance. Thus, component units are not included in the report on compliance and internal control and corresponding Schedule of Findings and Questioned Costs.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance

Independent Auditor's Report

Honorable Andy Beshear
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of Kentucky's (Commonwealth) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2020. The Commonwealth's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The Commonwealth's basic financial statements include the operations of certain agencies and component units, which expended federal awards that are not included in the Commonwealth's Schedule of Expenditures of Federal Awards for the year ended June 30, 2020. Our audit, described below, did not include the operations of these agencies and component units since they were audited by other auditors.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.



Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance
(Continued)

An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our adverse, qualified, and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Commonwealth's compliance.

Basis for Adverse Opinion on CFDA 17.225

As described in the accompanying Schedule of Findings and Questioned Costs, the Commonwealth did not comply with requirements regarding Activities Allowed or Unallowed for CFDA 17.225 Unemployment Insurance as described in Findings 2020-027, 2020-028, 2020-029, and 2020-046; the requirements regarding Eligibility for CFDA 17.225 Unemployment Insurance as described in Findings 2020-027, 2020-028, 2020-029, 2020-032, and 2020-033; the requirements regarding Special Tests and Provisions for CFDA 17.225 Unemployment Insurance as described in Findings 2020-029, 2020-030, and 2020-031; and the requirements regarding Period of Performance for CFDA 17.225 Unemployment Insurance as described in Finding 2020-046. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to that program.

Adverse Opinion on CFDA 17.225

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the Commonwealth did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 17.225 Unemployment Insurance for the year ended June 30, 2020.

Basis for Qualified Opinion on CFDA 97.039

As described in the accompanying Schedule of Findings and Questioned Costs, the Commonwealth did not comply with requirements regarding Activities Allowed or Unallowed and Allowable Costs/Cost Principles for CFDA 97.039 Hazard Mitigation Grant as described in Finding 2020-026. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 97.039

In our opinion, except for the noncompliances described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 97.039 Hazard Mitigation Grant for the year ended June 30, 2020.

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance
(Continued)

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2020-045. Our opinion on each major federal program is not modified with respect to this matter.

The Commonwealth's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Commonwealth's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commonwealth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance
(Continued)

in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2020-026, 2020-027, 2020-028, 2020-029, 2020-030, 2020-031, 2020-032, and 2020-033 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2020-034, 2020-035, 2020-036, 2020-037, 2020-038, 2020-039, 2020-040, 2020-041, 2020-042, 2020-043, 2020-044, and 2020-046 to be significant deficiencies.

The Commonwealth's responses to the noncompliance findings and internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

April 2, 2021

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Financial Statements: We issued a qualified opinion on the business-type activities and Unemployment Compensation Fund for the Commonwealth. We issued unmodified opinions on the governmental activities, aggregate discretely presented component units, each major fund except the Unemployment Compensation Fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2020.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth’s internal control over financial reporting disclosed 10 material weaknesses and 15 significant deficiencies.

Compliance: In relation to the audit of the basic financial statements of the Commonwealth, the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Federal Awards

Compliance: We issued an adverse opinion on the Commonwealth’s compliance for major program CFDA 17.225. We issued a qualified opinion on the Commonwealth’s compliance for major federal programs CFDA 97.039. An unmodified opinion was issued for the Commonwealth’s compliance for all other major federal programs. The results of our auditing procedures resulted in five findings that disclosed material noncompliances. Additionally, our procedures identified one other instance of noncompliance required to be reported under Uniform Guidance.

Internal Control Over Compliance: Our consideration of the Commonwealth’s internal control over compliance disclosed eight material weaknesses and 12 significant deficiencies.

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)**Identification of Major Programs**

Type B Major Programs are highlighted in gray.

CFDA	Cluster or Program Title
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children
15.252	Abandoned Mine Land Reclamation (AMLR)
16.575	Crime Victim Assistance
17.225	Unemployment Insurance
21.019	Coronavirus Relief Fund
64.015	Veterans State Nursing Home Care
84.010	Title I Grants to Local Education Agencies
84.287	Twenty-First Century Community Learning Centers
93.268	Immunization Cooperative Agreements
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.658	Foster Care Title IV-E
93.767	Children's Health Insurance Program
93.775, 93.777, 93.778	Medicaid Cluster
93.788	Opioid STR
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
97.039	Hazard Mitigation Grant

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

Dollar Threshold Used To Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$30,000,000.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

See the Report of the Statewide Single Audit of the Commonwealth of Kentucky Volume I for Financial Statement Findings 2020-001 through 2020-025.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-026: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged For Hazard Mitigation Grants

State Agency: Department of Military Affairs
 Federal Program: CFDA 97.039 – Hazard Mitigation Grant
 Federal Agency: U.S. Department of Homeland Security
 Pass-Through: Not Applicable
 Compliance Area: Allowable Costs/Cost Principles
 Questioned Costs: \$0

This is a repeat to prior year finding 2019-009 as reported in the fiscal year 2019 Statewide Single Audit of Kentucky (SSWAK) Volume II.

The Department of Military Affairs (DMA) receives federal funding for Catalog of Federal Domestic Assistance (CFDA) 97.039 Hazard Mitigation grants to reduce or eliminate long-term risk to people and property as a result of future disasters. Review of payroll activity indicated DMA failed to have an appropriate methodology to ensure salaries and wages for employees working on multiple grants were charged to the correct federal grant based on the actual work performed. Consequently, DMA's internal control system failed to provide reasonable assurance that payroll charges were properly allocated between grants in accordance with 2 CFR 200.405 and 2 CFR 200.430. Payroll costs reported within CFDA 97.039 Hazard Mitigation grants totaled \$358,649 out of \$4,815,538 of total grant expenditures which is material to the federal program.

CFDA 97.039 Hazard Mitigation grants consists of multiple grant agreements, as approved by the Federal Emergency Management Agency (FEMA), which requires proper accounting of allowable costs pertaining to each grant's objective. The following deficiencies pertaining to employee salaries and wages were identified during review of five employees' time charges:

- The allocation of employee time between federal grants is pre-programmed within eMARS (the Commonwealth's accounting system). DMA indicated the allocation was assigned based on what the agency estimated the employee would work on per a prepared Recovery Cost Allocation Sheet which is updated periodically. Recovery Cost Allocation Sheets were derived from a separate time-tracking system based on actual time worked; however, in several instances employee time within the time-tracker was coded to a generic cost pool which was not specific enough to allocate actual time to the correct grant. The utilized methodology did not ensure the accuracy of salaries and wages allocated between different grants.
- Analysis indicated management costs charged to a grant were not always proportionate to other grant expenditures, where some grants with less activity carried a greater percentage of total management costs. As indicated in the prior year, grants with available funding were primarily used as part of the allocation process.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-026: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged For Hazard Mitigation (Continued)**

- In one instance, salary and wages were charged to both CFDA 97.036 Public Assistance grants and CFDA 97.039 Hazard Mitigation grants even though the employee's time-tracker reflected work only on Hazard Mitigation grants.
- In another instance, evidence on the employee's time-tracker supported activity for one grant had occurred related to the grant's management and administration; however, no salary and wage expense was charged against the grant for the period.

Questioned costs related to salaries and wages could not be quantified due to the agency's tracking methodology. While it is believed that questioned costs exists, the exact allocation of actual salary and wages costs could not be identified for each grant.

DMA has indicated that corrective action was implemented in September 2020 to correct the deficiencies noted related to their payroll allocation process.

The ineffective methodology for allocating payroll costs does not ensure actual costs are charged to the appropriate grants. Additionally, it is evident that funding shortfalls for grant management costs exists creating increased pressure to ensure personnel can be reimbursed through available federal funding. As a result, payroll costs are not properly allocated to federal grants in proportion to the benefit received which materially impacts CFDA 97.039 Hazard Mitigation grants.

2 CFR 200.405 states, in part:

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received [...]
- (c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons...
- (d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis...

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-026: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged For Hazard Mitigation Grants (Continued)

2 CFR 200.430(h)(8)(i) states, in part:

(i) Standards for Documentation of Personnel Expenses

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated [...]

[...]

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award [...]

Recommendation

We recommend DMA ensure compliance with 2 CFR 200.405 and 2 CFR 200.430 by implementing a methodology that accurately accounts for and allocates payroll costs to federal grants based on the work performed. In instances where federal funding is not available for a particular grant's management costs, other allowable non-federal funding sources should be utilized as to prevent unallowable costs and activities. DMA should consult with FEMA for additional guidance as needed.

Management's Response and Planned Corrective Action

Due to the full activation of the State Emergency Operations Center in March 2020, in response to COVID-19, the entire staff of the Kentucky Division of Emergency Management (KYEM) was reassigned from normal duties to support the state's response to the pandemic. In addition to response efforts that extended far beyond the end of the 2020 Fiscal Year; many staff contracted COVID and others were quarantined for periods of time; thus delaying correction of these reoccurring findings.

In January 2020, KYEM employed a former Office of the Auditor of Public Accounts auditor to assess all federal timekeeping requirements and identify steps necessary to rectify the findings. All identified and recommended corrective actions have been implemented which include: development of the Kentucky Division of Emergency Management Payroll Cost Allocation Policy and Procedure, editing and reissuance of the On-Time Web Time Tracking System KYEM User Manual, and delivery of mandatory training for all KYEM staff.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-026: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged For Hazard Mitigation Grants (Continued)**

Management's Response and Planned Corrective Action (Continued)

The payroll expenditures for KYEM staff performing work related to CFDA Numbers 97.036 and 97.039 are now paid initially from KYEM's general fund allotment. Staff time is recorded in the On-Time Web Tracking System and on a monthly basis reports from the system are created. Calculations are made to determine the percent of each employee's time to specific federally-funded programs. These percentages are then applied to the month's payroll costs and appropriated to the correct federal or state funding source. A journal voucher is to allocate those percentages. Charges that are relevant to the overall program rather than a specific grant are attributed to a program cost pool. If a program does not have sufficient available funding, the charges remain in the general fund allotment.

KYEM is confident that its activities and associated corrective actions have resolved these findings.

DMA OMA Additional Response:

As detailed above, KYEM has implemented the internal control procedures necessary to ensure compliance with 2 CFR 200.405 and 2 CFR 200.430. These controls were fully implemented October 1, 2020.

DMA OMA will continue to monitor KYEM's payroll processes to ensure continued compliance with federal guidelines, and if needed, will provide support, or advise on, procedures and deadlines necessary for maintaining the corrective actions.

DMA OMA is going to provide KYEM a timeline of measurable requirements and deadlines that must be met for the regular processing of the payroll allocation process for FEMA Grants. Should it be noted that deadlines are not met, reviews have not been completed, and/or processing of payroll allocation has not been completed, DMA OMA will restructure positions responsible for these items to report to DMA, as an oversight function of the Department of Military Affairs.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-027: The Office of Unemployment Insurance’s Weak Control Environment Led to Management Decisions That Were In Direct Conflict With Federal Law

State Agency: Office of Unemployment Insurance
 Federal Program: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
 Federal Agency: U.S. Department of Labor
 Pass-Through: Not Applicable
 Compliance Area: Activities Allowed or Unallowed; Eligibility
 Questioned Costs: \$655,386,665

This finding was reported in the 2020 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2020-003. Management’s response and planned corrective action for Finding 2020-003 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

As a result of the Office of Unemployment Insurance’s (OUI) auto-pay policy, OUI did not provide Pandemic Unemployment Assistance (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. Claimants also could not report their weekly wages, if any, in order to ensure correct payment amounts were issued, a requirement for determining claimant eligibility for not only traditional unemployment insurance but also Federal Pandemic Unemployment Compensation (FPUC) payments.

