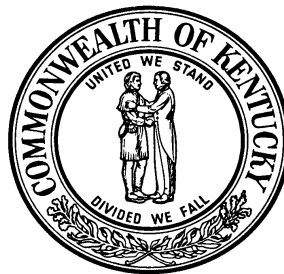


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME I

**For the Year Ended
June 30, 2023**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
(502) 564-5841**

THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2023

Background

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

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

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

Annual Comprehensive Financial Report

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

The scope of the ACFR audit included:

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

**THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY VOLUME I
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Schedule of Expenditures of Federal Awards

The SEFA presented within this report is organized by federal grantor. The Assistance Listing Numbers (ALNs) and program names are listed under the federal grantor administering the program. The notes to the SEFA provide more detailed information on certain aspects of the expenditures. Clusters of programs are indicated in the SEFA by light gray shading. The identification of major federal programs and our report thereon will be presented in Volume II of the SSWAK.

For the fiscal year (FY) ended June 30, 2023, the total federal dollars expended by the Commonwealth of Kentucky was \$19,810,463,142 in cash awards and \$1,523,015,851 in noncash awards. These totals represent an increase of \$65,090,441 in cash expenditures and a decrease of \$389,413,174 in noncash expenditures in comparison with the totals for FY 2022.

Component Units

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



ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

March 14, 2024

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

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the Fiscal Year ended June 30, 2023. Volume I contains financial statement findings identified during our audit of the Annual Comprehensive Financial Report (ACFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

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

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

Respectfully Submitted,

Allison Ball

Allison Ball
Auditor of Public Accounts



CONTENTS

	Page
INDEPENDENT AUDITOR’S REPORT	1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	7
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	19
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33

Financial Statement Findings

Material Weaknesses Relating to Internal Controls

<u>FINDING 2023-001:</u> The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation Of GASB Statement 96 Subscription-Based Information Technology Arrangements	39
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-002:</u> The Finance And Administration Cabinet Failed To Ensure The Completeness And Accuracy Of Capital Assets Data Used To Prepare The Commonwealth's Financial Statements	42
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-003:</u> The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation Of GASB Statement 87 Leases	44
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-004:</u> The Finance And Administration Cabinet Incorrectly Classified Activity As An Operating Revenue In The Kentucky Horse Park Fund	47
----------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-005:</u> The Finance And Administration Cabinet Failed To Ensure The Accuracy And Necessity Of Manual Accounting Entries Recorded During The Compilation Of The Financial Statements	49
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-006:</u> The Finance And Administration Cabinet Failed To Implement Adequate Policies, Procedures, Or Internal Controls To Ensure GASB Pronouncements Were Accurately Implemented	51
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-007:</u> The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of The Receivables And Payables Information In The Closing Package	54
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

<u>FINDING 2023-008:</u> The Cabinet For Health And Family Services Did Not Properly Separate Duties Within The Workers' Information System	56
----------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-009:</u> The Finance And Administration Cabinet Incorrectly Recorded An Accounts Receivable For Unemployment Benefit Claims To Be Paid With Federal Funds	60
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-010:</u> The Finance And Administration Cabinet Did Not Comply With Certain Enterprise Policies Related To System Security.....	62
--------------------------------------------------------------------------------------------------------------------------------------------------------	----

<u>FINDING 2023-011:</u> The Finance And Administration Cabinet Did Not Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information.....	65
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

CONTENTS
(Continued)

Page

FINDING 2023-012: Kentucky Department Of Education's Internal Controls Did Not Identify Attendance Data Errors Resulting In One School District Receiving An Overpayment Of SEEK Funds.....67

FINDING 2023-013: The Kentucky Department Of Education Miscoded SEEK Funds In The State's Accounting System69

FINDING 2023-014: The Kentucky Horse Park Failed To Evaluate And Identify All Unearned Revenue Required To Be Reported On The Year End Closing Package70

FINDING 2023-015: The Kentucky Horse Park Incorrectly Capitalized Expenses That Were Ineligible Per Established Requirements72

FINDING 2023-016: The Department Of Parks Did Not Ensure The Accuracy Of Accounts Payable Information In The Closing Package74

FINDING 2023-017: The Department Of Parks Capital Asset Records Included Assets Not Recorded In The State's Accounting System At The End Of The Fiscal Year77

FINDING 2023-018: State Agencies Failed To Accurately Identify And Classify Amounts Reported As Passed Through To Subrecipients On The Schedule Of Expenditures Of Federal Awards79

FINDING 2023-019: The Finance And Administrative Cabinet’s Financial Reporting Branch Failed To Implement Adequate Internal Controls To Ensure The Completeness And Accuracy Of The Schedule Of Expenditures Of Federal Awards.....81

APPENDIX85



ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

Report on the Schedule of Expenditures of Federal Awards

Opinion

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated February 27, 2024, which contained an unmodified opinion on all statements except for a qualified opinion on the Insurance Administration Fund's Statement of Revenues, Expenses, and Changes in Fund Net Position and the related Statement of Cash Flows. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) and is not a part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, except for the effects of the application of a different basis of accounting, the Schedule of Expenditures of Federal Awards presents fairly, in all material respects, the expenditures of the federal awards of the Commonwealth of Kentucky for the year ended June 30, 2023, in relation to the Commonwealth's basic financial statements as a whole.



Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedule section of our report.

We are required to be independent of the Commonwealth and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to Note 1 to the schedule, which describes the basis of accounting. The Schedule of Expenditures of Federal Awards is prepared on the cash basis of accounting as modified by the application of Kentucky Revised Statute (KRS) 45.229, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Responsibilities of Management for the Schedule

Management is responsible for the preparation and fair presentation of the schedule in accordance with the cash basis of accounting as modified by the application of KRS 45.229 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedule.

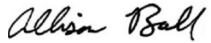
In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedule, whether due to fraud, or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedule.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

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

Respectfully Submitted,

Allison Ball
Auditor of Public Accounts
Frankfort, Kentucky

February 27, 2024

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 617,595	\$ -	\$ -	
10.028	Wildlife Services	33,285	-	-	
10.072	Wetlands Reserve Program	527,003	-	-	
10.093	Voluntary Public Access and Habitat Incentive Program	20,000	-	-	
10.153	Market News	2,341	-	-	
10.162	Inspection Grading and Standardization	17,461	-	-	
10.163	Market Protection and Promotion	49,995	-	-	
10.170	Specialty Crop Block Grant Program - Farm Bill	289,434	-	-	
10.175	Farmers Market and Local Food Promotion Program	993	-	-	
10.182	COVID-19 Food Bank Network	234,597	-	191,306	14
10.185	Local Food for Schools Cooperative Agreement Program	24,593	-	24,593	
10.187	The Emergency Food Assistance Program (TEFAP) Commodity Credit Corporation Eligible Recipient Funds	164,791	2,655,265	2,820,056	10
10.334	Enhancing Agricultural Opportunities for Military Veterans Competitive Grants Program	34,956	-	-	
10.525	Farm and Ranch Stress Assistance Network Competitive Grants Program	291,628	-	-	
10.537	Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants	5,622	-	-	
10.542	COVID-19 Pandemic EBT Food Benefits	-	307,337,891	-	2, 10, 14
SNAP Cluster:					
10.551	Supplemental Nutrition Assistance Program	-	1,087,003,088	-	2, 10
10.551	COVID-19 Supplemental Nutrition Assistance Program	-	-	-	2, 10, 14
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	103,818,337	-	10,282,760	2
10.561	COVID-19 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	8,186,250	-	3,562	2, 14
	Total SNAP Cluster:	112,004,587	1,087,003,088	10,286,322	
Child Nutrition Cluster:					
10.553	School Breakfast Program	29,507,316	-	129,415,959	2, 17
10.555	COVID-19 National School Lunch Program	391,308,579	-	22,444,666	2, 14, 17
10.555	National School Lunch Program	60,206,914	35,376,808	95,583,722	2, 10
10.556	Special Milk Program for Children	14,794	-	14,794	2
10.559	Summer Food Service Program for Children	12,154,886	-	11,893,503	2
10.582	Fresh Fruit and Vegetable Program	4,127,281	-	4,127,281	2
	Total Child Nutrition Cluster:	497,319,770	35,376,808	263,479,925	
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	126,494,887	-	26,485,445	2
10.557	COVID-19 WIC Special Supplemental Nutrition Program for Women, Infants, and Children	68,576	-	-	2, 14
10.558	Child and Adult Care Food Program	49,266,736	-	49,010,285	2
10.560	State Administrative Expenses for Child Nutrition	5,235,748	-	513,127	
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program	2,976,794	12,870,520	15,760,787	2, 10, 11
10.568	Emergency Food Assistance Program (Administrative Costs)	2,023,463	-	1,982,065	2, 10
10.568	COVID-19 Emergency Food Assistance Program (Administrative Costs)	1,529,656	2,061,412	3,572,797	2, 10, 14
10.569	Emergency Food Assistance Program (Food Commodities)	199,977	14,412,537	14,612,513	2, 10
	Total Food Distribution Cluster:	6,729,890	29,344,469	35,928,162	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	98,088	-	-	
10.576	Senior Farmers Market Nutrition Program	631,438	-	-	
10.578	WIC Grants To States (WGS)	249,581	-	249,581	
10.579	Child Nutrition Discretionary Grants Limited Availability	481,426	-	481,426	
10.580	Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	180,000	-	-	
10.649	COVID-19 Pandemic EBT Administrative Costs	2,455,842	-	601,462	14
10.652	Forestry Research	372,263	-	-	
10.664	Cooperative Forestry Assistance	2,544,823	-	471,658	
10.676	Forest Legacy Program	6,122	-	-	
10.678	Forest Stewardship Program	20,684	-	-	
10.680	Forest Health Protection	38,830	-	-	
10.691	Good Neighbor Authority	49,267	-	-	
10.697	State & Private Forestry Hazardous Fuel Reduction Program	89,161	-	-	
10.698	State & Private Forestry Cooperative Fire Assistance	2,913	-	-	
10.717	Infrastructure Investment and Jobs Act Restoration/Revegetation	20,250	-	-	
10.902	Soil and Water Conservation	77,188	-	-	
10.912	Environmental Quality Incentives Program	155,083	-	-	
10.913	Farm and Ranch Lands Protection Program	19,756	-	-	
	Total U.S. Department of Agriculture	\$ 806,927,203	\$ 1,461,717,521	\$ 390,543,348	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Commerce					
Direct Programs:					
11.032	State Digital Equity Planning Grants	\$ 144,095	\$ -	\$ -	
11.035	COVID-19 Broadband Equity, Access, and Deployment Program	534,010	-	-	14
11.302	Economic Development Support for Planning Organizations	1,074,282	-	1,052,130	
Economic Development Cluster:					
11.307	COVID-19 Economic Adjustment Assistance	3,079,256	-	2,516,954	14
Total Economic Development Cluster:		3,079,256	-	2,516,954	
Total U.S. Department of Commerce		\$ 4,831,643	\$ -	\$ 3,569,084	
U.S. Department of Defense					
Direct Programs:					
12.106	Flood Control Projects	\$ 4,862	\$ -	\$ -	
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	209,869	-	-	
12.401	National Guard Military Operations and Maintenance (O&M) Projects	22,839,638	-	-	
12.404	National Guard Challege Program	7,417,598	-	-	
12.617	Economic Adjustment Assistance for State Governments	412,220	-	-	
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	1,761,938	-	59,958	15
Total U.S. Department of Defense		\$ 32,646,125	\$ -	\$ 59,958	
U.S. Department of Housing and Urban Development					
Direct Programs:					
Committee Development Block Grants -State-Administered Small Cities Program					
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$ 27,049,699	\$ -	\$ 25,190,643	8
14.401	Fair Housing Assistance Program State and Local	169,096	-	-	
Total U.S. Department of Housing and Urban Development		\$ 27,218,795	\$ -	\$ 25,190,643	
U.S. Department of the Interior					
Direct Programs:					
15.018	Energy Community Revitalization Program (ECRP)	\$ 17,683,666	\$ -	\$ 138,118	
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	13,272,805	-	-	
15.252	Abandoned Mine Land Reclamation (AMLR)	22,299,702	-	481,702	
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration	5,723,534	-	-	7
15.611	Wildlife Restoration and Basic Hunter Education	12,662,023	-	363,366	7, 9
Total Fish and Wildlife Cluster:		18,385,557	-	363,366	
15.608	Fish and Wildlife Management Assistance	2,095,126	-	-	7
15.615	Cooperative Endangered Species Conservation Fund	117,134	-	38,109	7
15.616	Clean Vessel Act	119,939	-	119,939	
15.631	Partners for Fish and Wildlife	20,912	-	-	
15.634	State Wildlife Grants	709,636	-	-	7
15.657	Endangered Species Recovery Implementation	52,767	-	-	7
15.664	Fish and Wildlife Coordination and Assistance	4,906	-	-	
15.817	National Geospatial Program: Building the National Map	553,690	-	-	
15.904	Historic Preservation Fund Grants-In-Aid	1,125,070	-	162,957	
15.916	Outdoor Recreation Acquisition, Development and Planning	697,619	-	697,619	6
15.929	Save America's Treasures	2,509	-	-	
Total U.S. Department of the Interior		\$ 77,141,038	\$ -	\$ 2,001,810	
U.S. Department of Justice					
Direct Programs:					
16.017	Sexual Assault Services Formula Program	\$ 487,641	\$ -	\$ 474,332	
16.034	COVID-19 Coronavirus Emergency Supplemental Funding Program	2,719,151	-	587,956	14
16.320	Services for Trafficking Victims	237,050	-	-	
16.540	Juvenile Justice and Delinquency Prevention	163,715	-	89,938	
16.543	Missing Children's Assistance	489,920	-	-	
16.550	State Justice Statistics Program for Statistical Analysis Centers	17,076	-	-	
16.554	National Criminal History Improvement Program (NCHIP)	378,727	-	-	
16.575	Crime Victim Assistance	26,445,180	-	25,543,041	
16.576	Crime Victim Compensation	664,000	-	-	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.582	Crime Victim Assistance/Discretionary Grants	257,137	-	221,142	
16.585	Treatment Court Discretionary Grant Program	573,045	-	-	7
16.588	Violence Against Women Formula Grants	2,455,290	-	2,090,841	
16.593	Residential Substance Abuse Treatment for State Prisoners	347,144	-	-	
16.606	State Criminal Alien Assistance Program	15,338	-	-	
16.609	Project Safe Neighborhoods	257,916	-	216,094	
16.710	Public Safety Partnership and Community Policing Grants	877,370	-	-	
16.735	PREA Program: Strategic Support for PREA Implementation	353,840	-	-	
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,820,699	-	1,119,657	
16.741	DNA Backlog Reduction Program	720,905	-	-	
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	191,724	-	-	
16.746	Capital Case Litigation Initiative	72,182	-	-	
16.750	Support for Adam Walsh Act Implementation Grant Program	267,792	-	-	
16.751	Edward Byrne Memorial Competitive Grant Program	189,632	-	-	
16.754	Harold Rogers Prescription Drug Monitoring Program	632,958	-	-	
16.812	Second Chance Act Reentry Initiative	291,755	-	-	
16.820	Postconviction Testing of DNA Evidence	150,297	-	-	
16.823	Emergency Planning for Juvenile Justice Facilities	70,774	-	-	
16.833	National Sexual Assault Kit Initiative	496,081	-	-	
16.833	COVID-19 National Sexual Assault Kit Initiative	258,807	-	-	14
16.838	Comprehensive Opioid, Stimulant, and other Substances Use Program	1,853,516	-	1,447,711	
16.839	STOP School Violence	398,627	-	-	
16.922	Equitable Sharing Program	6,599,159	-	-	
16.U01	Drug Enforcement Administration	1,896,074	-	-	15
16.U02	Federal Bureau of Investigation	44,795	-	-	15
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program	16,959	-	-	15
16.U04	District Fugitive Task Force	2,591	-	-	15
16.U06	United States Postal Inspection Service (USPIS) Task Force	15,059	-	-	15
Total U.S. Department of Justice		\$ 52,729,926	\$ -	\$ 31,790,712	
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	\$ 975,824	\$ -	\$ -	
17.005	Compensation and Working Conditions	134,364	-	-	
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	9,380,909	-	-	
17.801	Jobs for Veterans State Grants	2,090,219	-	-	
Total Employment Service Cluster:		11,471,128	-	-	
17.225	Unemployment Insurance	85,123,494	-	-	2, 4
17.225	COVID-19 Unemployment Insurance	184,083,032	-	-	2, 4, 14
17.235	Senior Community Service Employment Program	1,218,162	-	1,125,005	
17.245	Trade Adjustment Assistance	1,059,075	-	610,468	
WIOA Cluster:					
17.258	WIOA Adult Program	13,466,339	-	11,009,944	2
17.259	WIOA Youth Activities	17,400,707	-	15,437,749	2
17.278	WIOA Dislocated Worker Formula Grants	16,179,431	-	14,459,572	2
Total WIOA Cluster:		47,046,477	-	40,907,265	
17.270	Reentry Employment Opportunities	8,333	-	-	
17.271	Work Opportunity Tax Credit Program (WOTC)	253,734	-	-	
17.273	Temporary Labor Certification for Foreign Workers	305,095	-	-	
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	6,344,561	-	6,331,119	
17.277	COVID-19 WIOA National Dislocated Worker Grants / WIA National Emergency Grants	824,155	-	817,860	14
17.285	Apprenticeship USA Grants	450,177	-	-	
17.503	Occupational Safety and Health State Program	4,272,283	-	-	
17.600	Mine Health and Safety Grants	367,510	-	-	
17.720	Disability Employment Policy Development	5,365,407	-	-	
Total U.S. Department of Labor		\$ 349,302,811	\$ -	\$ 49,791,717	
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	\$ 2,416,397	\$ -	\$ -	
20.111	Aircraft Pilots Workforce Development Grant Program	2,120	-	-	
20.205	Highway Planning and Construction	895,513,498	-	27,857,309	2, 5
20.205	COVID-19 Highway Planning and Construction	36,875,292	-	997	2, 5, 14
20.219	Recreational Trails Program	700,365	-	190,053	6

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Transportation (Continued)					
Direct Programs (Continued):					
FMCSA Cluster:					
20.218	Motor Carrier Safety Assistance	6,631,511	-	64,109	
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements				
		<u>1,852,370</u>	<u>-</u>	<u>12,958</u>	
	Total FMCSA Cluster:	<u>8,483,881</u>	<u>-</u>	<u>77,067</u>	
20.231	Performance and Registration Information Systems Management	198,336	-	-	
20.232	Commercial Driver's License Program Implementation Grant	958,627	-	-	
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	96,302	-	-	
Federal Transit Cluster:					
20.526	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	3,117,951	-	3,117,951	
	Total Federal Transit Cluster:	<u>3,117,951</u>	<u>-</u>	<u>3,117,951</u>	
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	968,586	-	968,586	
20.509	Formula Grants for Rural Areas and Tribal Transit Program	9,019,896	-	7,679,206	2
20.509	COVID-19 Formula Grants for Rural Areas and Tribal Transit Program	29,504,126	-	29,504,126	2, 14
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	757,352	-	757,352	
20.513	COVID-19 Enhanced Mobility of Seniors and Individuals with Disabilities	145,362	-	145,362	14
	Total Transit Services Programs Cluster:	<u>902,714</u>	<u>-</u>	<u>902,714</u>	
Highway Safety Cluster					
20.600	State and Community Highway Safety	6,524,097	-	3,090,440	
20.616	National Priority Safety Programs	4,638,681	-	550,954	
	Total Highway Safety Cluster:	<u>11,162,778</u>	<u>-</u>	<u>3,641,394</u>	
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	344,224	-	-	
20.700	Pipeline Safety Program State Base Grant	892,087	-	-	
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	131,815	-	-	
20.720	State Damage Prevention Program Grants	98,231	-	-	
20.721	PHMSA Pipeline Safety Program One Call Grant	46,770	-	-	
20.933	National Infrastructure Investments	11,679,897	-	5,131,717	
20.934	Nationally Significant Freight and Highway Projects	29,472,244	-	-	
	Total U.S. Department of Transportation	<u>\$ 1,042,586,137</u>	<u>\$ -</u>	<u>\$ 79,071,120</u>	
U.S. Department of Treasury					
Direct Programs:					
21.016	Equitable Sharing	\$ 166,419	\$ -	\$ -	
21.019	COVID-19 Coronavirus Relief Fund	228,820	-	-	14
21.023	COVID-19 Emergency Rental Assistance Program	65,125,116	-	64,834,010	2, 14, 16
21.027	COVID-19 Coronavirus State And Local Fiscal Recovery Funds	407,502,362	-	86,005,278	2, 14
21.029	COVID-19 Coronavirus Capital Projects Fund	49,302	-	-	14
	Total U.S. Department of Treasury	<u>\$ 473,072,019</u>	<u>\$ -</u>	<u>\$ 150,839,288</u>	
U.S. Appalachian Regional Commission					
Direct Programs:					
23.002	Appalachian Area Development	\$ 5,544,735	\$ -	\$ 5,288,281	
	Total U.S. Appalachian Regional Commission	<u>\$ 5,544,735</u>	<u>\$ -</u>	<u>\$ 5,288,281</u>	
U.S. Equal Employment Opportunity Commission					
Direct Programs:					
30.001	Employment Discrimination Title VII of the Civil Rights Act of 1964	\$ 160,850	\$ -	\$ -	
	Total U.S. Equal Employment Opportunity Commission	<u>\$ 160,850</u>	<u>\$ -</u>	<u>\$ -</u>	
U.S. General Services Commission					
Direct Programs:					
38.006	State Appraiser Agency Support Grants	\$ 77,040	\$ -	\$ -	
39.003	Donation of Federal Surplus Personal Property	-	279,216	-	10
	Total U.S. General Services Commission	<u>\$ 77,040</u>	<u>\$ 279,216</u>	<u>\$ -</u>	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
<u>U.S. National Foundation for the Arts and the Humanities</u>					
Direct Programs:					
45.025	Promotion of the Arts Partnership Agreements	\$ 932,135	\$ -	\$ 927,359	
45.301	Museums for America	21,959	-	-	
45.310	Grants to States	2,190,362	-	-	
45.310	COVID-19 Grants to States	1,064,083	-	-	14
45.312	National Leadership Grants	27,500	-	-	
Total U.S. National Foundation for the Arts and the Humanities		\$ 4,236,039	\$ -	\$ 927,359	
<u>U. S. Small Business Administration</u>					
Direct Programs:					
59.061	State Trade Expansion	\$ 185,906	\$ -	\$ -	
Total U. S. Small Business Administration		\$ 185,906	\$ -	\$ -	
<u>U.S. Department of Veteran Affairs</u>					
Direct Programs:					
64.015	Veterans State Nursing Home Care	\$ 22,949,491	\$ -	\$ -	
64.101	Burial Expenses Allowance for Veterans	957,207	-	-	
Total U.S. Department of Veteran Affairs		\$ 23,906,698	\$ -	\$ -	
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
66.032	State Indoor Radon Grants	\$ 97,532	\$ -	\$ 50,545	
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	393,143	124,739	-	10
66.040	Diesel Emissions Reduction Act (DERA) State Grants	338,797	-	270,991	
66.202	Congressionally Mandated Projects	2,291	-	-	
66.204	Multipurpose Grants to States and Tribes	32,069	-	-	
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	107,969	-	-	
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	125,340	-	-	
66.442	Water Infrastructure Improvements for the Nation Small and Underserved Communities Emerging Contaminants Grant Program	11,897	-	-	
66.444	Voluntary School and Child Care Lead Testing and Reduction Grant Program (SDWA 1464(d))	22,696	-	-	
66.454	Water Quality Management Planning	394,394	-	-	
Clean Water State Revolving Fund (CWSRF) Cluster:					
66.458	Clean Water State Revolving Fund	468,537	-	-	
Total Clean Water State Revolving Fund Cluster:		468,537	-	-	
Drinking Water State Revolving Fund (DWSRF) Cluster:					
66.468	Drinking Water State Revolving Fund	4,296,278	-	-	
Total Drinking Water State Revolving Fund Cluster:		4,296,278	-	-	
66.485	Support for the Gulf Hypoxia Action Plan	109,334	-	-	
66.605	Performance Partnership Grants	12,685,530	163,948	2,099,041	10
66.708	Pollution Prevention Grants Program	72,102	-	8,749	
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	154,329	-	-	
66.804	Underground Storage Tank (UST) Prevention, Detection, and Compliance Program	514,425	-	-	
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	1,147,199	-	-	
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	39,338	-	-	
66.817	State and Tribal Response Program Grants	220,716	-	1,394	
66.818	Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements	38,689	-	-	
Total U.S. Environmental Protection Agency		\$ 21,272,605	\$ 288,687	\$ 2,430,720	
<u>U. S. Department of Energy</u>					
Direct Programs:					
81.041	State Energy Program	\$ 776,089	\$ -	\$ 260,190	
81.104	Environmental Remediation and Waste Processing and Disposal	1,523,190	-	-	
81.138	State Heating Oil and Propane Program	3,773	-	-	
Total U. S. Department of Energy		\$ 2,303,052	\$ -	\$ 260,190	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Education					
Direct Programs:					
84.002	Adult Education - Basic Grants to States	\$ 9,284,825	\$ -	\$ 9,257,131	
84.010	Title I Grants to Local Educational Agencies	248,387,176	-	238,672,578	2
84.011	Migrant Education State Grant Program	8,536,418	-	7,562,602	
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	1,790,553	-	1,144,822	
Special Education Cluster (IDEA):					
84.027	COVID-19 Special Education Grants to States	14,433,599	-	14,433,599	2, 14
84.027	Special Education Grants to States	161,265,929	-	158,075,444	2
84.173	COVID-19 Special Education Preschool Grants	1,552,007	-	1,552,007	2, 14
84.173	Special Education Preschool Grants	9,390,048	-	8,950,072	2
Total Special Education Cluster (IDEA):		186,641,583	-	183,011,122	
84.048	Career and Technical Education -- Basic Grants to States	20,967,244	-	17,240,367	
84.051	Career and Technical Education -- National Programs	106,940	-	106,940	
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	69,626,493	-	-	2
84.144	Migrant Education Coordination Program	59,481	-	-	
84.161	Rehabilitation Services Client Assistance Program	85,134	-	-	
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	1,057,332	-	-	
84.181	Special Education-Grants for Infants and Families	5,266,942	-	-	
84.181	COVID-19 Special Education-Grants for Infants and Families	2,222,594	-	-	14
84.184	School Safely National Activities	608,900	-	157,352	
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	300,000	-	-	
84.196	Education for Homeless Children and Youth	836,090	-	697,299	
84.240	Program of Protection and Advocacy of Individual Rights	82,274	-	-	
84.287	Twenty-First Century Community Learning Centers	15,870,488	-	15,606,013	
84.323	Special Education - State Personnel Development	416,327	-	416,327	
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	123,601	-	98,044	
84.358	Rural Education	5,123,278	-	4,997,621	
84.365	English Language Acquisition State Grants	3,689,750	-	3,582,821	
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	32,845,173	-	31,294,779	2
84.368	Competitive Grants for State Assessments	74,272	-	35,653	
84.369	Grants for State Assessments and Related Activities	6,135,143	-	-	
84.371	Comprehensive Literacy Development	5,370,711	-	5,273,065	
84.372	Statewide Longitudinal Data Systems	918,824	-	-	
84.377	School Improvement Grants	529,464	-	58,438	
84.424	Student Support and Academic Enrichment Program	16,403,893	-	15,621,787	
84.425	COVID-19 Education Stabilization Fund	811,785,919	-	776,793,754	2, 14
84.426	Randolph-Sheppard -- Financial Relief and Restoration Payments	11,990	-	-	
84.U01	National Center for Education Statistics	460,079	-	307,088	15
Total U.S. Department of Education		\$ 1,455,618,891	\$ -	\$ 1,311,935,603	
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	\$ 83,065	\$ -	\$ -	
Total U.S. National Archives and Records Administration		\$ 83,065	\$ -	\$ -	
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments	\$ 368,920	\$ -	\$ 15,314	
90.404	2018 HAVA Election Security Grants	3,498,031	-	3,285,296	
Total U.S. Election Assistance Commission		\$ 3,866,951	\$ -	\$ 3,300,610	
U. S. Department of Health and Human Services					
Direct Programs:					
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$ 73,222	\$ -	\$ 73,222	
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	139,657	-	136,120	
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	394,933	-	336,595	
93.043	COVID-19 Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	12,070	-	12,070	14