Due to the lack of controls over payments during the auto-pay period, we cannot precisely estimate total overpayments or underpayments. However, while auto-pay was in effect, the following payments were issued:

- \$17,774,387 was paid in traditional UI benefits without claimants reporting their wages;
- \$129,923,478 was paid in PUA benefits without claimants certifying that they were unemployed due to a COVID-19 related reason or reporting their wages;
- \$507,688,800 was paid in FPUC. Without claimants having the ability to certify wage information for traditional UI or PUA benefits, the corresponding FPUC payments are also questioned.

Additional internal control deficiencies, noncompliances with federal law, and noncompliances with state law for the Unemployment Insurance federal program are discussed in Finding 2020-003, among others, in both volumes of the 2020 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK).

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2020-028: The Office Of Unemployment Insurance Failed To Ensure Appropriate Payments Were Made To Claimants**

State Agency: Office of Unemployment Insurance
 Federal Program: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
 Federal Agency: U.S. Department of Labor
 Pass-Through: Not Applicable
 Compliance Area: Activities Allowed or Unallowed; Eligibility
 Questioned Costs: \$34,411

This finding was reported in the 2020 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2020-006. Management’s response and planned corrective action for Finding 2020-006 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance and described below.

The structure of the Federal-State Unemployment Insurance partnership is based on federal statute; however, it is implemented through state law. As identified during financial statement testing of a sample of 99 claim weeks, the Office of Unemployment Insurance 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.

Based on information summarized in Table 1 and Table 2 in Finding 2020-006 in Volume I of the SSWAK, we questioned \$34,411 in unemployment insurance claims due to concerns with claimant eligibility. Some costs (\$360) from Table 2 were captured in Table 1. Therefore the total questioned cost is the net overpayment from Table 1 of \$15,904 and the total overpayment identified in Table 2 less \$360 which equals \$18,507. These tables are included 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

Table 2Benefits Paid to Individuals Still Employed During the Weeks for which Benefits were Paid

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

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2020-029: The Office of Unemployment Insurance Paid Unemployment Benefits To Full-Time Employees Of The Commonwealth**

State Agency: Office of Unemployment Insurance
Federal Program: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
Federal Agency: U.S. Department of Labor
Pass-Through: Not Applicable
Compliance Area: Activities Allowed or Unallowed; Eligibility; Special Tests and Provisions
Questioned Costs: \$116,978

This finding was reported in the 2020 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2020-008. Management's response and planned corrective action for Finding 2020-008 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

The structure of the Federal-State Unemployment Insurance partnership is based on federal statute; however, it is implemented through state law. As identified during financial statement testing, the Office of Unemployment Insurance paid traditional unemployment insurance benefits, Pandemic Unemployment Assistance benefits, and Federal Pandemic Unemployment Compensation benefits to full-time employees of the Commonwealth who retained their full-time positions. The net overpayment identified during testing totaled \$116,978 and is classified as a questioned cost for purposes of this finding.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-030: Office Of Unemployment Insurance Employees Were Able To Access And Change Their Own Claims In The Kentucky Information Management System

State Agency: Office of Unemployment Insurance
 Federal Program: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
 Federal Agency: U.S. Department of Labor
 Pass-Through: Not Applicable
 Compliance Area: Special Tests and Provisions
 Questioned Costs: \$0

When an unemployed worker files a claim for unemployment benefits, certain verifications occur in the system that allow the claim to move forward. If there is an error, a “stop” is automatically put on the claim by the system, which needs to be removed in order for the claimant to receive benefits. Stops can be manually placed on a claim based on information the agency receives from the claimant or employer. When a stop is applied to or removed from a claim, a note on the claim is automatically generated with the user’s Kentucky Information Management System (KYIMS) identification number.

As part of our federal compliance audit, we reviewed a report which listed Office of Unemployment Insurance (OUI) employees who had the authority to remove or clear stops on claimant accounts. A comparison of this report to a list of Commonwealth employees who claimed unemployment benefits in fiscal year 2020 (FY20) showed that some of the employees who had this access had also claimed unemployment benefits in FY20. Each of these employees had stops applied to their accounts, in effect, blocking them from being able to claim benefits until the stops were cleared. The auditor requested a follow-up report showing dates, if any, each of these employees accessed their own claims in KYIMS. The activity report showed ten of the employees had accessed their own claims in the system. Employees with the ability to access, remove, and clear stops on their own accounts is a significant internal control concern. Further, since the data indicated ten of the employees accessed their own accounts, in some cases several times, there was a significant risk that employees could have taken actions within the system on their own claims. From the account access history data provided, the auditors could only determine the employees had accessed their own accounts in the system and not what actions, if any, those employees had taken.

The Internal Security Handbook states that unemployment insurance activities will be audited. However, management confirmed an audit of these activities was not conducted during FY20. The Security Awareness Training each of these employees were required to take before receiving KYIMS access states, “The DWI system design ensures that access to certain information is limited based on the staff’s level of authorization and permissions...In addition, restrictions are in place to limit (SSPI) access for authorized users to only records for their specific workload, preventing unauthorized access to records of family, friends, acquaintances, etc.” Employees accessing their own claims indicates the Department of Workforce Investment (DWI) system controls are not as effective as the required Security Awareness Training indicates.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-030: Office Of Unemployment Insurance Employees Were Able To Access And Change Their Own Claims In The Kentucky Information Management System (Continued)**

New unemployment programs created by the CARES Act, specifically Pandemic Unemployment Assistance (PUA), expanded the scope of Unemployment Insurance to include claimants not traditionally eligible for benefits. Commonwealth employees applied for unemployment benefits despite retaining their full time Commonwealth positions due to the loss of part time jobs. Some of these claimants had access to the KYIMS system and, after requesting benefits and because of their position, had access to their own accounts. For further details on fully-employed Commonwealth employees receiving unemployment benefits, see Finding 2020-008 in the FY20 Report of the Statewide Single Audit of the Commonwealth of Kentucky, Volume I.

Without internal controls in place preventing or detecting employee access to their own claims, employees could manipulate their own accounts. Employees could also have direct insight into actions or investigations related to their claims.

2 CFR section 200.303 indicates that the non-Federal entity must:

Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-Federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (GAO Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The GAO Green Book, Section 13.02 – Identification of Information Requirements, states:

Management designs a process that uses the entity’s objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks. Information requirements consider the expectations of both internal and external users. Management defines the identified information requirements at the relevant level and requisite specificity for appropriate personnel.

The Internal Security Handbook, section V. Audits and Reviews, states:

IS will conduct audits and reviews of Central Office and Local Offices performing UI activities. Audits and reviews will be conducted as a part of an ongoing plan, as a result of an incident or upon request. A report will be prepared and presented to management at the end of each audit or review with conditions discovered during the audit.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-030: Office Of Unemployment Insurance Employees Were Able To Access And Change Their Own Claims In The Kentucky Information Management System (Continued)**

The Security Awareness Training each of these employees was required to attend states,

The DWI system design ensures that access to certain information is limited based on the staff's level of authorization and permissions...In addition, restrictions are in place to limit (SSPI) access for authorized users to only records for their specific workload, preventing unauthorized access to records of family, friends, acquaintances, etc.

Recommendation

We recommend OUI implement formal audit and review procedures to ensure staff with the ability to access, remove, or clear stops on accounts do not perform such actions on their own accounts. Procedures should be in place to monitor whether or not employees have accessed their own account. The Labor Cabinet should adopt and continue the practice of producing the reports detailed in the Kentucky Department of Education Workforce Development Cabinet's Internal Security Handbook.

Management's Response and Planned Corrective Action

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 Labor Cabinet is focused on safeguarding the data within our possession. The Labor Cabinet Executive team hired a compliance and security advisor to conduct internal audits, coordinate external audits in conjunction with the Executive team and the Cabinet Office of General Counsel, and that any security issues are addressed and remediated as soon as practicable, and to implement new security measures and policies in conjunction with the Labor Cabinet Executive team.

The Cabinet will issue and implement a security policy, directing employees that they are not to access case information pertaining to their own claim, or that of a family or friend. Employees will be required to complete a security training by the end of the fiscal year and annually thereafter to ensure they are educated as to their responsibilities with regard to UI information security. Cabinet security training will provide additional information on security requirements and best practices.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2020-030: Office Of Unemployment Insurance Employees Were Able To Access And Change Their Own Claims In The Kentucky Information Management System (Continued)**

Management's Response and Planned Corrective Action (Continued)

The Labor Cabinet and the Commonwealth Office of Technology are reviewing options for continuous log monitoring. Continuous log monitoring will improve the auditing of employee access and ensure the security team is notified if employees access their own records.

The Labor Cabinet is reviewing the Education Workforce Development Cabinet's Internal Security Handbook and will issue a security handbook suited for the Office of Unemployment Insurance; which will include security requirements from the Commonwealth Office of Technology, the Internal Revenue Service, the Social Security Administration and the National Institute of Standards and Technology.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-031: The Office Of Unemployment Insurance Inappropriately Suspended Collections As Part Of The Treasury Offset Program

State Agency: Office of Unemployment Insurance
 Federal Program: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
 Federal Agency: U.S. Department of Labor
 Pass-Through: Not Applicable
 Compliance Area: Special Tests And Provisions
 Questioned Costs: \$0

States are required to utilize the Treasury Offset Program (TOP) to recover unemployment compensation debts that remain uncollected one year after the debt was determined to be due. Covered unemployment compensation debts include benefit overpayments due to fraud and benefit overpayments due to a claimant’s failure to report earnings. The Commonwealth has an agreement with the U.S. Department of the Treasury (Treasury) to collect these overpayments.

The Office of Unemployment Insurance (OUI) suspended TOP collections on April 6, 2020, and as of February 17, 2021, had not resumed them.

According to TOP Technical Bulletin Number 2020:8 dated March 30, 2020 from the Treasury, federal and state agencies who had the legal authority to suspend TOP collections due to COVID-19 were permitted to do so. The state agency was required to send correspondence to Treasury on state letterhead from the Chief Financial Officer, Comptroller, head of agency, or Unemployment Insurance Director requesting the suspension of debt collection activity, including the requested date of suspension and projected date for re-starting collections. This correspondence was sent to Treasury on April 7, 2020 and requested the offset programs be suspended effective April 8, 2020.

OUI also sent an email request to suspend TOP collections to the U.S. Department of Labor’s Employment & Training Administration (DOL-ETA) on April 9, 2020. In the April 13, 2020 email response to OUI’s request, the ETA stated that the “ETA is exploring whether there are any allowable flexibilities in this area, and will provide additional information at a later date.”

In May 2020, clarifying guidance was provided by the DOL-ETA stating that participation in TOP could not be suspended. This was further confirmed in an email dated February 12, 2021 from the DOL-ETA, which reiterated that ETA expects states to continue participating in TOP.

The COVID-19 pandemic led to significant unemployment across the Commonwealth. While guidance from the U.S. Department of Treasury stated Social Security and economic stimulus payments were to be exempt from collection in TOP for the time being, delinquent nontax debts would continue to be collected. The Commonwealth requested flexibility in suspending the TOP collections for unemployment benefits, but there is no evidence it was approved by the DOL-ETA.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2020-031: The Office Of Unemployment Insurance Inappropriately Suspended Collections As Part Of The Treasury Offset Program (Continued)

Other payments which could be intercepted through the TOP program to satisfy unemployment compensation debt are not being collected. According the U.S. Department of the Treasury, in federal fiscal year 2020, TOP recovered \$226.9 million for the states that participated in the unemployment insurance program.

Participation in TOP is a key internal control in ensuring compliance with federal law and program integrity and therefore this noncompliance, stemming from management's decision to suspend TOP collections, is also considered an internal control weakness.

Per Unemployment Insurance Program Letter (UIPL) No. 13-20, Change 1 – Families First Coronavirus Response Act, Division D Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA) – Reporting Instructions, Modification to Emergency Administrative Grants Application Requirement, and Questions and Answers, issued May 4, 2020:

Question: May the state suspend recovery under the Treasury Offset Program (TOP) temporarily to enable reallocation of UI resources?

Answer: No. As a condition of receiving federal funds under Title III, SSA, to administer the state's UI program, Section 303(m), SSA (42 U.S.C. section 503 (m)), the state must use TOP to recover certain covered unemployment compensation (UC) debts that remain uncollected as of the date that is one year after the debt was finally determined to be due.

Question: Is the state permitted to temporarily suspend its collection efforts related to prior overpayments?

Answer: This depends on whether a temporary suspension of collection efforts is permissible under state UC law. However, the state must continue to process benefit offsets and TOP collections.

Per UIPL No. 23-20, Program Integrity for the Unemployment Insurance (UI) Program and the UI Programs Authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 – Federal Pandemic Unemployment Compensation (FPUC), Pandemic Unemployment Assistance (PUA), and Pandemic Emergency Unemployment Compensation (PEUC) Programs, issued May 11, 2020:

Overpayment recovery activities are an essential function of the Benefit Payment Control (BPC) unit or designated staff. The following overpayment recovery activities are mandatory:

- Benefit Offsets
- Treasury Offset Program (TOP)
- Cross Program Offset Recovery Agreement
- Interstate Reciprocal Offset Recovery Arrangement.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2020-031: The Office Of Unemployment Insurance Inappropriately Suspended Collections As Part Of The Treasury Offset Program (Continued)**

Recommendation

We recommend the Commonwealth resume TOP collections in accordance with guidance from the U.S. Department of Labor.

Management's Response and Planned Corrective Action

The Labor Cabinet will seek to resume TOP collections in accordance with guidance from the U.S. Department of Labor as recommended by the audit.

At all times, program integrity will remain the primary objective of the Cabinet and the Office of Unemployment Insurance. Cabinet leadership and management is to and will be expected to seek guidance from experts within their respective fields. 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.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-032: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System**

State Agency: Office of Unemployment Insurance
Federal Program: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
Federal Agency: U.S. Department of Labor
Pass-Through: Not Applicable
Compliance Area: Eligibility
Questioned Costs: \$0

This finding was reported in the 2020 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2020-004. Management's response and planned corrective action for Finding 2020-004 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

The Office of Unemployment Insurance (OUI) had 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.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2020-033: 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**

State Agency: Office of Unemployment Insurance
Federal Program: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
Federal Agency: U.S. Department of Labor
Pass-Through: Not Applicable
Compliance Area: Eligibility
Questioned Costs: \$0

This finding was reported in the 2020 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2020-005. Management's response and planned corrective action for Finding 2020-005 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

The Office of Unemployment Insurance (OUI) program modification controls over the Kentucky Electronic Workplace for Employment Services (KEWES) application 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.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-034: The Cabinet for Health And Family Services Failed To Locate Assessments For Targeted Case Management Cases And Monitor Compliance With Managed Care Organizations Regarding Targeted Case Management Assessments

State Agency: Cabinet for Health and Family Services
 Federal Program: 93.775 – State Medicaid Fraud Control Units
93.777 – State Survey and Certification of Health Care Providers and Suppliers
Medicare
93.778 – Medical Assistance Program
93.778 – FFCRA – Medical Assistance Program
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Activities Allowed or Unallowed
 Questioned Costs: \$0

The audit of the fiscal year (FY) 2020 Medical Assistance Program (Medicaid) (CFDA 93.778), administered by the Cabinet for Health and Family Services (CHFS), tested internal controls and compliance for targeted case management services to ensure all required documentation was filed and required assessments were performed. Targeted case management services must be provided to an eligible Medicaid recipient and must include comprehensive and periodic assessments of the individual's needs, development of a care plan, referrals to help the individual obtain services, and monitoring to ensure the care plan is implemented and services meet the individual's needs.

Providers are responsible for performing assessments. CHFS did not have internal controls in place to monitor, file or obtain assessments performed by the providers covered by the Managed Care Organizations (MCO). CHFS was not able to provide documentation or evidence assessments were performed on 20 individuals covered by MCOs that received targeted case management services.

In addition, the Department of Community Based Services (DCBS) is responsible for performing targeted case management services for Medicaid recipients in the Title V program, which consist of children in the custody of the state or under the supervision of the state, and adults who require protective services. Of the 20 requested assessments for individuals receiving targeted case management services under the Title V program, DCBS was not able to locate the required assessment in two cases in FY 2020.

CHFS is in the process for developing internal control procedures for monitoring the targeted case management requirements for members covered by MCOs to ensure compliance with federal and state regulations; however, these procedures are not in place yet. In addition, DCBS could not locate the files in the system that stored the targeted case management cases.

Failure to ensure sufficient targeted case management monitoring procedures are in place and working effectively leaves federal funds at risk of fraud, waste, or abuse, and could lead to substantial federal noncompliance. By not documenting evidence that the assessments were performed, CHFS may be paying claims for a targeted case management service on a member that is not necessary or allowable.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-034: The Cabinet For Health And Family Services Failed To Locate Assessments For Targeted Case Management Cases And Monitor Compliance With Managed Care Organizations Regarding Targeted Case Management Assessments (Continued)

42 CFR 440.169 Case Management Services, states:

(d) The assistance that case managers provide in assisting eligible individuals obtain services includes -

- (1) Comprehensive assessment and periodic reassessment of individual needs, to determine the need for any medical, educational, social, or other services...
- (2) Development (and periodic revision) of a specific care plan based on the information collected through the assessment [...]
- (3) Referral and related activities (such as scheduling appointments for the individual) to help the eligible individual obtain needed services, including activities that help link the individual with medical, social, and educational providers or other programs and services that are capable of providing needed services to address identified needs and achieve goals specified in the care plan.
- (4) Monitoring and follow-up activities, including activities and contacts that are necessary to ensure that the care plan is effectively implemented and adequately addresses the needs of the eligible individual and which may be with the individual, family members, service providers, or other entities or individuals and conducted as frequently as necessary, and including at least one annual monitoring..."

To ensure federal compliance with the Targeted Case Management Services, the Managed Care Organization contract, Appendix H. Covered Services, states:

VI. Current Medicaid Program's Services and Extent of Coverage

The Contractor shall provide covered services as required by statutes or administrative regulations. The current location of Covered Services can be found in the following regulations:

- Targeted Case Management Services (907 KAR 15:005, 907 KAR 15:040 - 15:065)

907 KAR 15:040; 907 KAR 15:050; 907 KAR 15:060 Section 6 Covered Services, states:

- (1) Targeted case management services covered under this administrative regulation shall:
 - (a) Be services furnished to assist a recipient in gaining access to needed medical, social, educational, or other services; and
 - (b) Include:
 1. A comprehensive assessment and periodic reassessments of the recipients needs to determine the need for any medical, educational, social, or other services;
 2. The development and periodic revision of a specific care plan for the recipient;

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-034: The Cabinet for Health and Family Services Failed To Locate Assessments For Targeted Case Management Cases And Monitor Compliance With Managed Care Organizations Regarding Targeted Case Management Assessments (Continued)**

3. A referral or related activities to help the recipient obtain needed services;
4. Monitoring or follow-up activities; ...

(2)(b) A face-to-face assessment or reassessment shall be completed:

1. At least annually; or
2. More often if needed based on changes in the recipient's condition.

(5)(b) Monitoring shall:

1. Occur at least once every three (3) months;
2. Be face-to-face; and
3. Determine if:
 - a. The services are being furnished in accordance with the recipient's care plan;
 - b. The services in the recipient's care plan are adequate to meet the recipient's needs; and
 - c. Changes in the needs or status of the recipient are reflected in the care plan.

907 KAR 15:040; 907 KAR 15:050; 907 KAR 15:060 Section 9 Records Maintenance, Documentation, Protection, and Security.

(1) A targeted case management services provider shall maintain a current case record for each recipient...

(b) Be:

1. Maintained in an organized and secure central file;
2. Furnished upon request:
 - a. To the Cabinet for Health and Family Services; or
 - b. For an enrollee, to the managed care organization in which the recipient is enrolled or has been enrolled in the past if applicable;
3. Made available for inspection and copying by:
 - a. Cabinet for Health and Family Services' personnel; or
 - b. Personnel of the managed care organization in which the recipient is enrolled if applicable;
4. Readily accessible; and
5. Adequate for the purpose of establishing the current treatment modality and progress of the recipient.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-034: The Cabinet for Health and Family Services Failed To Locate Assessments For Targeted Case Management Cases And Monitor Compliance With Managed Care Organizations Regarding Targeted Case Management Assessments (Continued)

2 CFR § 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CHFS does not have monitoring procedures in place with the MCO to ensure compliance of the covered services, including assessments, with Targeted Case Management.

Recommendation

We recommend CHFS:

- Establish and implement internal control procedures for monitoring the targeted case management requirements for members covered by the Managed Care Organizations to ensure compliance with the CFR and KARs.
- Ensure files are maintained for the Title V program to ensure the Medicaid members are receiving the assessments and care needed, and to ensure these are for allowable recipients.