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U. S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
Aging Cluster:					
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	3,751,778	-	3,463,890	
93.044	COVID-19 Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	1,063,975	-	327,463	14
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	10,182,979	-	10,037,250	
93.045	COVID-19 Special Programs for the Aging, Title III, Part C, Nutrition Services	171,053	-	169,773	14
93.053	Nutrition Services Incentive Program	1,454,332	-	1,454,332	
	Total Aging Cluster:	16,624,117	-	15,452,708	
93.048	Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	345,743	-	31,542	
93.048	COVID-19 Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	223,409	-	-	14
93.052	National Family Caregiver Support, Title III, Part E	2,270,310	-	2,223,992	
93.052	COVID-19 National Family Caregiver Support, Title III, Part E	266,687	-	122,508	14
93.069	Public Health Emergency Preparedness	8,057,316	-	3,528,502	
93.070	Environmental Public Health and Emergency Response	1,306,893	-	-	
93.070	COVID-19 Environmental Public Health and Emergency Response	352,916	-	127,302	14
93.071	Medicare Enrollment Assistance Program	699,545	-	625,320	
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	76,450	-	-	
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	641,224	-	518,628	
93.103	Food and Drug Administration Research	594,673	-	-	
93.103	COVID-19 Food and Drug Administration Research	81,954	-	-	14
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	3,399,203	-	989,591	
93.110	Maternal and Child Health Federal Consolidated Programs	127,563	-	-	
93.110	COVID-19 Maternal and Child Health Federal Consolidated Programs	322,468	-	-	14
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	705,381	-	-	10
93.127	Emergency Medical Services for Children	111,570	-	-	
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	194,992	-	34,083	
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,121,898	-	595,520	
93.138	Protection and Advocacy for Individuals with Mental Illness	358,680	-	-	
93.150	Projects for Assistance in Transition from Homelessness (PATH)	478,673	-	460,807	
93.197	Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	246,298	-	131,384	
93.217	Family Planning Services	4,439,189	-	2,174,196	
93.234	Traumatic Brain Injury State Demonstration Grant Program	150,964	-	-	
93.235	Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	1,028,182	-	603,621	
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	6,286,737	-	3,243,319	7
93.243	COVID-19 Substance Abuse and Mental Health Services Projects of Regional and National Significance	523,865	-	418,784	14
93.251	Early Hearing Detection and Intervention	244,871	-	-	
93.268	Immunization Cooperative Agreements	3,641,369	60,268,865	216,584	2, 10
93.268	COVID-19 Immunization Cooperative Agreements	13,901,434	-	6,080,234	2, 14
93.270	Viral Hepatitis Prevention and Control	455,419	-	-	
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	24,393	-	-	
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	2,666,071	-	20,000	2
93.323	COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	77,613,460	-	15,937,219	2, 14
93.324	State Health Insurance Assistance Program	1,005,882	-	593,909	
93.324	COVID-19 State Health Insurance Assistance Program	20,855	-	-	14
93.325	Paralysis Resource Center	19,772	-	-	
93.336	Behavioral Risk Factor Surveillance System	321,882	-	-	
93.354	COVID-19 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	11,631,293	-	3,398,052	14
93.367	Flexible Funding Model - Infrastructure Development and Maintenance for State Manufactured Food Regulatory Programs	447,208	-	-	
93.369	ACL Independent Living State Grants	348,694	-	328,733	
93.387	National and State Tobacco Control Program	1,924,516	-	-	
93.391	COVID-19 Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	8,220,516	-	2,856,808	14
93.426	Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	2,677,496	-	-	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U. S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.434	Every Student Succeeds Act/Preschool Development Grants	696	-	-	
93.435	Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke	1,014,334	-	-	
93.439	State Physical Activity and Nutrition (SPAN)	1,064,189	-	-	
93.464	ACL Assistive Technology	612,134	-	-	
93.470	Alzheimer's Disease Program Initiative (ADPI)	81,360	-	7,154	
93.472	Title IV-E Prevention Program	14,853,013	-	8,685,692	
93.495	COVID-19 Community Health Workers for Public Health Response and Resilient	2,672,724	-	-	14
93.497	COVID-19 Family Violence Prevention and Services/ Sexual Assault/Rape Crisis Services and Supports	597,861	-	597,861	14
93.498	COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	1,780,472	-	-	14
93.504	Family to Family Health Information Centers	97,787	-	-	
93.525	COVID-19 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	103,193	-	-	14
93.556	MaryLee Allen Promoting Safe and Stable Families Program	1,967,888	-	1,478,424	
93.556	COVID-19 MaryLee Allen Promoting Safe and Stable Families Program	750,957	-	-	14
93.558	Temporary Assistance for Needy Families	161,305,446	-	13,102,131	2
93.558	COVID-19 Temporary Assistance for Needy Families	508,281	-	-	2, 14
93.563	Child Support Enforcement	47,364,865	-	31,648,030	2, 7
93.564	Child Support Enforcement Research	322,286	-	-	7
93.568	Low-Income Home Energy Assistance	73,701,401	-	73,511,949	2
93.568	COVID-19 Low-Income Home Energy Assistance	3,320,970	-	3,302,766	2, 14
93.569	Community Services Block Grant	14,624,596	-	14,205,569	
93.569	COVID-19 Community Services Block Grant	3,326,504	-	3,326,504	14
93.570	Community Services Block Grant Discretionary Awards	102,929	-	-	
CCDF Cluster:					
93.575	Child Care and Development Block Grant	140,087,571	-	6,257,712	2
93.575	COVID-19 Child Care and Development Block Grant	241,454,763	-	2,020,852	2, 14
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	55,980,410	-	-	2
	Total CCDF Cluster:	437,522,744	-	8,278,564	
93.586	State Court Improvement Program	464,573	-	-	
93.590	Community-Based Child Abuse Prevention Grants	2,542,649	-	2,158,464	
93.590	COVID-19 Community-Based Child Abuse Prevention Grants	977,995	-	892,500	14
93.597	Grants to States for Access and Visitation Programs	113,302	-	-	
93.599	Chafee Education and Training Vouchers Program (ETV)	596,443	-	-	
93.599	COVID-19 Chafee Education and Training Vouchers Program (ETV)	44,625	-	-	14
Head Start Cluster:					
93.600	Head Start	167,111	-	-	
	Total Head Start Cluster:	167,111	-	-	
93.603	Adoption and Legal Guardianship Incentive Payments	733,013	-	629,920	
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	135,529	-	-	
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,577,139	-	-	
93.639	COVID-19 Section 9813: State Planning Grants for Qualifying Community-Based Mobile	120,999	-	-	14
93.643	Children's Justice Grants to States	238,767	-	154,524	
93.645	Stephanie Tubbs Jones Child Welfare Services Program	1,172,036	-	-	
93.658	Foster Care Title IV-E	43,709,938	-	2,691,142	2
93.658	COVID-19 Foster Care Title IV-E	1,756,552	-	-	2, 14
93.659	Adoption Assistance	96,052,140	-	-	2
93.659	COVID-19 Adoption Assistance	6,803,736	-	-	2, 14
93.665	COVID-19 Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	609,985	-	339,795	14
93.667	Social Services Block Grant	23,945,375	-	18,458	
93.669	Child Abuse and Neglect State Grants	340,718	-	208,213	
93.669	COVID-19 Child Abuse and Neglect State Grants	33,960	-	33,960	14
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	1,402,946	-	1,402,946	
93.671	COVID-19 Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	1,787,140	-	1,787,140	14
93.674	John H. Chafee Foster Care Program for Successful Transition to Adulthood	2,956,044	-	1,568,927	
93.674	COVID-19 John H. Chafee Foster Care Program for Successful Transition to Adulthood	3,967,690	-	2,769,934	14
93.686	Ending the HIV Epidemic: A Plan for America — Ryan White HIV/AIDS Program Parts A and B	1,013,237	-	421,892	
93.747	COVID-19 Elder Abuse Prevention Interventions Program	758,708	-	482,417	14
93.767	Children's Health Insurance Program	361,380,075	-	-	2