Management’s Response and Planned Corrective Action

- *DMS developed Targeted Case Management Audit Plan DMS Division of Program Integrity internal control policies related to Managed Care Organizations and Department for Juvenile Justice.*

**The timing of this implementation was dependent upon the lifting of current mandates against certain types of interactions with Medicaid providers and government agencies, which were put in place to address the COVID-19 public health emergency. Implementation is now set for March 2021.*

- *DMS will develop a contract modification requiring DCBS, DPH sub-contractor to establish a mechanism that ensures members are receiving assessments and care planning needed for the goals and objects. It will be identified that these are allowable recipients. DMS will require a quarterly report to monitor DCBS’ compliance.*

DMS’ estimated time for completion of draft, submission for approval and implementation of the DCBS contract is 01.01.22.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-035: The Cabinet for Health and Family Services Did Not Evaluate The Managed Care Organizations' Service Organization Control Reports And Ensure Corrective Action Takes Place On Reported Deficiencies

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>93.775 – State Medicaid Fraud Control Units</u> <u>93.777 – State Survey and Certification of Health Care Providers and Suppliers</u> <u>Medicare</u> <u>93.778 – Medical Assistance Program</u> <u>93.778 – FFCRA – Medical Assistance Program</u>
Federal Agency:	<u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Special Test and Provisions</u>
Questioned Costs:	<u>\$0</u>

During the Medical Assistance Program (Medicaid) (93.778) audit, it was noted that Cabinet for Health and Family Services (CHFS) does not evaluate the Service Organization Control (SOC) reports of the Managed Care Organizations (MCO). In fiscal year 2020, this consisted of four MCOs and the delegated entities of the fifth MCO. In total, nine SOC reports were received.

The Medicaid program is highly dependent on extensive and complex computer systems that include controls for ensuring the proper payment of Medicaid benefits. States are required to establish a security plan for the Automated Data Processing (ADP) systems and perform periodic risk analyses to ensure proper safeguards are in place. A SOC report is an independent audit that reports controls at the service organization relevant to system security, processing integrity, confidentiality and privacy. As part of this requirement, CHFS shall obtain SOC reports from the MCOs to assess the sufficiency of the design of the organizations' controls and test their effectiveness. A SOC report may identify deficiencies that the MCO management is responsible to correct. CHFS complied with the requirement to obtain the reports from each of the MCOs; however, they did not evaluate the SOC reports after receipt. In addition, CHFS does not have procedures in place to ensure the MCOs take necessary corrective action on any issues identified in the SOC reports.

CHFS did not have procedures in place to evaluate the SOC reports after receipt and take the necessary action. CHFS is not a part of management at the MCOs; however, as a contracting agency, CHFS should be ensuring management is taking the action needed, especially on any significant deficiencies which may be identified in the SOC reports. In the absence of reviewing the SOC reports on the MCOs, indicators that something is wrong with the vendors' control environment could be missed. Without monitoring and ensuring corrective action is taking place at the MCOs ADP systems, CHFS is putting the Commonwealth of Kentucky and the Medicaid recipients at risk of noncompliance with ADP security.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-035: The Cabinet for Health and Family Services Did Not Evaluate The Managed Care Organizations' Service Organization Control Reports And Ensure Corrective Action Takes Place On Reported Deficiencies (Continued)**

45 CFR 95.621 ADP reviews states:

- (f) ADP System Security Requirements and Review Process -
 - (1) ADP System Security Requirement. State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing.
 - (2) ADP Security Program. State ADP Security requirements shall include the following components:
 - (i) Determination and implementation of appropriate security requirements as specified in paragraph (f)(1) of this section.
 - (ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security:
 - (A) Physical security of ADP resources;
 - (B) Equipment security to protect equipment from theft and unauthorized use;
 - (C) Software and data security;
 - (D) Telecommunications security;
 - (E) Personnel security;
 - (F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service;
 - (G) Emergency preparedness; and,
 - (H) Designation of an Agency ADP Security Manager.

In order to comply with the above requirement, a state may obtain a Statement for Attestation Engagements (AT) Section 801, Reporting on Controls at a Service Organization SOC report from its service organization.

Proper internal controls advise the agency to have documented policies and procedures that provide direction to staff in regards to evaluating the SOC reports and ensuring corrective action takes place, if necessary.

Recommendation

We recommend the CHFS implement internal controls by documenting policies and procedures to ensure the MCO SOC reports are evaluated and corrective action is taken if necessary.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-035: The Cabinet for Health and Family Services Did Not Evaluate The Managed Care Organizations' Service Organization Control Reports And Ensure Corrective Action Takes Place On Reported Deficiencies (Continued)**

Management's Response and Planned Corrective Action

While the Managed Care Organizations' (MCO) contracts require the performance of Service Organization Control (SOC) reports, the Cabinet for Health and Family Services acknowledges the findings of this audit. The Division of Program Quality and Outcomes (DPQO), which is charged with oversight of the six MCOs, receives the SOC reports, but does not have a procedure for reviewing and following up on the findings of those reports.

To correct this area of weakness, DPQO, in collaboration with the Office of Application Technology Services OATS will develop procedures to:

- 1. Ensure the receipt of the SOC reports*
- 2. Review the findings of the reports*
- 3. Follow up with the MCOs to make sure they are addressing any deficiencies found in the reports*
- 4. Document the monitoring process*

Additionally, DPQO and OATS will review the SOC reports delivered in 2020. DPQO/OATS will request an MCO corrective action plan for reported deficiencies.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-036: The Cabinet for Health and Family Services Did Not Monitor The Low-Income Home Energy Assistance Program Grant to Ensure Compliance With The 10% Earmarking Requirement

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.568 – Low-Income Home Energy Assistance Program
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Earmarking
 Questioned Costs: \$404,102

During the FY2020 audit of the Low-Income Home Energy Assistance Program (LIHEAP), internal controls and compliance with the administrative earmarking requirement were reviewed. LIHEAP is a two year grant and a maximum of 10% of LIHEAP funds for each federal fiscal year may be used for administrative costs. The 2018 and 2019 grants with the federal fiscal year ending on September 30, 2019 exceeded the 10% limit.

Grant	Time Period	Administration Expenditures	Total Expenditures	Percent of Administration Expenditures
2018	10/1/2018-9/30/2019	\$ 2,983,043	\$ 27,562,911	10.8%
2019	10/1/2018-9/30/2019	\$ 2,094,435	\$ 19,170,848	10.9%

Internal controls over monitoring the expense thresholds did not identify the overage in administrative expenditures. The agency is not in compliance with federal earmarking requirements and could be required to repay funds to the federal government or move expenditures related to these grants. Without internal controls monitoring the earmarking requirement, the 10% administrative cost limit could be exceeded in future grant years.

Title 42 of the United States Code section B paragraph (9)(A) states, “the State may use for planning and administering the use of funds under this subchapter an amount not to exceed 10 percent of the funds payable to such State under this subchapter for a fiscal year.”

Regarding internal controls, the Code of Federal Regulations states in §200.303:

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-036: The Cabinet for Health and Family Services Did Not Monitor The Low-Income Home Energy Assistance Program Grant to Ensure Compliance With The 10% Earmarking Requirement (Continued)**

Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.

(c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.

(d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.

(e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.

Recommendation

We recommend CHFS review the internal controls related to earmarking and ensure future compliance with the 10% administrative limit. CHFS should also communicate with the federal government regarding this issue and take appropriate action as needed.

Management’s Response and Planned Corrective Action

When reviewing this error, Department for Community Based Services (DCBS) found that the main issue was that Kentucky Housing Corporation (KHC) was adhering to 10% admin of their contract amount, but not 10% admin of total expenditures. In response to this, DCBS communicated and informed KHC that admin expenditures must be within 10% of total expenditures.

DCBS informed KHC of the requirements set forth by Federal LIHEAP statute as well as the requirements within their contract regarding admin expenditures. The issue arose as some of the KHC agencies that administer the Weatherization program have a federally negotiated indirect rate. DCBS advised KHC that federal LIHEAP statute supersedes and that those agencies could not use the indirect rate for LIHEAP funding.

DCBS provided the information and KHC acknowledged that their agencies would follow this moving forward. DCBS will also monitor this at the state level to ensure that this issue does not arise again.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-037: The Cabinet for Health and Family Services Did Not Ensure 90% Of Low-Income Home Energy Assistance Program Grant Funds Were Obligated In The First Federal Fiscal Year Awarded

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.568 – Low-Income Home Energy Assistance Program
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Period of Performance
 Questioned Costs: \$0

The Cabinet for Health and Family Services (CHFS) administers the Low-Income Home Energy Assistance Program (LIHEAP) to help low income households meet home energy costs. CHFS' Department for Community Based Services (DCBS) contracts with two entities to provide services, funded by the LIHEAP grant. During the FY 2020 audit of LIHEAP, internal controls and compliance requirements related to the period of performance for the federal fiscal year ended September 30, 2019, program period 2019, were reviewed.

LIHEAP has a two year grant period; 90% of LIHEAP funds must be obligated in the federal fiscal year (October to September) in which the funds are awarded, and 10% of LIHEAP funds must be obligated in the following year. The contract to the two entities that provide the services are awarded on a state fiscal year (July to June) and do not identify the federal program period or grant year from which the funds were obligated. Without an identification of the specific program period or grant year in the contract it cannot be determined if 90% of the LIHEAP funds obligated in the first federal fiscal year.

CHFS does not have procedures in place to ensure 90% of LIHEAP funds are obligated in the first federal fiscal year. CHFS may not be in compliance with the federal period of performance requirement. There is no mechanism in place to ensure compliance with the obligation requirement. This could result in funds due back to the federal government.

Title 42 of the United States Code Chapter 94 Subchapter II paragraph 8626 states:

B) No amount may be held available under this paragraph for a State from a prior fiscal year to the extent such amount exceeds 10 percent of the amount payable to such State for such prior fiscal year. For purposes of the preceding sentence, the amount payable to a State for a fiscal year shall be determined without regard to any amount held available under this paragraph for such State for such fiscal year from the prior fiscal year.

Recommendation

We recommend CHFS review internal controls and consider identifying the program period in the contracts to ensure 90% of the LIHEAP funds are obligated in the first federal fiscal year.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

FINDING 2020-037: The Cabinet for Health and Family Services Did Not Ensure 90% Of Low-Income Home Energy Assistance Program Grant Funds Were Obligated In The First Federal Fiscal Year Awarded

Management's Response and Planned Corrective Action

Department for Community Based Services (DCBS) will work with the Office of Administrative Services (OAS) to update the contracts and add language identifying how the funds will be obligated so, that it can be specifically tied back to an award. Going forward, all contracts that involve federal funds that have a mandatory obligation schedule will have verbiage in the contract specifically stating which award the funds are being obligated from.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-038: The Cabinet for Health and Family Services Did Not Maintain Supporting Documentation For Certain Amounts On The Performance Report and Household Report

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.568 – Low-Income Home Energy Assistance Program
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Reporting
 Questioned Costs: \$0

For the Low-Income Home Energy Assistance Program (LIHEAP), the Cabinet for Health and Family Services (CHFS) submits a Performance Report and a Household Report. The reports, which contain both financial and performance information, are prepared using various data sources. For the federal fiscal year 2019 Performance Report, supporting documentation was not available to be reviewed for the Heating Benefits amount of \$15,418,983 and the Winter Crisis Benefit amount of \$25,686,698. For the Household Report Section 1, Number of Assisted Households, documentation supporting the amounts was not available for review.

The supporting documentation was not available for all areas of the reports. When supporting documentation is not maintained, the accuracy of the amounts on the reports could not be determined. As a result of the lack of supporting documentation, report inaccuracies may exist and go undetected.

Sound internal controls dictate supporting documentation be maintained to ensure the completeness and accuracy of amounts reported in the federal reports. 2 CFR 200.303 requires non-Federal entities to establish and maintain effective internal control over the Federal awards. “These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

Standards for Internal Control in the Federal Government Section 10.03, indicates management should design appropriate types of internal control systems and that control activities should help management fulfill responsibilities and address risks. Several common activities are listed, including:

Appropriate documentation of transactions and internal control

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-038: The Cabinet for Health and Family Services Did Not Maintain Supporting Documentation For Certain Amounts On The Performance Report and Household Report**

2 CFR 200.302 Financial Management further states:

(b) The financial management system of each non-Federal entity must provide for the following: [...]

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

2 CFR 200.333 Retention requirements for records states:

Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.

Recommendation

We recommend CHFS maintain supporting documentation used for the preparation of the report to ensure the accuracy of the report data.

Management's Response and Planned Corrective Action

Cabinet for Health and Family Services (CHFS) will initiate a system of checks and balances for securing backup for federal reports. Folders will be set up and any backup received will be placed immediately in those folders for easy access. The supervisor will be notified as pieces of information come in for all required federal reports. Low Income Home Energy Assistance Program (LIHEAP) analyst will file these folders on a Public Drive shared by staff so they may be checked by the supervisor and branch manager prior to any report submission. Folders will be set up as reports are initiated and are coming due.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-038: The Cabinet for Health and Family Services Did Not Maintain Supporting Documentation For Certain Amounts On The Performance Report and Household Report****Management’s Response and Planned Corrective Action (Continued)**

The dollar amounts for benefits and administration are listed in the contracts between CHFS and Community Action Kentucky (CAK) for LIHEAP utility assistance and between CHFS and Kentucky Housing Corporation (KHC) for the Weatherization program. The contracts break the funding down by benefits and administration, using specific sub functions for each within the contracts. The Division of Administration and Financial Management (DAFM) are able to provide a breakdown of expenditures for benefits and administration when running reports. However, the state level contract does not break the CAK benefits down into components (heating assistance, subsidy, cooling assistance) as requested in the Performance Measures report. DAFM staff has consulted with CAK staff in order to determine how that break down is determined on their end for sub contracts to the administering agencies, so that this can be appropriately accounted for on the Performance Measures report ongoing. DAFM is currently working with CAK to develop a better system for tracking this. For ongoing Performance Measures Reports, that communication between DAFM and CAK will be used to determine the component breakdown data for the reports and will serve as backup for that data.

After analysis of the federal fiscal year 2019 Performance Report, Heating Benefits amount of \$15,418,983 and Winter Crisis Benefit amount of \$25,686,698, it was determined these numbers will need to be revised in (On-line Data Collection) OLDC. The revised numbers will be as follows: \$10,386,684.41 -Subsidy and \$31,022,911.25 - Crisis, with the remaining \$515,407.60 going to contingency funds. The revised report will be submitted by the LIHEAP specialist in OLDC no later than March 1, 2021.

For the Household Report Section 1, Number of Assisted Households, documentation supporting the amounts were sent on February 10 to APA.

Auditor’s Reply

Regarding the household report, an external party provides the data to complete Section 1, Number of Assisted Households. The information received on February 10 did not include the original email submitted by the external party to CHFS. The information received on February 10 was a document with no indication of the source of the data.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-039: The Cabinet for Health and Family Services Lacks Supporting Documentation For The Maternal And Child Health Services Block Grant Special Report**

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.994 – Maternal and Child Health Services Block Grant to the States
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Reporting
 Questioned Costs: \$0

This is a repeat finding of 2019-012 as reported in the 2019 Statewide Single Audit of Kentucky (SSWAK) Volume II.

For the Maternal and Child Health Services Block Grant program, the Cabinet for Health and Human Services (CHFS) submitted the 2020 Maternal and Child Health (MCH) Application/Annual Report, which is comprised of six forms. The annual report documents the state's progress and is used as an application for the grant and to develop the subsequent year's budget. The report, which contains both financial and performance information, is prepared using various data sources.

An Excel spreadsheet is used to compile the data; however, there were multiple instances in which supporting documentation for the Excel spreadsheet did not agree to the annual MCH report.

Form 2	Amount on Report	Amount on Excel Spreadsheet	Variance
Other Federal Funds - Department of Health and Human Services (DHHS) - Centers for Disease Control and Prevention (CDC) - Increasing Quit Now KY Reach and Sustainability	\$ 333,405	\$ 338,721	\$ (5,316)

On report Form 4, the Core RUSP Conditions Aggregate total number receiving at least one screen is 50,377 while the supporting documentation indicates 50,520, a difference of 143.

On report Form 6, the source of the information for Total Deliveries in the State, Title V Served, Eligible for Title XIX, Title V Served for Total Infants in State, and Eligible for Title XIX for Total Infants in State was not maintained. This information comes from sources outside CHFS, but the information from the outside sources was not available. Without the source data for all report elements, the accuracy of the entire report cannot be determined.

In some instances, the supporting documents were not retrievable, and no records of the original supporting documents were available. CHFS was unable to provide supporting documentation for some report data elements due to the source of the information being dictated under data use agreements, from third parties, or changed in the accounting system after the report date.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-039: The Cabinet for Health and Family Services Lacks Supporting Documentation For The Maternal And Child Health Services Block Grant Special Report**

The report is used by the federal government as an application for the MCH Block Grant for the next fiscal year by outlining the expected budget and how the Commonwealth plans to use those funds to meet established targets. When supporting documentation is not maintained, the accuracy of the amounts on the report could not be determined. As a result of the lack of supporting documentation, report inaccuracies may exist and go undetected. This issue could impact the future budget.

2 CFR 200.303 requires non-Federal entities to establish and maintain effective internal control over the Federal awards. “These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

Standards for Internal Control in the Federal Government Section 10.03, indicates management should design appropriate types of internal control systems and that control activities should help management fulfill responsibilities and address risks. Several common activities are listed, including:

Appropriate documentation of transactions and internal control

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

2 CFR 200.302 Financial Management further states:

(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state’s own funds. In addition, the state’s and the other non-Federal entity’s financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also § 200.450 Lobbying.

(b) The financial management system of each non-Federal entity must provide for the following: [...]

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. [...].

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-039: The Cabinet for Health and Family Services Lacks Supporting Documentation For The Maternal And Child Health Services Block Grant Special Report**

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

2 CFR 200.334 states:

Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. [...]

Recommendation

We recommend CHFS maintain supporting documentation used for the preparation of the MCH report. For example, for form 6, screenshots of the data could be made when the report is completed. We also recommend CHFS review internal control procedures to ensure the accuracy of the report data.

Management's Response and Planned Corrective Action

The Division of Maternal and Child Health (MCH) maintains all supporting documentation and backup for the development of the MCH report. MCH will maintain screenshots of accessed data based on APA's recommendation. However, the Division is not the primary owner of all original data sets and rely on the original owners to provide the data to them, and must abide by the data usage rules of the original owners, including screenshots of access within a secured data system. MCH gets data from Vital Statistics, private and public hospitals, doctor offices, local health departments, the Office of Children with Special Health Care Needs, etc., and not all are within the contractual purview of MCH to require production of original data sets. In addition, MCH will update the procedure manual describing the report preparation process by 7/1/2021 and strengthen internal control process.

Auditor's Reply

CHFS is responsible for maintaining supporting documentation for information entered on the report, even if the information is received from outside sources. The auditor noted both instances where the supporting documentation did not agree to the report and instances where the support was not available or not provided. Therefore, we could not verify the accuracy of the report. We continue to recommend CHFS maintain adequate supporting documentation for the report.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-040: The Cabinet for Health and Family Services Reported Incorrect Amounts On The ACF 204 Report for the Temporary Assistance For Needy Families Program

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.558 – Temporary Assistance for Needy Families
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Reporting
 Questioned Costs: \$0

During the Cabinet for Health and Family Services (CHFS) Temporary Assistance for Needy Families (TANF) FY 2020 audit, the Annual Report on State Maintenance-of-Effort (MOE) Programs (ACF 204) for the FFY 2019 was reviewed. States complete the ACF 204 report for each federal program for which the state has claimed Maintenance of Effort (MOE) expenditures for the fiscal year. The ACF 204 submitted for FY 2019 claimed MOE for four programs (Kentucky Transitional Assistance Program (KTAP), Substantive Abuse, Family Preservation, and Out of Home Care and submitted Attachment B as part of the report for each program.

The FY 2019 ACF 204 Attachment B for KTAP presented information that included variances as indicated below:

Line Number and Description	Amount on Report	Expected Amount	Variance	Note
Line #5 Description of Work Activities	\$ 6,478	\$ 20,875,445	\$ (20,868,967)	Child Care MOE of \$20,868,967 was not included.
Line #6 Total State Expenditures for the Program for the Fiscal Year	\$ 51,834,495	\$ 39,213,803	\$ 12,620,692	Substance Abuse, Family Preservation, and Out of Home Care amounts totaling \$12,614,214 and the TANF Eligibility Separate State Amount of \$6,478 were included.
Line #7 Total State MOE Expenditures under the Program for the Fiscal Year	\$ 51,828,017	\$ 60,089,249	\$ (8,261,232)	The Substance Abuse, Family Preservation, and Out of Home Care amounts totaling \$12,614,214 were included, but the \$20,868,967 for the Child Care MOE and \$6,478 for the TANF Eligibility Separate Program were not included.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-040: The Cabinet for Health and Family Services Reported Incorrect Amounts On The ACF 204 Report for the Temporary Assistance For Needy Families Program (Continued)**

The Child Care MOE amount of \$20,868,967 was used for MOE on the State TANF Financial Report Form (ACF 196) report; thus it should have been included in the ACF 204 report. The Substance Abuse, Family Preservation, and Out of Home Care amounts are not part of KTAP and should have been excluded from lines 6 and 7.

CHFS personnel interpreted the instructions to exclude the MOE for Child Care because the funds are not TANF funds. Also, certain line items in the ACF Report Appendix for KTAP included expenditures for other programs.

Lines 5, 6, and 7 of the ACF 204 report submitted to the federal government were not accurate. When Child Care funds are used to meet TANF MOE expenditures, these expenditures are required to be included on the report. The ACF 204 report does not agree to the ACF 196 report when the Child Care expenditures are not included. Individuals using the ACF 204 report for decision making purposes will not have complete and accurate information.

45 CFR 265.9 (c) states:

Each State must provide the information on the State's program(s) for which the State claims MOE expenditures:

- (3) If applicable, a description of the work activities in each separate State MOE program in which eligible families are participating
- (4) For each program, both the total annual State expenditures and the total annual State expenditures claimed as MOE [...]

Further, the instructions for completing the ACF 204 form state: "The sum of the MOE amounts claimed in this report should equal the total MOE amounts claimed under ALL programs on the State's 4th quarter financial reporting form ACF-196 -- i.e., both those in TANF and in separate State programs."