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U. S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units	3,639,797	-	-	2
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	7,532,599	-	-	2
93.777	COVID-19 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	352,216	-	-	2, 14
93.778	Medical Assistance Program	12,818,802,707	-	-	2, 7
93.778	COVID-19 Medical Assistance Program	602,789,552	-	-	2, 14
93.778	ARRA Medical Assistance Program	172,762	-	-	2, 13
	Total Medicaid Cluster:	13,433,289,633	-	-	
93.788	Opioid STR	40,554,458	-	6,339,143	2
93.791	Money Follows the Person Rebalancing Demonstration	1,141,039	-	-	
93.800	Organized Approaches to Increase Colorectal Cancer Screening	754,548	-	-	
93.843	ACL Assistive Technology State Grants for Protection and Advocacy	41,330	-	-	
93.870	Maternal, Infant and Early Childhood Home Visiting Grant	10,461,630	-	7,159,485	
93.870	COVID-19 Maternal, Infant and Early Childhood Home Visiting Grant	714,327	-	691,614	14
93.873	State Grants for Protection and Advocacy Services	53,942	-	-	
93.889	National Bioterrorism Hospital Preparedness Program	3,410,906	-	1,790,585	
93.889	COVID-19 National Bioterrorism Hospital Preparedness Program	10,103	-	10,090	14
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	2,453,224	-	368,808	
93.917	HIV Care Formula Grants	4,748,065	-	3,905,699	
93.940	HIV Prevention Activities Health Department Based	3,787,849	-	1,763,832	
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	363,393	-	-	
93.958	Block Grants for Community Mental Health Services	10,950,778	-	8,847,483	
93.958	COVID-19 Block Grants for Community Mental Health Services	7,031,449	-	5,961,723	14
93.959	Block Grants for Prevention and Treatment of Substance Abuse	24,295,734	-	20,095,330	2
93.959	COVID-19 Block Grants for Prevention and Treatment of Substance Abuse	8,030,408	-	4,824,596	2, 14
93.967	CDC's Collaboration with Academia to Strengthen Public Health	365,717	-	-	
93.967	COVID-19 CDC's Collaboration with Academia to Strengthen Public Health	221,506	-	-	14
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	459,408	441,647	-	10
93.977	COVID-19 Sexually Transmitted Diseases (STD) Prevention and Control Grants	1,488,821	-	-	14
93.981	Improving Student Health and Academic Achievement through Nutrition, Physical Activity and the Management of Chronic Conditions in Schools	650,165	-	384,623	
93.982	Mental Health Disaster Assistance and Emergency Mental Health	1,403,342	-	1,021,627	
93.991	Preventive Health and Health Services Block Grant	2,134,178	-	104,444	
93.994	Maternal and Child Health Services Block Grant to the States	13,067,883	-	8,842	
93.997	Assisted Outpatient Treatment	942,877	-	778,270	
93.U01	Other Federal Assistance	17,393	-	-	15
93.U02	Medicare Nursing Home Care	1,665,420	-	-	15
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections	569,428	-	-	15
	Total U. S. Department of Health and Human Services	\$ 15,074,999,922	\$ 60,710,512	\$ 299,032,423	
U.S. Corporation for National and Community Service					
Direct Programs:					
94.003	AmeriCorps State Commissions Support Grant	\$ 227,478	\$ -	\$ -	
94.006	AmeriCorps State and National 94.006	6,505,361	-	6,054,627	
94.006	COVID-19 AmeriCorps State and National 94.006	3,689,105	-	3,408,537	14
94.008	AmeriCorps Commission Investment Fund 94.008	133,026	-	-	
94.013	AmeriCorps Volunteers In Service to America 94.013	-	19,915	-	10
94.013	COVID-19 AmeriCorps Volunteers In Service to America 94.013	30,000	-	-	
94.021	AmeriCorps Volunteer Generation Fund 94.021	131,754	-	11,670	
	Total U.S. Corporation for National and Community Service	\$ 10,716,724	\$ 19,915	\$ 9,474,834	
U.S. Office of National Drug Control Policy					
Direct Programs:					
95.001	High Intensity Drug Trafficking Areas Program	\$ 1,167,202	\$ -	\$ -	
	Total U.S. Office of National Drug Control Policy	\$ 1,167,202	\$ -	\$ -	
U.S. Social Security Administration					
Direct Programs:					
Disability Insurance /SSI Cluster:					
96.001	Social Security Disability Insurance	\$ 60,204,547	\$ -	\$ -	2
	Total Disability Insurance /SSI Cluster:	60,204,547	-	-	
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	691,536	-	-	
	Total U.S. Social Security Administration	\$ 60,896,083	\$ -	\$ -	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
<u>U.S. Department of Homeland Security</u>					
Direct Programs:					
97.012	Boating Safety Financial Assistance	\$ 1,285,358	\$ -	\$ -	
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	330,448	-	-	
97.029	Flood Mitigation Assistance	2,255,649	-	2,255,649	
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	229,304,525	-	144,585,768	2
97.039	Hazard Mitigation Grant	3,081,432	-	2,859,605	
97.040	Chemical Stockpile Emergency Preparedness Program	29,147,568	-	26,933,754	
97.041	National Dam Safety Program	177,453	-	-	
97.042	Emergency Management Performance Grants	5,507,254	-	3,217,375	
97.045	Cooperating Technical Partners	2,396,924	-	-	
97.047	BRIC: Building Resilient Infrastructure and Communities	145,280	-	145,280	
97.048	Federal Disaster Assistance to Individuals and Households in Presidential Declared Disaster Areas	9,756	-	-	
97.056	Port Security Grant Program	290,499	-	-	
97.067	Homeland Security Grant Program	4,549,424	-	3,069,480	
97.082	Earthquake State Assistance	8,687	-	3,259	
97.088	Disaster Assistance Projects	458,742	-	-	
97.137	State and Local Cybersecurity Grant Program	116	-	-	
97.U01	Other Federal Assistance (HSI)	22,567	-	-	15
Total U.S. Department of Homeland Security		\$ 278,971,682	\$ -	\$ 183,070,170	
Total All State Agencies		\$ 19,810,463,142	\$ 1,523,015,851	\$ 2,548,577,870	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

Note 1 - Basis of Presentation and Significant Accounting Policies

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule includes the federal award activity of the Commonwealth, except those programs administered by state universities and other discretely presented component units, for the year ended June 30, 2023. Because the Schedule presents only a selected portion of the operations of the Commonwealth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commonwealth.

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

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

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

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

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2023. The noncash expenditures presented on the Schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

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

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

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

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

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

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

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

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$32,000,218 for FY 2023. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 2023, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

ALN	Program Title	Expenditures
10.542	COVID-19 Pandemic EBT Food Benefits	\$ 307,337,891
Supplemental Nutrition Assistance Program Cluster		
10.551	Supplemental Nutrition Assistance Program	1,087,003,088
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	103,818,337
10.561	COVID-19 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	8,186,250

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 2 - Type A Programs (Continued)

ALN	Program Title	Expenditures
Child Nutrition Cluster		
10.553	School Breakfast Program	29,507,316
10.555	National School Lunch Program	95,583,722
10.555	COVID-19 National School Lunch Program	391,308,579
10.556	Special Milk Program for Children	14,794
10.559	Summer Food Service Program for Children	12,154,886
10.582	Fresh Fruit and Vegetable Program	4,127,281
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	126,494,887
10.557	COVID-19 WIC Special Supplemental Nutrition Program for Women, Infants, and Children	68,576
10.558	Child and Adult Care Food Program	49,266,736
Food Distribution Cluster		
10.565	Commodity Supplemental Food Program	15,847,314
10.568	Emergency Food Assistance Program (Administrative Costs)	2,023,463
10.568	COVID-19 Emergency Food Assistance Program (Administrative Costs)	3,591,068
10.569	Emergency Food Assistance Program (Food Commodities)	14,612,514
17.225	Unemployment Insurance	85,123,494
17.225	COVID-19 Unemployment Insurance	184,083,032
WIOA Cluster		
17.258	WIOA Adult Program	13,466,339
17.259	WIOA Youth Activities	17,400,707
17.278	WIOA Dislocated Worker Formula Grants	16,179,431
20.205	Highway Planning and Construction	895,513,498
20.205	COVID-19 Highway Planning and Construction	36,875,292
20.509	Formula Grants for Rural Areas and Tribal Transit Program	9,019,896
20.509	COVID-19 Formula Grants for Rural Areas and Tribal Transit Program	29,504,126
21.023	COVID-19 Emergency Rental Assistance Program	65,125,116
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds	407,502,362
84.010	Title I Grants to Local Educational Agencies	248,387,176

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 2 - Type A Programs (Continued)

ALN	Program Title	Expenditures
Special Education Cluster (IDEA)		
84.027	Special Education Grants to States	161,265,929
84.027	COVID-19 Special Education Grants to States	14,433,599
84.173	Special Education Preschool Grants	9,390,048
84.173	COVID-19 Special Education Preschool Grants	1,552,007
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	69,626,493
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	32,845,173
84.425	COVID-19 Education Stabilization Fund	811,785,919
93.268	Immunization Cooperative Agreements	63,910,234
93.268	COVID-19 Immunization Cooperative Agreements	13,901,434
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	2,666,071
93.323	COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	77,613,460
93.558	Temporary Assistance for Needy Families	161,305,446
93.558	COVID-19 Temporary Assistance for Needy Families	508,281
93.563	Child Support Enforcement	47,364,865
93.568	Low-Income Home Energy Assistance	73,701,401
93.568	COVID-19 Low-Income Home Energy Assistance	3,320,970
CCDF Cluster		
93.575	Child Care and Development Block Grant	140,087,571
93.575	COVID-19 Child Care and Development Block Grant	241,454,763
93.596	Child Care Mandatory and Matching Funds of the Child Care and	55,980,410
93.658	Foster Care Title IV-E	43,709,938
93.658	COVID-19 Foster Care Title IV-E	1,756,552
93.659	Adoption Assistance	96,052,140
93.659	COVID-19 Adoption Assistance	6,803,736
93.767	Children's Health Insurance Program	361,380,075

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 2 - Type A Programs (Continued)

ALN	Program Title	Expenditures
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	3,639,797
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	7,532,599
93.777	COVID-19 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	352,216
93.778	Medical Assistance Program	12,818,802,707
93.778	ARRA Medical Assistance Program	172,762
93.778	COVID-19 Medical Assistance Program	602,789,552
93.788	Opioid STR	40,554,458
93.959	Block Grants for Prevention and Treatment of Substance Abuse	24,295,734
93.959	COVID-19 Block Grants for Prevention and Treatment of Substance Abuse	8,030,408
Disability Insurance/Supplemental Security Income Cluster		
96.001	Social Security Disability Insurance	60,204,547
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	229,304,525
Total Type A Programs		\$ 20,547,222,991

Note 3 - Federally Assisted Loan Program (ALN 10.U01)

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

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 3 - Federally Assisted Loan Program (ALN 10.U01) (Continued)

All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2023, outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY 2023.

Note 4 - Unemployment Insurance (ALN 17.225)

The expenditures presented in the SEFA for Unemployment Insurance (ALN 17.225) are further identified as Benefits or Administrative Costs in the table below:

<u>ALN</u>	<u>Program Title</u>	<u>Benefits</u>	<u>Administrative Costs</u>	<u>Total Expenditures</u>
17.225	Unemployment Insurance	\$ 68,233,609	\$ 16,889,885	\$ 85,123,494
17.225	COVID-19 Unemployment Insurance	147,557,967	36,525,065	184,083,032
	Total	\$ 215,791,576	\$ 53,414,950	\$ 269,206,526

Note 5 - Highway Planning and Construction (ALN 20.205)

The information reported for the Highway Planning and Construction program represents the activity of all open projects during FY 2023. These projects were funded from several appropriations. Appropriations refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration. Expenditures for the Highway Planning and Construction Program were shown, net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$1,673,472 for FY 2023.

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

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

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 7 - Research and Development Expenditures

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

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

<u>ALN</u>	<u>Program Title</u>	<u>State Agency</u>	<u>Expenditures</u>
15.605	Sport Fish Restoration	F&W	505,143
15.608	Fish and Wildlife Management Assistance	F&W	1,964,256
15.611	Wildlife Restoration and Basic Hunter Education	F&W	1,724,517
15.615	Cooperative Endangered Species Conservation Fund	F&W	75,654
15.634	State Wildlife Grants (SWG)	F&W	670,523
15.657	Endangered Species Recovery Implementation	F&W	19,199
16.585	Drug Court Discretionary Grant Program	AOC	113,007
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	AOC	432,200
93.563	Child Support Enforcement	CHFS	12,199
93.564	Child Support Enforcement Research	CHFS	322,149
93.778	Medical Assistance Program	CHFS	485,261
Total Research and Development Expenditures			<u>\$ 6,324,108</u>

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

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

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)

Note 9 - Wildlife Restoration and Basic Hunter Education (ALN 15.611)

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

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

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

Note 10 - Noncash Expenditure Programs

The Commonwealth's noncash programs and a description of the method/basis of valuation for FY 2023 are as follows:

ALN	Program Title	Method/Basis of Valuation	Amount
10.187	The Emergency Food Assistance Program (TEFAP) Commodity Credit Corporation Eligible Recipient Funds	Commodities issued for FY 2023 per WBSCM Report	\$ 2,655,265
10.542	COVID-19 Pandemic EBT Food Benefits	EBT Issuance	307,337,891
10.551	Supplemental Nutrition Assistance Program	EBT Issuance	1,087,003,088
10.555	National School Lunch Program	Commodities issued for FY 2023 per WBSCM Report	35,376,808
10.565	Commodity Supplemental Food Program	Commodities issued for FY 2023 per WBSCM Report	12,870,520
10.568	Emergency Food Assistance Program (Administrative Costs)	Commodities issued for FY 2023 per WBSCM Report	2,061,412

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 10 - Noncash Expenditure Programs (Continued)

ALN	Program Title	Method/Basis of Valuation	Amount
10.569	Emergency Food Assistance Program	Commodities issued for FY 2023 per WBSCM Report	14,412,537
39.003	Donation of Federal Surplus Personal Property	Valued by Federal Government Donor	279,216
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	U.S. EPA contracts with Eastern Research Group for sample analysis	124,739
66.605	Performance Partnership Grants	In-kind services valued by the donor, the U.S. EPA	163,948
93.268	Immunization Cooperative Agreements	Program Staff	60,268,865
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	CDC Report	441,647
94.013	AmeriCorps Volunteers In Service to America	Actual Payments reported federal AmeriCorps agency	19,915
Total Noncash Expenditures			\$ 1,523,015,851

Note 11 - Activity Occurring in Programs with Inventoriable Items

In prior years, the Kentucky Department of Agriculture operated a warehouse of inventoriable items for the Commodity Supplemental Food Program (ALN 10.565). The Commonwealth no longer maintains warehouse space or stores non-cash food commodity items as those items are shipped to food banks directly from food commodity distributors.

Note 12 - Election Reform Payments (ALN 39.011)

Interest earned must be used for additional program expenditures.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 13 - Pertaining to ARRA

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

ARRA: American Recovery and Reinvestment Act

Note 14 - Pertaining to Novel Coronavirus Pandemic Relief

In order to identify COVID-19 funds on the Schedule of Expenditures of Federal Awards, the prefix “COVID-19” will precede the Program Title on the Grantor Schedule. The following list identifies the various federal acts the Commonwealth received COVID-19 funding from:

ARPA: American Rescue Plan Act

CARES: Coronavirus Aid, Relief, and Economic Security Act

CPRSA: Coronavirus Preparedness and Response Supplemental Appropriations Act

CRRSA: Coronavirus Response Relief Supplemental Appropriations Act

FFCRA: Families First Coronavirus Response Act

PPP: Paycheck Protection Program and Health Care Enhancement Act

Note 15 - Unknown Assistance Listing Number (ALN)

When a federal program has been awarded to the Commonwealth with an unknown ALN, the items discussed in Note 1 - *Significant Accounting Policies* are used to prepare the Schedule. The Commonwealth also uses other identifiers such as the major program, program, and function codes as established through grant accounting. A list of all Unknown ALNs and other identifying factors having expenditures during FY 2023 are listed below:

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 15 - Unknown Assistance Listing Number (ALN) (Continued)

ALN	Program Title	Agency	Award Identifier	Expenditures
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	EEC	ACWPRG-04-BBB0	1,761,938
16.U01	Drug Enforcement Administration	KSP	MULTIPLE	1,896,074
16.U02	Federal Bureau of Investigation	KSP	MULTIPLE	44,795
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program	KSP	MOA# 19-LOU-168-AFF MOA# 20-LOU-168-AFF	16,959
16.U04	District Fugitive Task Force	KSP	MOU	2,591
16.U06	United States Postal Inspection Service (USPIS) Task Force	KSP	MOU	15,059
84.U01	National Center for Education Statistics	EDU	91990020C0043	460,079
93.U01	Other Federal Assistance	KSP	2019-CIO-715-0457 2020-CIO-715-0457	17,393
93.U02	Medicare Nursing Home Care	VA	KY-074-1324-DA00-R604	1,665,420
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections	PPC	FDAPRG-FDA00-19-BB00/BG00	569,428
97.U01	Other Federal Assistance	KSP	Other Federal Assistance	22,567
Total				<u>\$ 6,472,303</u>

Note 16 - COVID-19 Emergency Rental Assistance (ALN 21.023)

The Emergency Rental Assistance programs were funded from several appropriations. Appropriations refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance programs. Expenditures for the Emergency Rental Assistance program were shown, net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$30,262,317 for FY 2023.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Note 17 -School Breakfast Program (ALN 10.553) And National School Lunch Program (ALN 10.555)

In the fall of 2022, the United States Department of Agriculture (USDA) requested the Kentucky Department of Education (KDE) to continue funding for ALN 10.553 School Breakfast Program and ALN 10.555 National School Lunch Program even though the programs were closed. The money was to be spent from the normal award funds, although the funding would fall under a special COVID waiver. The special COVID waiver resulted in \$99,921,783 being moved from ALN 10.553 to ALN 10.555; \$88,257,241 of this amount is related to FY 2022 activity. Both ALNs were reported net of this activity for FY 2023. This adjustment decreased reported expenditures for ALN 10.553 and increased expenditures for 10.555; however, subrecipient expenditures as reported on the SEFA were not modified as a result of this activity.

**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***



ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the Fiscal Year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated February 27, 2024. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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



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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be material weaknesses: 2023-001 through 2023-007.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be significant deficiencies: 2023-008 through 2023-019.

Compliance and Other Matters

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

Management's Responses to Findings

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

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

Purpose of this Report

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

Respectfully Submitted,

Allison Ball

Allison Ball

Auditor of Public Accounts

Frankfort, Kentucky

February 27, 2024

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-001: The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation Of GASB Statement 96 Subscription-Based Information Technology Arrangements

Condition and Context

Governmental Accounting Standards Board (GASB) Statement 96 Subscription-Based Information Technology Arrangements (SBITAs) became effective for fiscal year 2023. The Finance and Administration Cabinet's (FAC) Financial Reporting Branch within the Office of the Controller establishes and maintains the state accounting standards, procedures, records, and reports that promote sound business practices while providing accurate financial reporting. The Financial Reporting Branch is responsible for working with state agencies to ensure the Commonwealth of Kentucky complies with generally accepted accounting principles (GAAP) and ensuring implementation of standards established by GASB. During review of the accounting entries and supporting documentation pertaining to the implementation of GASB Statement 96 SBITAs, the following exceptions were noted:

- The Kentucky Transportation Cabinet (KYTC) incorrectly prepared their closing package for two of their reported SBITA contracts. As a result, the associated financial activity reported within the financial statements was misstated. The Transportation Fund's expenses and other financing sources were overstated by \$51,665,083, and the SBITA liability reported within the Government-Wide Statement of Net Position was overstated by \$41,838,377.
- Entries compiled by the Financial Reporting Branch for the Commonwealth Office of Technology (COT) included multiple incorrect terms of their reported SBITA contracts that factor into calculations for the various related SBITA accounts. Due to these errors, misstatements were noted in SBITA-related accounts in the Computer Services Internal Service Fund, including the SBITA liability which was overstated by \$1,249,594,031.

Cause

In preparation of the closing package, KYTC inaccurately identified the annual SBITA contract amount as the monthly payment, which overstated reported account balances. Similarly, for COT, errors were noted during preparation of the closing package by the agency which required multiple closing package submissions. The incorrect version of the closing package was used by the Financial Reporting Branch in calculating the accounting entries for the Computer Services Internal Service Fund. Internal controls failed to prevent or detect and correct the reported inaccuracies during the compilation process for the Commonwealth's financial statements.

Effect

Failure to accurately report financial information pertaining to the implementation of GASB Statement 96 SBITAs led to substantial misstatements on the Commonwealth's financial statements. Without detection during the audit, material misstatements in both amount and presentation would have occurred. Inaccuracies in the measurement, recognition, presentation, and disclosure of SBITA information could negatively impact users of the financial statements or management decisions.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-001: The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation Of GASB Statement 96 Subscription-Based Information Technology Arrangements (Continued)

Criteria

To better meet the information needs of financial statement users, GASB Statement 96 SBITAs became effective for fiscal year 2023. GASB Statement 96 SBITAs' objective was to meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs.

Sound internal controls dictate sufficient review and approval procedures be implemented to prevent or detect and correct misstatements on the prepared financial statements.

Recommendation

We recommend the Financial Reporting Branch strengthen training, guidance, and internal controls over the reporting of SBITAs as outlined in GASB Statement 96. The Financial Reporting Branch should establish policies, procedures, and internal controls to ensure the completeness and accuracy of information reported in the financial statements. Internal controls should be strengthened at both the agency level when preparing closing package information and at the financial statement compilation level to detect any material misstatements.

Management's Response and Planned Corrective Action

Kentucky Transportation Cabinet's Response:

Response: We acknowledge the audit finding and agree with the recommendation to enhance our detection of material misstatements. We recognize the importance of improving our understanding and response to SBITA requirements.

Corrective Action: We will request FAC provide notification earlier about the deadlines and begin the process of completing the spreadsheet upon that notification. We will also add an internal KYTC review and ask for FAC to review prior to its official submission, however, the majority of the information within the spreadsheet will remain the same from year to year with only minor adjustments, additions or removals. This should make future submissions more accurate.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2023-001: The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation Of GASB Statement 96 Subscription-Based Information Technology Arrangements (Continued)**

Management's Response and Planned Corrective Action (Continued)*Financial Reporting Branch's Response:*

Due to decentralized accounting, the Office of the Controller relies heavily on state agencies to properly evaluate and report information on an annual closing package template. We agree that many agencies do not have a clear understanding of GASB Statement No. 96, SBITA, or of the AFR 55C form used for the collection of SBITA information. We also agree that the Financial Reporting Branch needs to be more thorough in analyzing the SBITA data that is provided by agencies. These deficiencies did cause material errors in the SBITA entries completed by the Financial Reporting Branch. The monetary discrepancies identified in the finding were corrected before issuance of the Fiscal Year 2023 Annual Comprehensive Financial Report (ACFR).

In FY24, we will be changing the closing package data collection process and will provide improved training and learning resources related to GASB 96, SBITA, and the completion of the collection form for SBITA information. We plan to provide individualized training to the agencies that have reported a high quantity and/or materiality of agreements to assist with their understanding.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-002: The Finance And Administration Cabinet Failed To Ensure The Completeness And Accuracy Of Capital Assets Data Used To Prepare The Commonwealth's Financial Statements

Condition and Context

The Financial Reporting Branch within the Finance and Administration Cabinet's (FAC) Office of the Controller is responsible for compiling the Commonwealth's Annual Comprehensive Financial Report (ACFR). Capital asset financial information is maintained in internally generated databases which reflect activity related to capital assets processed and recorded in the statewide accounting system (eMARS).

Prepared capital asset accounting entries and the related databases were inaccurate as multiple departments incorrectly had all, or a substantial portion, of their capital assets adjusted as if they had been disposed. These assets were still owned and in operation for the Commonwealth at fiscal year end June 30, 2023. The inaccurate data rolled into the accounting entry for capital assets, and therefore, capital assets were understated within the Commonwealth's financial statements by \$707,027,000.

Following detection during the audit, the database was corrected, and revised accounting entries were processed to correct the capital assets reported for the Governmental Activities of the Commonwealth.

Cause

Inaccurate data was used in the compilation process for capitals assets. Internal controls failed to prevent or detect and correct this error during the preparation of the financial statements.

Effect

Without subsequent correction, capital assets and their corresponding accumulated depreciation for the Governmental Activities on the Statement of Net Position would have been understated by a total of \$707,027,000, with corresponding overstatements of expenses and revenues across various functions of the Governmental Activities on the Statement of Activities, for \$103,124,000 and \$603,903,000, respectively.

Criteria

An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting to ensure the financial statements are reliable, inclusive of all activities, and all transactions are reflected in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) pronouncements. Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and misstatements.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2023-002: The Finance And Administration Cabinet Failed To Ensure The Completeness And Accuracy Of Capital Assets Data Used To Prepare The Commonwealth's Financial Statements (Continued)**

Recommendation

We recommend the Financial Reporting Branch strengthen internal controls over the capital asset compilation process to ensure all data is complete and accurate. The Commonwealth's financial statements should accurately report all financial activity related to capital assets.

Management's Response and Planned Corrective Action

We agree with the auditor's comments. There was a technical issue with the fixed asset database that was undetected prior to closing the database and preparing the capital asset journal entry. After auditor discovery, the financial reporting branch was able to rebuild the database and correct the entry. Going forward, we will implement controls to catch potential database issues before preparing the entries. The capital asset information is presented accurately in the 2023 Annual Comprehensive Financial Report.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-003: The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation of GASB Statement 87 Leases

Condition and Context

This is a repeat finding as reported in the fiscal year 2022 Statewide Single Audit of Kentucky (SSWAK) Volume I as finding 2022-004.

Governmental Accounting Standards Board (GASB) Statement 87 Leases became effective for fiscal year 2022. The Financial Reporting Branch within the Finance and Administration Cabinet's Office of the Controller establishes and maintains the state accounting standards, procedures, records, and reports that promote sound business practices while providing accurate financial reporting. The Financial Reporting Branch is responsible for working with state agencies to ensure the Commonwealth of Kentucky (Commonwealth) complies with generally accepted accounting principles (GAAP) and accounting standards established by GASB and in accordance with state and federal requirements. Numerous adjustments during the compilation process were necessary to ensure the financial statements were materially accurate and presented in accordance with GASB Statement 87 Lease requirements. The following deficiencies were noted:

- Numerous agreements pertaining to the Kentucky Horse Park Fund were incorrectly identified as meeting the definition of a lease in accordance with GASB 87. Material adjustments were required as the lease receivable and corresponding deferred inflow of resources were overstated by \$1,901,055.
- The Department of Public Advocacy (DPA) failed to adequately review agency agreements to identify potential leases required to be reported per GASB Statement 87. Several immaterial leases were identified that were not evaluated by DPA.
- The Financial Reporting Branch transposed amounts in recording the lease liability and accumulated depreciation for reporting on the Government Wide financial statements. As a result, the lease liability and leased asset accumulated depreciation were misstated by \$47,199,996.
- Information provided by agencies on closing package templates was not adequate to ensure the completeness and accuracy of required note disclosures.
- Numerous errors were noted on the Financial Reporting Branch's worksheets utilized to identify and prepare the accounting entries necessary for GASB Statement 87.

Cause

GASB Statement 87, Leases, significantly changed the financial reporting model by requiring the identification and evaluation of every potential lease agreement with the Commonwealth. While the Financial Reporting Branch provided training and guidance on the implementation of GASB Statement 87 to agencies, the training was inadequate and ineffective as errors noted supported the lack of technical knowledge required to ensure lease information was complete and accurately reported. Additionally, internal controls were inadequate to ensure the completeness and accuracy of prepared lease accounting entries.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-003: The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation of GASB Statement 87 Leases (Continued)

Effect

Failure to properly evaluate, classify, and report all potential leases in accordance with GASB Statement 87 led to misstatements on the Commonwealth's financial statements. Without detection during the audit, material misstatements in both amount and presentation would have occurred. Inaccuracies in the measurement, recognition, presentation, and disclosure of lease information could negatively impact users of the financial statements or management decisions.