In addition, the instructions for line 7 state, in part, " Furthermore, when a State provides child care benefits, as indicated in item 1, and also receives CCDF [Child Care and Development Fund] Matching Funds, the State must indicate how much of the amount entered in this item was also used to meet the State's CCDF Matching Fund requirements."

Also, 45 CFR Part 75.302 states:

- (b) The financial management system of each non-Federal entity must provide for the following:
 - (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §75.341 and 75.342.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-040: The Cabinet for Health and Family Services Reported Incorrect Amounts On The ACF 204 Report for the Temporary Assistance For Needy Families Program (Continued)

Sound internal controls dictate supporting documentation be maintained to ensure the completeness and accuracy of amounts reported in the federal reports. 2 CFR 200.303 requires non-Federal entities to establish and maintain effective internal control over the Federal awards. “These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

The Standards for Internal Control in the Federal Government Principle 13 provides guidance on the use of quality information to design and implement internal control processes to ensure quality data is produced and used.

Recommendation

We recommend CHFS review the ACF 204 reporting procedures to ensure the accuracy of the report data.

Management’s Response and Planned Corrective Action:

DCBS has been in communication with multiple federal contacts to clarify the errors found on the ACF-204 form. After responses from one of our ACF partners, we will be making the following changes when completing the ACF-204:

1. *DCBS will make calculation changes to the ACF-204.*
2. *DCBS will add Attachment B’s for KTAP and Out of Home Care.*
3. *DCBS will also add Attachment B’s for Kinship, Capital Projects, and CCDF excess MOE.*

Based on our interpretation of the response received from ACF:

1. *Each program provided needs to be listed on its own attachment B.*
2. *Similarly, per our understanding of line 4, we have to list the funds if the funds are under MOE or a separate state program.*
 - a. *This would include an attachment B for Capital Projects (ZAGI TANF Eligibility) as it is a separate State program.*

We will make the necessary changes and continue this process on the ACF-204 unless we hear otherwise from our other federal partner that is scheduled to meet later this week.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-041: The Department of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To Disaster Grants

State Agency: Department of Military Affairs
 Federal Program: CFDA 97.036 – Disaster Grants-Public Assistance (Presidentially Declared Disasters)
 Federal Agency: U.S. Department of Homeland Security
 Pass-Through: Not Applicable
 Compliance Area: Allowable Costs/Cost Principles
 Questioned Costs: \$0

This is a repeat of prior year finding 2019-009 as reported in the fiscal year 2019 Statewide Single Audit of Kentucky (SSWAK) Volume II.

The Department of Military Affairs (DMA) receives federal funding for Catalog of Federal Domestic Assistance (CFDA) 97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters) (PA) to enable state and local governments to quickly respond to and recover from major disasters or emergencies declared by the President. Review of payroll activity indicated DMA failed to have an appropriate methodology to ensure salaries and wages for employees working on multiple grants were charged to the correct federal grant based on the actual work performed. Consequently, DMA's internal control system failed to provide reasonable assurance that payroll charges were properly allocated between grants in accordance with 2 CFR 200.405 and 2 CFR 200.430. Payroll costs reported within PA grants totaled \$674,598 out of \$25,820,194 of total award expenditures. While not material, this activity is still significant in achieving the objective of the PA award.

The PA award has multiple grant agreements, as approved by the Federal Emergency Management Agency (FEMA), which requires proper accounting of allowable costs pertaining to each grant's objective. The following deficiencies pertaining to employee salaries and wages were identified in review of five employees' time charges:

- The allocation of employee time between federal grants is pre-programmed within eMARS (the Commonwealth's accounting system). DMA indicated the allocation was assigned based on what the agency estimated the employee would work on per a prepared Recovery Cost Allocation Sheet which is updated periodically. Recovery Cost Allocation Sheets were derived from a separate time-tracking system based on actual time worked; however, in several instances employee time within the time-tracker was coded to a generic cost pool which was not specific enough to allocate actual time to the correct grant. The utilized methodology did not ensure the accuracy of salaries and wages allocated between different grants.
- In one instance, salary and wages were charged to both PA grants and CFDA 97.039 Hazard Mitigation grants even though the employee's time-tracker reflected work only on Hazard Mitigation grants.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-041: The Department of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To Disaster Grants (Continued)**

Questioned costs related to salaries and wages could not be quantified due to the agency's tracking methodology. While it is believed that questioned costs exist, the exact allocation of actual salary and wages costs could not be identified for each grant.

DMA has indicated that corrective action was implemented in September 2020 to correct the deficiencies noted related to their payroll allocation process.

The ineffective methodology for allocating payroll costs does not ensure actual costs are charged to the appropriate grants. Additionally, it is evident that funding shortfalls for grant management costs exist creating increased pressure to ensure personnel can be reimbursed through available federal funding. As a result, payroll costs are not properly allocated to federal grants in proportion to the benefit received for each grant.

2 CFR 200.405 states, in part:

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received [...]
- (c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons...
- (d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis...

2 CFR 200.430(h)(8)(i) states, in part:

- (i) Standards for Documentation of Personnel Expenses
 - (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
 - (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated [...]
 - (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award...

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-041: The Department of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To Disaster Grants (Continued)**

Recommendation

We recommend DMA ensure compliance with 2 CFR 200.405 and 2 CFR 200.430 by implementing a methodology that accurately accounts for and allocates payroll costs to federal grants based on the work performed. In instances where federal funding is not available for a particular grant's management costs, other allowable non-federal funding sources should be utilized as to prevent unallowable costs and activities. DMA should consult with FEMA for additional guidance as needed.

Management's Response and Planned Corrective Action

Due to the full activation of the State Emergency Operations Center in March 2020, in response to COVID-19, the entire staff of the Kentucky Division of Emergency Management (KYEM) was reassigned from normal duties to support the state's response to the pandemic. In addition to response efforts that extended far beyond the end of the 2020 Fiscal Year; many staff contracted COVID and others were quarantined for periods of time; thus delaying correction of these reoccurring findings.

In January 2020, KYEM employed a former Office of the Auditor of Public Accounts auditor to assess all federal timekeeping requirements and identify steps necessary to rectify the findings. All identified and recommended corrective actions have been implemented which include: development of the Kentucky Division of Emergency Management Payroll Cost Allocation Policy and Procedure, editing and reissuance of the On-Time Web Time Tracking System KYEM User Manual, and delivery of mandatory training for all KYEM staff.

The payroll expenditures for KYEM staff performing work related to CFDA Numbers 97.036 and 97.039 are now paid initially from KYEM's general fund allotment. Staff time is recorded in the On-Time Web Tracking System and on a monthly basis reports from the system are created. Calculations are made to determine the percent of each employee's time to specific federally-funded programs. These percentages are then applied to the month's payroll costs and appropriated to the correct federal or state funding source. A journal voucher is to allocate those percentages. Charges that are relevant to the overall program rather than a specific grant are attributed to a program cost pool. If a program does not have sufficient available funding, the charges remain in the general fund allotment.

KYEM is confident that its activities and associated corrective actions have resolved these findings.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-041: The Department of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To Disaster Grants (Continued)**

Management's Response and Planned Corrective Action (Continued)

DMA OMA Additional Response:

As detailed above, KYEM has implemented the internal control procedures necessary to ensure compliance with 2 CFR 200.405 and 2 CFR 200.430. These controls were fully implemented October 1, 2020.

DMA OMA will continue to monitor KYEM's payroll processes to ensure continued compliance with federal guidelines, and if needed, will provide support, or advise on, procedures and deadlines necessary for maintaining the corrective actions.

DMA OMA is going to provide KYEM a timeline of measurable requirements and deadlines that must be met for the regular processing of the payroll allocation process for FEMA Grants. Should it be noted that deadlines are not met, reviews have not been completed, and/or processing of payroll allocation has not been completed, DMA OMA will restructure positions responsible for these items to report to DMA, as an oversight function of the Department of Military Affairs.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-042: The Department Of Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place For Federal Reports

State Agency: Department of Workforce Investment
 Federal Programs: CFDA 17.225 – Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
CFDA 17.258 – WIOA Adult Programs
CFDA 17.259 – WIOA Youth Activities
CFDA 17.278 – WIOA Dislocated Worker Formula Grants
 Federal Agency: U.S. Department of Labor
 Pass-Through: Not Applicable
 Compliance Area: Reporting
 Questioned Costs: \$0

This is a repeat finding for the Unemployment Insurance (UI) ETA 2112 and Workforce Innovation and Opportunity Act (WIOA) ETA 9130 reports as reported in the fiscal year 2019 (FY19) Statewide Single Audit of Kentucky (SSWAK) Volume II as findings 2019-017 and 2019-016 respectively.

As part of the audit of the Commonwealth's federal compliance with the Unemployment Insurance (UI) program, internal controls were reviewed and found inadequate for three of the Department of Workforce Investment report types:

- The Unemployment Insurance Financial Transaction Summary Report (ETA 2112) is a monthly summary of transactions, which accounts for all funds received by, passed through, or paid out of the State Unemployment fund. DWI did not have an internal process for a second individual to review the report prior to submission and verify the accuracy of the ETA 2112 data.
- The Financial Status Report (ETA 9130) is a quarterly report used to report program and administrative expenditures for each grant awarded to DWI, including WIOA and UI. The report was not reviewed prior to certification and there was no segregation of duties in the submission and certification procedures. In addition, those submitting ETA 9130 reports were using their supervisor's login credentials to perform the required authorized official's certification in the Grant Reporting System, in some cases without the supervisor having seen the report. By entering a personal identification number in the Grant Reporting System, the authorized official is certifying that, to the best of their knowledge and belief, the report is true, complete, and accurate, and the data included are for the purposes and objectives set forth in the terms and conditions of the federal award.
- The Quarterly UI Above-base Report (ETA 2208a) provides information to the United States Department of Labor (DOL) on the number of staff years worked and paid for across various UI program categories and provides the basis for determining above-base entitlements. This is a new issue for FY20. Inquiry with the report preparer showed DWI did not have an internal process for a second individual to verify the accuracy of the ETA 2208a data.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-042: The Department Of Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place For Federal Reports (Continued)**

For FY20, DWI staff compiled the ETA 2112, ETA 2208a, and ETA 9130 reports for Unemployment Insurance activity. Due to a reorganization, it is anticipated the Kentucky Labor Cabinet will compile these reports specific to CFDA 17.225 Unemployment Insurance.

The causes for the issues in this finding are as follows:

- For the ETA 2112 and ETA 2208a reports, DWI did not have an internal process for a second individual to verify the accuracy of the data prior to submission.
- For the ETA 9130 report, a procedure is in place for a supervisory review of the report, but due to being short-staffed, this review was not performed.

Without adequate review of the reports to verify the accuracy of the data, the risk of inaccurate reporting is increased. Failure to ensure the accuracy of financial reports submitted to the DOL and not segregating the submission and certification duties could lead to noncompliance with federal regulations. For the ETA 9130 reports, the sharing of credentials indicates review may be taking place when it is not which could result in a misleading level of assurance as to the integrity of the reports.