Criteria

To better meet the information needs of financial statement users by improving the accounting and financial reporting for leases by governments, GASB issued Statement 87 effective in fiscal year 2022. GASB Statement 87 provides a single model for lease accounting to enhance the relevance and consistency of information by establishing requirements for the reporting and disclosure of leases in the financial statements. Sound internal controls require sufficient guidance and training be provided to anyone with the responsibility to implement new accounting and reporting standards.

Recommendation

We recommend the Financial Reporting Branch strengthen training, guidance, and internal controls over the recognition and reporting of leases. Current reporting instructions should be updated to provide additional guidance and resources. Future training events for agency personnel should provide a deeper look into the technical requirements of GASB Statement 87 and relevant implementation guides.

Management's Response and Planned Corrective Action

Kentucky Horse Park's Response:

The Kentucky Horse Park agrees with this finding. The Park identified several leases that did not meet the criteria in accordance with GASB 87. However, the information outlining the criteria was not available. Moving forward, the Park hopes that adequate training will be provided by the Finance Cabinet so we can gain a better understanding of what information is required when completing the GASB 87 at year end.

Department of Public Advocacy's Response:

The Department of Public Advocacy's Management and Fiscal Branch have reviewed the noted deficiency identified as part of the Auditor of Public Accounts Fiscal Year 2023 Closing Package Review. The agency agrees with the following deficiency:

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2023-003: The Finance And Administration Cabinet Failed To Ensure The Accuracy Of Information Reported As Required By The Implementation of GASB Statement 87 Leases (Continued)**

Management's Response and Planned Corrective Action (Continued)

The Department of Public Advocacy (DPA) failed to adequately review agency agreements to identify potential leases required to be reported per GASB Statement 87. Several immaterial leases were identified that were not evaluated by DPA.

As part of our internal review, we have identified the staff responsible for not properly evaluating the potential leases required to be reported per GASB Statement 87 within fiscal year 2023 on the Agency Closing Package submitted to the Finance and Administration Cabinet. As part of our plan to correct the deficiency, the fiscal staff will be required to do the following:

- *Review the FY2023 AFR Closing Package Data Solicitation and Instructions on the Finance and Administration Cabinet's website (specifically GASB 87 Lease guidance).*
- *Review the FY2023 AFR Closing Package Training Video on the Finance and Administration Cabinet's website (specifically GASB 87 Lease guidance).*
- *Prepare the FY2023 Kentucky Closing Package Form AFR 55B with the assistance of the Agency Property Officer to ensure proper evaluation and reporting of all agency leases. Form AFR55B will be reviewed internally for accuracy and submitted to the Finance and Administration Cabinet's Financial Reporting Branch on or before March 29, 2024.*

Financial Reporting Branch's Response:

Due to decentralized accounting, the Office of the Controller relies heavily on state agencies to properly evaluate and report information on an annual closing package template. Since 2020, the Office of the Controller has had a GASB 87 Leases training section on the Annual Closing Package website for agencies to access 24/7. We modified the lease collection form for FY23 reporting to be more detailed and added additional fields to assist with evaluation of leases. In the FY23 Annual Closing Package Training event, we were more thorough with the lease form and pointed out frequently made mistakes with completing the form to assist agencies.

In FY24, we will be changing the closing package data collection process and will provide improved training and learning resources related to GASB 87, Leases, and the completion of the collection form for lease information. The monetary discrepancies identified in the finding were corrected before issuance of the Fiscal Year 2023 Annual Comprehensive Financial Report (ACFR) and the balance sheet account error transposition error was corrected by the Financial Reporting Branch before the entry was reviewed by auditors.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-004: The Finance And Administration Cabinet Incorrectly Classified Activity As An Operating Revenue In The Kentucky Horse Park Fund

Condition and Context

During the compilation of the Commonwealth's Annual Comprehensive Financial Report (ACFR), the Finance and Administration Cabinet's (FAC) Financial Reporting Branch incorrectly recorded a nonoperating revenue as an operating revenue in the amount of \$4,618,526 in the Kentucky Horse Park Fund's financial statements. The recorded transaction related to the donation of the Paddock Building to the Kentucky Horse Park. The financial statements were corrected once the error was identified during the audit process.

Cause

The Kentucky Horse Park does not typically receive significant donated fixed assets during a fiscal year. As a result, internal controls were not in place to ensure the asset was evaluated and accurately classified on the prepared financial statements.

Effect

Failure to properly evaluate and accurately record financial activity led to misstatements on the Commonwealth's financial statements in the Kentucky Horse Park Fund. Without detection during the audit, a misstatement in presentation would have occurred on the Kentucky Horse Park Fund financial statements. Inaccuracies in the presentation of financial information could negatively impact users of the financial statements or management decisions.

Criteria

An effective internal control system requires management to ensure accurate accounting and financial reporting, whereby the financial statements are accurately presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and misstatements.

GASB 2200.193 states:

Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using Section 2450. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income. This includes most revenues considered to be nonexchange and exchange-like, such as tax revenues and, in some cases, fees and charges.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2023-004: The Finance And Administration Cabinet Incorrectly Classified Activity As An Operating Revenue In The Kentucky Horse Park Fund (Continued)**

Criteria (Continued)

FAC's recognition policy, as established within the ACFR Notes to the Financial Statements states: Proprietary funds' revenues and expenses are divided into operating and nonoperating revenues and expenses. Although not specifically defined by GAAP, operating revenues and expenses are considered to be those resources gained and consumed to produce and deliver goods and services that are central to that fund's particular purpose. Other revenues and expenses are classified as nonoperating. Operating and nonoperating expenses are further characterized by object (personal services, depreciation expense, travel expense, etc.).

Recommendation

We recommend the FAC Financial Reporting Branch implement adequate policies, procedures, and internal controls to identify misstatements and mitigate the risk of errors during the compilation process. Unusual transactions should be evaluated to determine if they are operating or nonoperating in nature in accordance with accounting standards and FAC's internal policy.

Management's Response and Planned Corrective Action

We agree with the auditor's assessment. A non-operating revenue amount was inadvertently presented as operating revenue on the first draft of KHP's statements. It has since been corrected and moved to the appropriate classification. We will more closely review transactions that are out of the ordinary when preparing the financial statements to be sure items are classified correctly.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-005: The Finance And Administration Cabinet Failed To Ensure The Accuracy And Necessity Of Manual Accounting Entries Recorded During The Compilation Of The Financial Statements

Condition and Context

The Financial Reporting Branch within the Finance and Administration Cabinet's (FAC) Office of the Controller is responsible for establishing and maintaining the state accounting standards, procedures, records, and reports that promote sound business practices while providing accurate financial reporting. During fiscal year 2023, the Financial Reporting Branch incorrectly recorded two manual adjustments to the financial statements which resulted in the following errors:

- General government expenditures and other financing sources within the Agency Revenue Fund were understated by \$45,826,000.
- Grants and subsidies expenses were understated, and commodities and supplies expenses were overstated by \$1,313,000 within the Unemployment Compensation Fund.

Cause

In both instances, these same manual adjustments were necessary and recorded during the compilation of the Commonwealth's prior year financial statements; however, they should not have been recorded during the current fiscal year compilation. Internal controls failed to detect and correct the misstatements during the compilation process.

Effect

Failure to ensure the financial statements are accurately prepared in accordance with the applicable financial reporting framework could lead to undetected material misstatements. Inaccuracies in the measurement, recognition, presentation, and disclosure of reporting information could negatively impact users of the financial statements including management decisions.

Criteria

An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting to ensure the financial statements are reliable, inclusive of all activities, and all transactions are reflected in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) pronouncements. Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and misstatements.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2023-005: The Finance And Administration Cabinet Failed To Ensure The Accuracy And Necessity Of Manual Accounting Entries Recorded During The Compilation Of The Financial Statements (Continued)**

Recommendation

The Financial Reporting Branch made appropriate adjustments to the financial statements to correct the identified misstatements. Manual adjustments to the financial statements carry an increased risk that requires additional review and oversight. We recommend the Financial Reporting Branch strengthen internal controls over the financial statement compilation process to identify and correct misstatements timely. In addition, we recommend manual adjustments are not carried forward from the prior year if they are not necessary.

Management's Response and Planned Corrective Action

We agree with the auditor's comments. The prior year manual adjustments that were carried forward were initially undetected. These were removed upon recognition, and the amounts on the statements were presented correctly in the final FY 2023 Annual Comprehensive Financial Report (ACFR). In future reporting periods, we will be sure to remove any adjustments at the time of roll forward for the next reporting cycle.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-006: The Finance And Administration Cabinet Failed To Implement Adequate Policies, Procedures, Or Internal Controls To Ensure GASB Pronouncements Were Accurately Implemented

Condition and Context

The Financial Reporting Branch within the Finance and Administration Cabinet's (FAC) Office of the Controller is responsible for establishing and maintaining the state accounting standards, procedures, records, and reports that promote sound business practices while providing accurate financial reporting. During fiscal year 2023, the Financial Reporting Branch failed to provide adequate oversight, guidance, and training to ensure the financial statements were prepared in accordance with generally accepted accounting principles (GAAP) including pronouncements made by the Governmental Accounting Standards Board (GASB). During fiscal year 2023, multiple exceptions were noted, including the following:

- Material audit adjustments were identified related to the accounting information and journal entries pertaining to GASB Statement 96, Subscription-Based Information Technology Arrangements (SBITA), as identified in finding 2023-001.
- Material audit adjustments and significant omissions were identified relating to the accounting information and journal entries pertaining to GASB Statement 87, Leases, as identified in finding 2023-003.
- The Financial Reporting Branch failed to create an implementation plan to formally evaluate and implement GASB Statement 94 Public-Private and Public-Public Partnerships and Availability Payment Arrangements. Discussions indicated an informal assessment was conducted, however, information from state agencies was not solicited via the annual closing package submission to identify potential agreements for evaluation. While this activity is likely immaterial to the Commonwealth's financial statements, information from state agencies would be necessary to fully evaluate the potential impact.

Cause

Financial Reporting Branch implementation plan and trainings did not provide enough technical information and detail pertaining to GASB reporting requirements necessary for agencies to accurately prepare required closing package forms. Additionally, the Financial Reporting Branch is not preparing for the implementation of new GASB standards far enough in advance to identify and mitigate potential risks of material misstatement.

Effect

Failure to ensure the financial statements are accurately prepared in accordance with the applicable financial reporting framework could lead to undetected material misstatements. Inaccuracies in the measurement, recognition, presentation, and disclosure of reporting information could negatively impact users of the financial statements including management decisions.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-006: The Finance And Administration Cabinet Failed To Implement Adequate Policies, Procedures, Or Internal Controls To Ensure GASB Pronouncements Were Accurately Implemented (Continued)

Criteria

An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting to compile financial statements which are reliable, inclusive of all activities, and all transactions are reflected in accordance with GAAP and GASB pronouncements. Implementation of control activities should focus on the prevention or detection and correction of errors, omissions, and misstatements.

Recommendation

We recommend the Financial Reporting Branch strengthen internal controls over the implementation of GASB pronouncements. Future trainings should provide additional technical information and instructions should be strengthened to ensure the financial information disclosed on agency closing package forms is complete and accurate. A formal GASB implementation plan should be completed and evaluated prior to the year of implementation to ensure a smooth transition. Finally, the Financial Reporting Branch should strengthen internal controls to identify significant outliers requiring further review during the compilation process.

Management's Response and Planned Corrective Action

We agree with the auditor's determination that weaknesses have existed in the GASB implementation plans for recently issued GASB Statements. In the last few years, reporting requirements have greatly increased. The Financial Reporting Branch has:

- *streamlined the Annual Comprehensive Financial Report (ACFR) compilation process with the use of the reporting software, WDesk,*
- *began building a more efficient process of closing package data collection in WDesk for more efficient data collection and data validation,*
- *has read all issued GASB Statements and conducted countless hours of research related to implementing these standards and providing guidance to the Commonwealth's state agencies,*
- *has worked on improving workpapers, process notes and procedures,*
- *and increased training efforts.*

Despite the Financial Reporting Branch's efforts, we do recognize that the technical understanding of the accounting standards is what is most lacking by state agencies and is something we can assist with by increasing training resources. Beginning with fiscal year 2024, we will revamp the annual closing package training and provide additional training that is focused on the recently issued and implemented GASB standards.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls***

FINDING 2023-006: The Finance And Administration Cabinet Failed To Implement Adequate Policies, Procedures, Or Internal Controls To Ensure GASB Pronouncements Were Accurately Implemented (Continued)

Management's Response and Planned Corrective Action (Continued)

The Financial Reporting Branch of Statewide Accounting Services in the Office of the Controller internally evaluated GASB Statement No. 94 and determined there were no material arrangements that would meet disclosure requirements. We do agree that agency involvement should be solicited and plan to include an evaluation in the annual closing package that is collected from state agencies. This GASB statement will be included in training for fiscal year 2024.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2023-007: The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of The Receivables And Payables Information In The Closing Package

Condition and Context

The Office of Unemployment Insurance (OUI) accounts for receivables and payables at the close of the fiscal year on a closing package, which is year-end financial information submitted to the Finance and Administration Cabinet (FAC) for inclusion in the Commonwealth's Annual Comprehensive Financial Report (ACFR). OUI failed to ensure the accuracy of the receivables and payables information in the closing package in fiscal year (FY) 2023. The following errors were noted:

- A portion of the reported receivables includes overpayments of claims that are owed back to the agency. In FY 2023, OUI provided FAC with an incorrect amount for these overpayments, overstating accounts receivable and revenues by \$70,075,575.
- A portion of the reported payables includes payments made in FY 2024 on FY 2023 claims. The accounts payable initially submitted to FAC reported OUI's total FY 2023 benefits payments expense instead of amounts payable as of June 30, 2023. After auditors brought the issue to the attention of OUI, the agency amended the closing package to correct the error; however, the amended accounts payable amount included new claims for July 2023, which should not have been considered payable as of June 30, 2023. These errors resulted in an overstatement of \$232,263,699 for both accounts payable and expenses.

Cause

In reporting the total receivables for unemployment benefits, OUI used the wrong amount for refunds from claimant overpayments in the calculation. This resulted in the overstatement of accounts receivable and revenues. In reporting payables, OUI's policies and procedures were not adequately designed or followed to ensure only payables were reported. This resulted in the overstatement of accounts payable and expenses. Internal controls were ineffective in preventing or detecting these errors prior to the submission to FAC.

Effect

FAC used the initial incorrect receivables and payables information in the financial statement compilation process but corrected it when OUI submitted revisions to the closing package. Had these errors not been detected and corrected during the audit process, the accounts receivable balance and revenues would have been overstated by \$70,075,575, and the accounts payable balance and expenses would have been overstated by \$232,263,699.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2023-007: The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of The Receivables And Payables Information In The Closing Package (Continued)**

Criteria

An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting, whereby the financial statements are reliable, inclusive of all activities and transactions are reflected in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Implementation of control activities should focus on the prevention or detection and correction of errors, omissions, and misstatements. Effective internal controls over data compilation require a review to ensure the correct information is used to produce the year-end payables and receivables balances in accordance with generally accepted accounting principles.

Recommendation

OUI should ensure policies and procedures are designed and followed properly to ensure the accuracy and completeness of the accounts payable data prior to submitting it to FAC. Additionally, OUI should ensure internal controls are designed, implemented, and maintained appropriately to enable the reporting of accurate and complete accounts receivable and accounts payable data. Internal controls that oversee the preparation of the closing package forms and year-end reporting activities should include proper review processes. These processes need to be followed and enforced to guarantee the closing package that is delivered to FAC relays accurate, substantiated, and dependable information.

Management's Response and Planned Corrective Action

The Education and Labor Cabinet has reviewed the above finding and has implemented changes to address the concerns. The Office of Unemployment Insurance has implemented multiple internal controls over the last few years to strengthen the accuracy of reports and information submitted to the Finance and Administration Cabinet. OUI will continue to execute changes to ensure improvement is made. OUI is working with the Commonwealth Office of Technology to ensure reports used to complete the AFR 32 and AFR 70 reports are accurate. These reports will be compared to the check register data that feeds into the Benefit Cashbook, as it is the official reconciled document. Additionally, OUI is working to update the closing package manual to include specific steps and details on the reports to guarantee all staff are aware and follow all required segments. This will include specific information on what periods/months should be used when the Accounts Receivables and Accounts Payable are completed for the AFR 32 and AFR 70. OUI will also be cross-training staff to ensure another employee can review the work for any errors. Lastly, management review and sign-off will be completed to confirm any errors are identified and corrected prior to submission to the Finance and Administration Cabinet.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-008: The Cabinet For Health And Family Services Did Not Properly Separate Duties Within The Workers' Information System

Condition and Context

During the FY 2023 audit of the Cabinet for Health and Family Services (CHFS), the auditor was informed of a suspected theft within The Workers Information System (iTWIST) relating to payments made on behalf of children being taken care of by relatives (provider) in lieu of foster care. Provider payments are initiated when a CHFS employee enters a child in iTWIST and places a child into a provider's care. A CHFS employee compares the invoice from the placement provider to verify appropriate number of days and per diem, and then authorizes the payment in iTWIST to generate a check.

A Division of Administration and Financial Management (DAFM) employee was able to manipulate banking and address information via the iTWIST Resource Directory, which is the hub of the system. The suspected theft, in the amount of \$378,980, occurred due to the lack of separation of duties and inadequate system controls in place over iTWIST access.

Auditors were also informed that the DAFM employee made changes to provider's Social Security Numbers (SSN). The only instance in which a DAFM employee should change a provider's SSN is when the number was entered incorrectly in the system upon initial input. CHFS did not monitor this individual's transaction activity within iTWIST; as such, changes made to provider's SSNs, as well as banking and address information, went undetected until May 2023.

CHFS does not have a formal policy in place governing access to iTWIST.

For FY 2023, auditors identified issues with four security roles that a user could be granted access to within iTWIST.

There are 747 current users with access to these four roles. The following access issues were noted:

1. Forty-one of these users have access to two separate administrative roles, in addition to user-level security roles. Users with access to both of these roles could make unauthorized changes to a worker's caseload information as well as provider information, including payment details.
2. Thirty-four users were given access to two separate billing roles. Users with access to both of these roles could verify child placement and then subsequently approve a resource payment.
3. Ten of the 75 users had access to all four security roles.

For proper separation of duties, a user should not have access to administrative and user-level roles. If these roles cannot be separated, then adequate monitoring procedures should be implemented.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-008: The Cabinet For Health And Family Services Did Not Properly Separate Duties Within The Workers' Information System (Continued)

Cause

Adequate system controls and separation of duties were not in place to prevent inappropriate changes to relatives' SSNs and banking and address information within iTWIST.

Furthermore, no monitoring procedures were in place for relative payments prior to or during FY 2023. Beginning in May 2023, system control processes were implemented.

Effect

The suspected user had both user-level and administrator access to iTWIST as well as other incompatible billing roles. Failure to implement and consistently apply logical security controls could result in failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources. As in this case, an alleged theft did occur by a CHFS employee that had the ability to make changes and approve those changes without sufficient oversight and given more time, the theft could have had a much bigger impact on program funding.

Criteria

Implementing strong separation of duty controls limits the ability of an employee to complete a transaction without the approval of another employee. Implementing such controls decreases the opportunity of making unauthorized changes to data, files, and programs, and decreases the risk of errors or losses occurring because of the inappropriate or incorrect use of data, programs, and other resources. Failure to implement separation of duty controls could create several issues including the disruption of business operations, inaccurate reporting, or financial loss.

According to the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations, an organization should develop, document, and disseminate a defined access control policy to its personnel [*AC-1 Access Control Policy and Procedures*]. In addition, an organization should enforce approved authorizations for logical access to information and system resources in accordance with applicable access control policies [*AC-3 Access Enforcement*].

Furthermore, separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of inappropriate activity without collusion. Separation of duties includes dividing mission, business, and support functions among different individuals or roles, conducting system support functions with different individuals, and ensuring that security personnel who administer access control functions do not also administer audit functions. Organizations should identify and document job duties of individuals requiring separation and define system access authorizations to support separation of duties. [AC-5 Separation of Duties]

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-008: The Cabinet For Health And Family Services Did Not Properly Separate Duties Within The Workers' Information System (Continued)

Recommendation

We recommend CHFS develop a written access control policy for iTWIST to comply with NIST 800-53r4 AC-1 Policy and Procedures. In addition, in order to comply with NIST 800-53r4 AC-3 Access Enforcement and AC-5 Separation of Duties, we recommend DAFM review the current job duties of the individuals: i) performing both security administrator and data processing functions; ii) verifying child placement within iTWIST; iii) and approving monthly payment functions within iTWIST. We further recommend that DAFM determine how these job functions can be redistributed among staff to ensure a proper separation of duties.

DAFM should continue to regularly monitor newly created reports to ensure no unauthorized changes have been made to resource or banking information.

We also recommend CHFS apply proper separation of duties in all systems that are operated by the cabinet.

Management's Response and Planned Corrective Action

Since becoming aware of the situation, the Department for Community Based Services (DCBS) has worked to implement policy and procedure changes. DCBS continues to look at roles within TWIST to identify ways to separate duties. DCBS has submitted a change request (CR) to the Office of Application Technology Services (OATS) to address these issues. [Partial response removed for security purposes.]

Reports that that have been implemented to ensure compliance:

- 1. TWS-M418C – Monthly report that shows any activity where per diem and other special payment were paid in the same month. This allows DAFM management to see any duplicate or multiple payments in the same month.*
- 2. TWS-M418D – Monthly report that shows when a resource was paid per diem and a special payment type of board in the same month. There are times when this is a legitimate action, so this report allows us to monitor this monthly.*
- 3. TWS-M418E – Monthly report that shows multiple payments to the same resource for the same child in the same month. This allows us to review payments from a different perspective.*
- 4. TWS-W418A – Weekly report that shows the resources using the same bank account information. This allows DAFM Management to review bank changes to ensure the same bank isn't being used across multiple resources.*
- 5. TWS-W418B – Weekly report that shows address changes within a resource. This report is being used to compare information entered by the section supervisor to ensure nothing is being changed inappropriately. DAFM Management also uses this report to ensure addresses being entered are legitimate addresses with the United States Postal Services. This is being done using the usps.com website.*

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-008: The Cabinet For Health And Family Services Did Not Properly Separate Duties Within The Workers' Information System (Continued)**

Management's Response and Planned Corrective Action (Continued)

The actions referred to in the above paragraph regarding the changing of SSN's were committed from December 2022-May 2023. The Cabinet has been fully cooperating with Federal law enforcement on this issue since they informed us of the activity of the employee.

In response to the recommendation, "We recommend CHFS develop a written access control policy for iTWIST to comply with NIST 800-53r4 AC-1 Policy and Procedures". The TWIST team takes your recommendation under advisement and will apply as appropriate. A review of the current control policy is underway and will be updated to strengthen internal controls.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-009: The Finance And Administration Cabinet Incorrectly Recorded An Accounts Receivable For Unemployment Benefit Claims To Be Paid With Federal Funds**

Condition and Context

During the compilation of the Commonwealth's Annual Comprehensive Financial Report (ACFR), the Finance and Administration Cabinet's (FAC) Financial Reporting Branch requested information from the Office of Unemployment Insurance (OUI) to identify a potential unrecorded accounts receivable for unemployment benefit claims to be paid with federal funds. Based on the information provided, the Financial Reporting Branch incorrectly recorded an accounts receivable and receipt in the amount of \$13,230,887 for inclusion in the Unemployment Compensation Fund's financial statements. The recorded transaction was mainly comprised of state-funded benefit payments, which were not eligible for payment with federal funding and should not have been recognized as a receipt or accounts receivable. The financial statements were corrected once the error was identified during the audit process.

Cause

The Financial Reporting Branch requested additional information from OUI about a possible receivable from the Federal Government for federally funded unemployment benefits owed to claimants at June 30, 2023. The supporting documentation provided by OUI reported both FY 2023 and FY 2024 claims and included both state-funded and federal-funded benefits but did not differentiate between them. FAC incorrectly recorded the total claims amount rather than only the amount for FY 2023 federal benefits claims. In the prior year, this entry was recorded due to a significant number of federal program benefits claims OUI was continuing to process past the end of the fiscal year. During FY 2023, the federal program's claims were declining, and due to OUI's progress, the workload was not as significant as the prior year.

Effect

Failure to properly evaluate and accurately record financial activity led to misstatements on the Commonwealth's financial statements in the Unemployment Compensation Fund. Without detection during the audit, a significant misstatement in both amount and presentation would have occurred. Inaccuracies in the measurement, recognition, and presentation of financial information could negatively impact users of the financial statements or management decisions.

Criteria

An effective internal control system requires management to ensure accurate accounting and financial reporting, whereby the financial statements are accurately presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and misstatements.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-009: The Finance And Administration Cabinet Incorrectly Recorded An Accounts Receivable For Unemployment Benefit Claims To Be Paid With Federal Funds (Continued)**

Recommendation

We recommend the FAC Financial Reporting Branch increase training to familiarize all agencies with reporting requirements per GAAP and the Governmental Accounting Standard's Board (GASB) pronouncements. Additionally, supporting documentation should be evaluated to ensure that accounting entries are only made based on complete and accurate information.

Management's Response and Planned Corrective Action

The Education and Labor Cabinet (ELC) has received the above finding and corrective actions have already been completed. Once ELC was notified of the error, it was reviewed and corrected immediately. Staff have reviewed work processes and reports to ensure accurate information is listed. ELC has made the necessary updates to work documents to avoid any possible errors in the future.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-010: The Finance And Administration Cabinet Did Not Comply With Certain Enterprise Policies Related To System Security

Condition and Context

This is a repeat finding as reported in the fiscal year 2022 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2022-007. Originating in fiscal year 2020, this finding has been repeated in each subsequent fiscal year due to a lack of resolution by management.

The fiscal year 2023 audit of the Finance and Administration Cabinet (FAC) revealed FAC did not comply with certain Commonwealth enterprise policies related to information system security as it pertains to the state's accounting system, enhanced Management Administrative and Reporting System (eMARS).