2 CFR section 200.303 indicates that the non-Federal entity must:

Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-Federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The GAO Green Book, Section 10.03 – Design of Appropriate Types of Control Activities, states, in part:

Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system...Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-042: The Department Of Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place For Federal Reports (Continued)**

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

Recommendation

We recommend DWI implement adequate internal controls to ensure the ETA 2112, ETA 2208a, and ETA 9130 reports are reviewed before submission to the U.S. DOL. The ETA 9130 should be certified by an authorized official who is not the report preparer. These internal control procedures should also be shared with the Kentucky Labor Cabinet so that internal controls remain in place if the responsibility for these reports is transitioned.

Management’s Response and Planned Corrective Action**ETA 9130**

The attached Education and Workforce Development Cabinet (“EWDC”) “Policy and Procedures for Documentation of Workforce On-line Reporting for Kentucky (WORK) System Monthly Expenditures” has been implemented on an interim basis, effective February 9, 2021, to address the certification and controls related to the ETA 9130. The policy has been placed for review by the policy team on March 2, 2021, and may be revised to further comply with this audit and to address any implementation issues. If any revisions are approved, the interim policy will be implemented with incorporated changes.

ETA 2112 and ETA 2208a

In response to the findings related to ETA 2208a and ETA 2112, EWDC acknowledges receipt of the findings. However, pursuant to Executive Order 2020-686, entitled “Relating to the Reorganization of the Office of Unemployment Insurance, the Career Development Office, and the Division of Operations and Support Services from the Education and Workforce Development Cabinet to the Labor Cabinet” the responsibilities and requirements related to ETA 2208a and ETA 2112, reside with and are in full control of the Labor Cabinet. Moving forward, EWDC will notify the Labor Cabinet of any issues EWDC is made aware of related to ETA 2208a and ETA 2112, and work collaboratively with the Labor Cabinet should they have questions related to ETA 2208a and ETA 2112.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-043: The Kentucky Department Of Education Overdrew Twenty-First Century Community Learning Centers Federal Grant Funds

State Agency: Kentucky Department of Education
 Federal Program: CFDA 84.287 – Twenty-First Century Community Learning Centers
 Federal Agency: U.S. Department of Education
 Pass-Through: Not Applicable
 Compliance Area: Cash Management
 Questioned Costs: \$0

This is a repeat finding of 2019-010 as reported in the 2019 Statewide Single Audit of Kentucky (SSWAK) Volume II.

The 21st Century Community Learning Centers (CCLC) federal grant program provides funding to establish or expand community learning centers to provide academic enrichment opportunities during non-school hours to complement a students' regular academic program. The Kentucky Department of Education (KDE) failed to comply with federal cash management requirements over the CCLC in order to minimize the time between the drawdown and subsequent disbursement of funds for federal program purposes.

A review of receipts pertaining to the Federal Fiscal Year (FFY) 2017 CCLC federal grant, which closed during our fiscal year under audit, identified KDE completed a manual drawdown of funds in December 2019 for \$3,655,345. This drawdown was based on the remaining federal funds for the grant which were still available. KDE made \$978,246 in payments to subrecipients more than 30 days after the funds had been drawn down. On June 9, 2020 KDE refunded \$331,870 of FFY 17 CCLC grant funds to the United States Department of Education, eliminating an ending cash balance as of June 30, 2020.

The reimbursement request from the subrecipients are due on November 30th and per KDE staffing is not available to process all requests before the end of the closeout period.

KDE normally relied on an automated drawdown process which would only generate a drawdown request once payments had been made to subrecipients. At the time of the manual drawdown, specific expenditures are not associated with the draw, so it is difficult to determine which expenditures the draw covered. This creates a risk that the same expenditure may be drawn down twice. By completing a manual drawdown of funds, no mechanism was in place to track and ensure payments were remitted to subrecipients timely and in accordance with cash management requirements. As a result, KDE was noncompliant with federal cash management requirements. Additionally, excess federal fund receipts drawn down but not needed to reimburse allowable costs, were paid back to the federal government.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-043: The Kentucky Department Of Education Overdrew Twenty-First Century Community Learning Centers Federal Grant Funds**

31 CFR Subpart B §205.33, How are funds transfers processed?, states:

(a) A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102 (For availability, see 5 CFR 1310.3.) [...]

Recommendation

We recommend KDE implement adequate internal controls and properly manage grant activities to ensure compliance with cash management in accordance with Federal regulations.

Management's Response and Planned Corrective Action

The Kentucky Department of Education adheres to Commonwealth's six-day Cash Management Improvement Act (CMLA) agreements. Therefore, payments are made to subrecipients, etc. with the expenditure reporting afterwards and the draw completed per the system generated RE the following Monday/week.

Beginning January 2021, the Accounting and Finance Branch and Federal Budget Branch has initiated a weekly review of eMARS and drawdown system balances. This reconciliation will ensure proper cash management of federal funds awarded to KDE. Also, KDE will request an earlier date (November 2021) in which districts/vendors/subrecipients to submit required invoices which will assist in providing sufficient time for both branches to process payments before the 90 day closing (December 2021). In addition, this earlier date will also minimize and/or eliminate the need for a manual draw during federal closeout.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-044: The Kentucky Transportation Cabinet Understated Expenditures On The Schedule Of Expenditures Of Federal Awards

State Agency: Kentucky Transportation Cabinet
 Federal Program: CFDA 97.036 - Disaster Grants-Public Assistance (Presidentially Declared Disasters)
 Federal Agency: U.S. Department of Homeland Security
 Pass-Through: Not Applicable
 Compliance Area: Reporting
 Questioned Costs: \$0

The Kentucky Transportation Cabinet’s (KYTC) Public Assistance program provides assistance for debris removal, emergency protective measures, and permanent repairs of infrastructure that is damaged as a result of natural disasters. With prior approval, these expenditures are eligible for reimbursement from the federal government. Such expenditures of federal funds are recorded on the Commonwealth’s Schedule of Expenditures of Federal Awards (SEFA) under the appropriate Catalog of Federal Domestic Assistance (CFDA) number.

As part of the Commonwealth’s Single Audit, expenditures at KYTC eligible for reimbursement from the Federal Emergency Management Agency (FEMA) for Presidentialy Declared Disasters (CFDA 97.036) were reviewed. In order to accurately compile the SEFA, KYTC only includes projects with expenditures. In FY20, the SEFA included a project with a negative expenditure balance due to corrections within the accounting system and therefore this project should not have been included in the SEFA.

Internal controls in place to review the preparation of the fiscal year 2020 SEFA were inadequate to prevent or correct this misstatement.

Because of the inappropriate inclusion of a program with a negative expenditure balance, the SEFA was understated by \$52,784.

Code of Federal Regulations at 2 CFR 200.510 (b), states:

Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended.

Recommendation

We recommend KYTC strengthen its review of expenditures within federal program CFDA 97.036 when compiling the SEFA.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-044: The Kentucky Transportation Cabinet Understated Expenditures On The Schedule Of Expenditures Of Federal Awards (Continued)**

Management’s Response and Planned Corrective Action

“In FY20 the SEFA included a project with a negative expenditure balance due to corrections within the accounting system and therefore this project should not have been included in the SEFA.”

All expenditures whether negative or positive must be included in the SEFA. If there are negative expenditures on a project, the transactions are entered as Other Additions on the SEFA report, rather than entered as Cash Expenditures. Due to the nature of 97.036, projects are grouped by disaster number on the SEFA. Each disaster number includes multiple project numbers. For this particular disaster number, there was a \$1.5 million credit entered as Other Additions. KYTC Accounts Program Billing staff failed to move identify and enter \$52,764 of additional negative expenditures as Other Additions which understated actual Cash Expenditures by that amount.

Moving forward, General Accounting staff, or additional trained staff within Program Billing will review detailed SEFA transactions for negative expenditures and verify entries before submitting the SEFA to Finance.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-045: The Office Of The State Budget Director Did Not Ensure Coronavirus Relief Fund Activity Was Allowable Per Changing Federal Guidance

State Agency:	<u>Office of the State Budget Director</u>
Federal Program:	<u>CFDA 21.019 – CARES – Coronavirus Relief Fund</u>
Federal Agency:	<u>U.S. Department of the Treasury</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance</u>
Questioned Costs:	<u>\$4,799,650</u>

The Coronavirus Relief Fund (CRF) was established under section 601 of the Social Security Act to cover costs that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19). The \$150 Billion fund is to be used to make payments for specified uses to States, Tribal governments, and units of local government for the program period March 1, 2020 through December 31, 2021.

In Kentucky, funds were received and managed by the Office of the State Budget Director (OSBD), then disbursed to needful entities through an application process. Kentucky State Police (KSP) submitted an application and received reimbursement for the payroll expenses of state troopers and police dispatchers.

Upon inspection of the KSP application and payroll reports, it was determined \$4,799,650 was reimbursed for payroll expenses that were incurred prior to the program period of performance beginning March 1, 2020, and included the following:

- \$4,749,825 of payroll costs were related to the February 16, 2020 to February 29, 2020 pay-period.
- \$49,825 in “separation payments” for two employees who departed during the May 16, 2020 pay-period. These payments included sick leave and compensation time accrued throughout employment.

These expenses were charged to the CRF based upon initial guidance provided by the U.S. Department of the Treasury dated April 22, 2020, which stated, “A cost is “incurred” when the responsible unit of government has expended funds to cover the cost.”

However, the U.S. Department of the Treasury Guidance was subsequently updated on June 30, 2020, with a new definition of “incurred” as follows:

Initial guidance released on April 22, 2020, provided that the cost of an expenditure is incurred when the recipient has expended funds to cover the cost. Upon further consideration and informed by an understanding of State, local, and tribal government practices, Treasury is clarifying that for a cost to be considered to have been incurred, performance or delivery must occur during the covered period but payment of funds need not be made during that time...

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-045: The Office Of The State Budget Director Did Not Ensure Coronavirus Relief Fund Activity Was Allowable Per Changing Federal Guidance (Continued)**

The change in the U.S. Department of the Treasury guidance was published June 30, 2020, the last day of the State's fiscal year, and OSBD did not retroactively apply the changing guidance. Therefore, there was no amendment or retroactive movement of ineligible expenses during the accounting closing period ending in late July. Subsequent amendments to U.S. Department of the Treasury guidance did not change the final definition of incurred, as presented in the June 30, 2020 guidance.

OSBD discussed changes with U.S. Department of the Treasury to determine if newly published guidance was intended to be retroactively applied or if it superseded initial guidance. This discussion is ongoing, and any final determination made by U.S. Department of the Treasury on this question will impact the resolution of this finding.

Kentucky State Police (KSP) was reimbursed \$4,799,650 for payroll expenses incurred prior to the program period of performance beginning March 1, 2020 that would be ineligible for reimbursement based on the June 30, 2020 Treasury guidance. This resulted in a noncompliance with current U.S. Department of the Treasury guidance. Any identified unallowable costs would be required to be paid with another allowable funding source.

Section 601(d) Use of Funds, states, in part:

A State, Tribal government, and unit of local government shall use the funds provided under a payment made under this section to cover only those costs of the State, Tribal government, or unit of local government that... (3) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

The deadline for the use of funds was extended to December 31, 2021 per the Consolidated Appropriations Act.

Recommendation

We recommend OSBD continue to work with U.S. Department of the Treasury on a final determination on the application and interpretation of the effective date of distributed guidance, including if guidance issued is to be retroactively applied. For any costs ultimately determined to be unallowable, and outside the period of performance, OSBD should coordinate with KSP to move those expenditures to allowable funding sources and recoup those funds within the State's CRF. Any returned CRF funds would then be available to be used on other allowable expenses in accordance with established guidelines.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-045: The Office Of The State Budget Director Did Not Ensure Coronavirus Relief Fund Activity Was Allowable Per Changing Federal Guidance (Continued)****Management’s Response and Planned Corrective Action**

The Commonwealth implemented the Coronavirus Relief Fund during state fiscal year 2019-2020 with reliance upon and in accordance with the guidance provided all recipients by the U.S. Department of Treasury, dated April 22, 2020. That guidance provided that in relation to a “Cost incurred during the period that begins on March 1, 2020, and ends on December 30, 2020” that “A cost is ‘incurred’ when the responsible unit of government has expended funds to cover the costs.”

This guidance was further amplified in a national call provided by the U.S. Department of Treasury that was organized in part by the National Association of State Budget Officers. The primary questions by States at that time on the covered period of eligible costs were about the impact of the December 30, 2020 end date and issues around whether incurred expenditures prior to December 30 but paid at a later date would be allowed. There was no discussion about the beginning March 1 date.

In accordance with the April 22, 2020 federal guidance, the Office of State Budget Director initiated the Coronavirus Relief Fund application process with state government agencies. The initial application information dated May 22, 2020 solicited eligible expenditures, including eligible payroll expenditures, for the time period from March 1, 2020 through May 15, 2020. The payroll paid in mid-March for time worked in the last half of February was clearly an eligible cost under the federal guidance.

The Office’s review team became fully engaged in late May and in the month of June advising state agencies on the application and eligible expenditures, the time period of eligible payroll expenditures paid during the five state government payroll payments of March, April, and one payroll in May, the type of information that must be provided with each application and reviewing the applications under the U.S. Department of Treasury’s guidance. These actions relied upon and were contemporaneous with that guidance.

Subsequently, the U.S. Department of Treasury changed its guidance on June 30, 2020, the last day of Kentucky state government’s fiscal year. The changed guidance recognized the April 22, 2020 directives and highlighted a change in how a cost incurred is defined. The new guidance stated “...that for a cost to be considered to have been incurred, performance or delivery must occur during the covered period but payment of funds need not be made during that time...” The covered period for the Coronavirus Relief Fund at that time was March 1, 2020 through December 30, 2020.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-045: The Office Of The State Budget Director Did Not Ensure Coronavirus Relief Fund Activity Was Allowable Per Changing Federal Guidance (Continued)****Management's Response and Planned Corrective Action (Continued)**

The process of reviewing and approving the first group of state agency applications was well underway or completed by the time the updated guidance was received and reviewed in early July. That work, the deadlines for completing the review and awarding of the Coronavirus Relief Fund, and especially, the closing out of the fiscal year precluded the ability to quickly react to the change in the guidance published on the last day of the state's fiscal year.

The Office of State Budget Director in email exchanges with the U.S. Department of the Treasury presented the issue of whether the guidance in place at the time and relied upon by the Commonwealth would be honored for payroll costs that were reimbursed for the covered period of March 1 through May 15, 2020 with those costs to continue to be considered eligible uses of the Coronavirus Relief Fund, as they were in accordance with the federal guidance at that time. Given the last-minute change in the guidance. The U.S. Department of Treasury acknowledged the situation and stated that applying the guidance in place at the time of these actions was a question they had not yet approached, but acknowledged that it was an item to be determined. Follow-up inquiries have been made but no further response has been provided. OSBD will continue to seek a determination from the U.S. Department of Treasury on the matter so that it can be resolved. This discussion is ongoing, and any final determination made by U.S. Department of the Treasury on this question will impact the resolution of this finding.

If the U.S. Department of Treasury decides that their guidance that governed eligible costs at the time and was relied upon by the Commonwealth is to be repudiated, then corrective actions will be taken. In related conference call discussions with the U.S. Department of Treasury, they advised that in instances of the discovery of ineligible costs, the state or city government could offset those with other eligible expenses. To conform to the new guidance, which altered the eligibility of previously eligible reimbursed costs, the Office of the State Budget Director will work with each applicable state agency which had payroll expenses that were paid in mid-March, 2020 for time worked in the second half of February as a part of their application and award, to certify the specific amounts of that one payroll paid in mid-March and to provide subsequent eligible payroll costs for review and approval that are at least equal to the once eligible payroll costs for the first March payroll expenditures.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2020-046: The Office Of Unemployment Insurance Failed To Ensure Benefits Were Charged To The Proper Programs

State Agency: Office of Unemployment Insurance
 Federal Programs: CFDA 17.225 - Unemployment Insurance
CFDA 17.225 – CARES – Unemployment Insurance
 Federal Agency: U.S. Department of Labor
 Pass-Through: Not Applicable
 Compliance Area: Activities Allowed or Unallowed; Period of Performance
 Questioned Costs: \$0

During fiscal year 2020 (FY20), the Office of Unemployment Insurance (OUI) charged \$7,262,431 in benefit payments to a program related to the 2008 recession, after the program’s allowable period of performance. The charges related to a new federal program, Pandemic Emergency Unemployment Compensation (PEUC), which was started in FY20 due to the COVID-19 pandemic.

Period of performance management includes ensuring that an agency’s accounting templates are appropriately written or updated so expenditures are assigned to the correct grant and are not charged outside a grant’s period of performance. The 2008 program’s period of performance ended on June 30, 2014, and the program should have been marked “inactive” in the state’s accounting system to prevent future charges. When recording benefit payments in the state’s accounting system, OUI staff members are responsible for selecting the appropriate accounting template for the expenditure. In FY20, the accounting template for the 2008 program was selected and charged for expenditures that should have gone to the PEUC accounting template.

While the underlying template issues were eventually identified and corrected by OUI, the accounting errors that had occurred in the interim were not corrected until auditors inquired about the issue.

By May 5, 2020, OUI had identified and corrected \$127,668 in errors related to the issue. The remaining errors were corrected in the state’s accounting system as a result of auditor inquiry into the 2008 program charges in the Schedule of Expenditures of Federal Awards (SEFA).

The cause of this issue, according to the Commonwealth Office of Technology, was that the accounting templates in question were not changed in response to the COVID-19 pandemic. Because these changes were not made, the 2008 program was inappropriately charged.

In any case, OUI did not have sufficient internal controls in place to ensure necessary template changes were identified and made in a timely manner or to detect and correct the resulting accounting errors.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-046: The Office Of Unemployment Insurance Failed To Ensure Benefits Were Charged To The Proper Programs (Continued)**

Charges to the 2008 program and the PEUC program were overstated and understated respectively by \$7,134,763. This was corrected by the agency before the SEFA was published.

Without a process to verify and update the grant accounting templates, the risk of ineffective grant management and financial reporting errors is increased. Also, failure to ensure the accuracy of grant accounting templates could lead to noncompliance with federal regulations.

2 CFR section 200.303 indicates that the non-Federal entity must:

Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-Federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Green Book, Section 10.02 – Response to Objective and Risks states:

Management designs control activities in response to the entity’s objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives to achieve the entity’s objectives and address related risks.

29 CFR section 97.23 states, in part, “Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted...”

Recommendation

We recommend the following:

- OUI charge only allowable costs incurred during the established period of performance.
- OUI implement internal controls to ensure grant accounting templates are prepared with accurate information and updated when necessary.
- OUI implement internal controls to identify and correct the grant-related accounting errors in a timely manner.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2020-046: The Office Of Unemployment Insurance Failed To Ensure Benefits Were Charged To The Proper Programs (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 within their respective fields. 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.

Under the Kentucky Labor Cabinet we will take the recommendations and are putting them into practice regarding the following. The Program Specialist, Branch Manager, and the Division Director will ensure:

- *OUI charge only allowable costs incurred during the established period of performance.*
- *OUI implement internal controls to ensure grant accounting templates are prepared with accurate information and updated when necessary.*
- *OUI implement internal controls to identify and correct the grant-related accounting errors in a timely manner.*

The Program Specialist who is assigned to the particular grant will perform the grant closeout and submit a grant closeout checklist to the Accounting Branch Manager. The Accounting Branch Manager will review and sign off to confirm that the grant has been closed to ensure expenditures do not continue to post and are not recorded on the SEFA. The final review will come from the Division Director.

At all times, program integrity will remain the primary objective of the Cabinet and the Office of Unemployment Insurance.

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.

APPENDIX

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

This report is available on the Auditor of Public Accounts' website, www.auditor.ky.gov. For other requests, contact Tim Gutman, Open Records Administrator, with the APA at (502) 564-5841 or tim.gutman@ky.gov. If copies of the Commonwealth's FY 2020 Comprehensive Annual Financial Report are required, visit www.finance.ky.gov.

The following is a list of individuals by state agency to contact regarding federal award findings listed in the Schedule of Findings and Questioned Costs.

Agency	Contact
Cabinet for Health and Family Services	Kelli Hill, Director Division of General Accounting Cabinet for Health and Family Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone: (502) 564-8890
Department of Military Affairs	Rebecca Dittert, Budget Manager Office of Management and Administration Boone National Guard Center 100 Minuteman Parkway Bldg. 100 Frankfort, KY 40601 Phone: (502) 607-1545
Department of Workforce Investment	Beth Roark, Director Office of Administrative Services 500 Mero Street, 4 th Floor Frankfort, KY 40601 Phone: (502) 564-0372
Department of Education	Karen Wirth, Director Division of Budget and Finance 300 Sower Blvd. Suite 524 Frankfort, KY 40601 Phone: (502) 564-1979
Kentucky Transportation Cabinet	Teri Harmon, Assistant Director Division of Audit Services 200 Mero Street – 4 th Floor East Frankfort, KY 40601 Phone: (502) 782-4073

Agency	Contact
Department of Veterans Affairs	Mark Bowman, Executive Director Office of Kentucky Veterans Centers 1111 Louisville Rd. #B Frankfort, KY 40601 Phone: (502) 782-5725
Energy and Environment Cabinet	Cori Troutman, Director Division of Financial Management Office of Administrative Services 300 Sower Blvd Frankfort, KY 40601 Phone: (502) 782-7014
Office of Unemployment Insurance	Buddy Hoskinson, Executive Director Office of Unemployment Insurance 275 E. Main Street, 2 nd Floor Frankfort, KY 40601 Phone: (502) 782-3437
Office of the State Budget Director	John Hicks, State Budget Director 702 Capitol Avenue Room 284, Capitol Annex Frankfort, KY 40601 Phone: (502) 564-7300
Justice and Public Safety Cabinet	Marjorie Stanek, Director Grants Management Division 125 Holmes Street Frankfort, KY 40601 Phone: (502) 564-3251