FAC is required to follow enterprise policies established by the Office of the Chief Information Officer (CIO) of the Commonwealth Office of Technology (COT). One of these policies, CIO-112 Security Planning Policy, requires COT and enterprise agencies with IT systems in the Commonwealth's infrastructure to develop and manage security plans for the IT systems under their control. The system security plan (SSP) may be a single document or a collection of various documents. Inquiry with FAC staff revealed an SSP has not been developed for eMARS.

Another enterprise policy, CIO-093 Risk Assessment Policy, requires agencies to do three things: 1) categorize the information systems within their control by assigning a Security Categorization (SC); 2) conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits; and 3) request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported. Inquiry with FAC staff revealed none of the three requirements have been met for eMARS.

FAC is also required to follow enterprise policy CIO-106 Privacy Policy, which requires agencies to conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk to the Commonwealth. Inquiry with FAC staff revealed this document has not been developed for eMARS.

Cause

Previously, FAC staff indicated that they assumed COT would be responsible for certain security controls over eMARS since all related databases and servers are hosted by COT. However, enterprise policies established by COT require agencies and business owners take responsibility for their data and applications. After receiving this clarification, FAC began working with COT to come into compliance with the enterprise policies – specifically CIO-112 Security Planning Policy and CIO-106 Enterprise Privacy Policy. While this project wasn't completed during FY 2023, it is anticipated that it will be completed when eMARS is upgraded, which is planned for FY 2024.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-010: The Finance And Administration Cabinet Did Not Comply With Certain Enterprise Policies Related To System Security (Continued)

Effect

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

Criteria

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

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

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

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

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-010: The Finance And Administration Cabinet Did Not Comply With Certain Enterprise Policies Related To System Security (Continued)

Criteria (Continued)

CIO-106, Enterprise Privacy Policy, specifically section AR-2 Privacy Impact and Risk Assessment, states that agencies must “Document and implement a privacy risk management process that assesses privacy risk to individuals resulting from the collection, sharing, storing, transmitting, use, and disposal of PI; and Conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk in accordance with applicable law, policy, or any existing agency policies and procedures.”

CIO-112, Security Planning Policy, states “The Commonwealth Office of Technology (COT) and enterprise agencies with IT systems in the Commonwealth’s infrastructure shall develop and manage security plans for the IT systems under their control. These security plans may be single documents or a collection of various documents...” Also, “agencies shall develop security plans, rules of behavior, and an information security architecture for Commonwealth systems in accordance with policies, procedures, and standards established by COT.”

Recommendation

We recommend FAC ensure compliance with all enterprise policies by:

- Developing an SSP that assigns a Security Categorization for eMARS that complies with CIO-093 and CIO-112.
- Conducting and documenting a risk assessment and vulnerability assessment for eMARS. For compliance with CIO-093, the risk assessment should be repeated at least annually and be updated in a timely manner. In addition, once developed, the SSP should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth.
- Fully assessing the privacy impact associated with eMARS by completing the PIA documentation developed by COT.

Management’s Response and Planned Corrective Action

The Office of Statewide Accounting Services (SAS) is working with the Commonwealth Office of Technology (COT) to complete the Business Impact Analysis (BIA) tool to aid agencies and COT in assessing the business impact of information systems administered by SAS. This document outlines some of the major features and how agencies should use this tool to collect information and attributes about key information systems used by the agencies and users in the course of their duties. After data collection and submittal to COT, the Office of the Chief Compliance Officer (CCO) will review the information and provide feedback, as necessary, to highlight risks and opportunities with the agencies’ systems. This impact assessment collects all data needed to identify all internal system data and assets. The tool is designed to inform at the executive level and collect information to support compliance with CIO-093, Risk Assessment Policy and CIO-106, Enterprise Privacy Policy. Information gathered in the BIA will be used to support efficient privacy, risk assessment, disaster recovery, and contingency planning solutions.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-011: The Finance And Administration Cabinet Did Not Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information

Condition and Context

This is a repeat finding as reported in the fiscal year 2022 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2022-008. Originating in fiscal year 2015, this finding has been repeated in each subsequent fiscal year due to a lack of resolution by management.

The fiscal year (FY) 2023 audit revealed weaknesses in the Finance and Administration Cabinet's (FAC) procedures regarding the security of confidential and sensitive data associated with the enhanced Management Administrative and Reporting System (eMARS). FAC is required to follow Commonwealth Office of Technology (COT) enterprise policies and standards, several of which address data protection. Detailed information that could possibly increase the risk that agency security is compromised was intentionally omitted from this finding but have been communicated to the agency.

Cause

Although FAC indicated plans were developed to identify and protect sensitive and confidential data, these plans were not fully completed during FY 2023.

Effect

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

Criteria

Based on KRS 42.726(2)(p), COT is responsible for developing "a coordinated security framework and model governance structure relating to the privacy and confidentiality of personal information collected and stored by state executive branch agencies." Numerous policies, procedures and standards have been developed by COT that address data protection. Data classified as confidential and internal must be protected from unauthorized users or exposure to the general public.

With respect to access control, CIO-092 states, "Only authorized individuals are permitted access to media containing State information. In addition to controlling physical access, user authentication will provide audit access information. Any access must also comply with any applicable regulatory requirements. Non-digital media should be hidden from the view of individuals that do not have authorization to access the information contained on or within the media."

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-011: The Finance And Administration Cabinet Did Not Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information (Continued)**

Criteria (Continued)

Kentucky Information Technology Standards (KITS), specifically 5100 Encryption states, “The purpose of this standard is to provide Commonwealth of Kentucky agencies guidance on the use of encryption to protect Commonwealth information resources that contain, process, or transmit data classified as sensitive or confidential. This standard applies to encryption controls for data that is at rest...” Also, “Standard 4080 – Data Classification. Once the data has been classified, the agency must determine the proper encryption implementation(s) to achieve the desired level of protection...”

The National Institute of Standards and Technology (NIST) SC-28 Protection of Information requires entities to protect the confidentiality and integrity of information at rest.

Recommendation

We recommend FAC sufficiently protect eMARS data classified as confidential or internal in compliance with COT enterprise policies and standards by completing current work plans to enhance security over certain confidential and internal data.

Management’s Response and Planned Corrective Action

The Office of Statewide Accounting Services (SAS) is working with the Commonwealth Office of Technology (COT) to complete the Privacy Impact Analysis (PIA) tool to aid SAS and COT in assessing the privacy impact of information systems administered by SAS.

The PIA will help identify the specific types of sensitive information collected, processed, and stored while assessing privacy risks associated with maintaining that information, and subsequently document results.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-012: Kentucky Department Of Education's Internal Controls Did Not Identify Attendance Data Errors Resulting In One School District Receiving An Overpayment Of SEEK Funds

Condition and Context

The Kentucky Department of Education (KDE) administers the Support Education Excellence in Kentucky (SEEK) funds appropriated for education by the General Assembly. School districts report attendance and other data to KDE and the data is incorporated into the SEEK formula, which calculates the amount of funding each district receives. During the fiscal year 2023 audit, the auditor reviewed school districts comparing the prior year's attendance data to the attendance data used for the current year's SEEK calculation. One school district reported incorrect attendance data to KDE which resulted in an incorrect SEEK payment to the district for the 2022-2023 school year. KDE performed further review and identified additional inaccurate data components related to the district.

Cause

The school district submitted information that was inaccurately accepted into the SEEK calculation for 2022-23. KDE did not have internal controls in place to verify the accuracy of the attendance data during fiscal year 2023.

Effect

The inaccurate reporting of attendance information resulted in the district receiving an overpayment of SEEK funding totaling \$195,608 for FY 2022-23. Upon identification of the issue, KDE contacted the district to provide information about repaying the funds to KDE.

Criteria

Sound internal controls dictate attendance data feeds into SEEK calculation and payments are to be complete and accurate. The review process should be sufficient to identify and correct any misstatements prior to making payments and SEEK calculation.

Kentucky Revised Statute § 161.200 (2) states:

...After attendance is reported and recorded by the classroom teacher, either a certified or noncertified person shall complete and check records in accordance with the methods and regulations approved by the superintendent of the local school district and the chief state school officer. A designated certified person within the local elementary or secondary school shall be responsible for auditing and certifying state attendance documents to verify their accuracy.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-012: Kentucky Department Of Education's Internal Controls Did Not Identify Attendance Data Errors Resulting In One School District Receiving An Overpayment Of SEEK Funds (Continued)**

Recommendation

We recommend KDE:

- Continue with the plan to recoup SEEK funds from the school district.
- Develop a process to ensure attendance data is accurate when calculating the SEEK funding.

Management's Response and Planned Corrective Action

The Kentucky Department of Education (KDE) agrees with the auditor's comments. KDE takes compliance with laws and regulations very seriously. Per Senate Bill 1, Extraordinary Session 2021, AADA data collection was halted, altering the steps to process SEEK funding.

The change in process resulted in an error in the AADA used in the calculation causing a 1.74% error in the fiscal year 2022-2023 payment sent to the aforementioned school district. The payments in fiscal year 2023-24 are currently being adjusted to recoup the SEEK overpayment. Due to the small dollar amount, all funds will be recouped by the end of fiscal year 2024.

The error noted by the auditor was a unique circumstance caused in response to the Covid-19 Pandemic. AADA is normalized and pre-pandemic processes and procedures are currently in place. No further corrective actions are warranted.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-013: The Kentucky Department Of Education Miscoded SEEK Funds In The State's Accounting System

Condition and Context

The Kentucky Department of Education's (KDE) Support Education Excellence in Kentucky (SEEK) was audited as part of the annual comprehensive financial report for fiscal year 2023. KDE records SEEK expenditures in the state's accounting system based in part on function codes established to separately track different elements of SEEK. KDE incorrectly coded \$23,140,731 of SEEK Nickel 4 Retroactive payments (Function Code SM00) to SEEK Base allotment (Function Code SA00).

Cause

KDE's internal controls did not detect the accounting error impacting the Nickel 4 Retroactive and SEEK Base allotment function codes in the statewide accounting system.

Effect

At the end of each fiscal year, funds not expended as appropriated by the General Assembly are moved in the accounting system from the originally designated agency to the general fund where the funds may be reallocated as needed. Due to the coding error in the state's accounting system, \$21,525,540 of the \$23,140,731 remained in the function code SM00 budget and was moved to the General Fund at the end of the year. The Office of the State Budget Director worked with KDE to update the history in the accounting system to resolve the lapsed nickel fund issue.

Criteria

An effective internal control system requires management to ensure accurate accounting and financial reporting, whereby the financial statements are accurate and reliable. Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and misstatements including the funding remaining available in the various function codes near and at year end.

Recommendation

We recommend KDE evaluate internal controls to ensure account coding errors are identified and resolved.

Management's Response and Planned Corrective Action

Since this type of payment only occurs in June of each fiscal year, Division of Budget and Financial Management staff, specifically in the Budget Branch and Accounting and Finance Branch, will review and work together to ensure the payment is made correctly.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-014: The Kentucky Horse Park Failed To Evaluate And Identify All Unearned Revenue Required To Be Reported On The Year End Closing Package**

Condition and Context

The Kentucky Horse Park (KHP) accounts for unearned revenue on a closing package, which is year-end financial information submitted to the Finance and Administration Cabinet (FAC) for inclusion in the Commonwealth's Annual Comprehensive Financial Report (ACFR). During fiscal year 2023, KHP failed to identify and properly classify unearned revenue pertaining to the naming rights of their indoor arena in the amount of \$77,500. Following notification of the error, KHP completed further analysis of customer deposits and identified an additional \$54,869 of unreported unearned revenue.

Cause

Internal controls failed to ensure unearned revenues were completely and accurately reported in the closing package. While FAC provides general instructions to assist agencies in preparing their closing package, additional agency specific guidance and tracking were not in place to ensure all unearned revenues were appropriately accounted for.

Effect

Failure to identify these errors would have led to an understatement of unearned revenue and overstatement of revenues in the amount of \$132,369 as reported by KHP. The financial statements would have been inaccurate if the error had not been detected prior to finalization.

Criteria

The closing package instructions regarding unearned revenue state, "Unearned revenues are those for which cash has been received, as of June 30, in exchange for promises to perform services or to furnish goods at some future date."

Sound internal controls over the preparation of the closing package dictate procedures to ensure closing package information submitted to FAC contains accurate information for financial reporting.

Recommendation

We recommend KHP strengthen internal controls over the preparation and subsequent review of the closing package to ensure all unearned revenue is properly accounted for in accordance with FAC's closing package instructions.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-014: The Kentucky Horse Park Failed To Evaluate And Identify All Unearned Revenue Required To Be Reported On The Year End Closing Package (Continued)**

Management's Response and Planned Corrective Action

Money collected from the Alltech Naming Rights Agreement and Special Event contracts were inadvertently not reported as Unearned Revenue. Moving forward, the Kentucky Horse Park will review all contracts to determine, based off the service dates, whether monies collected need to be reported on the closing package. This audit finding has been reviewed. All employees work diligently to ensure that all reports are reviewed for accuracy. The closing package, as well as supporting documentation, is submitted to the Executive Office for final review and approval.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-015: The Kentucky Horse Park Incorrectly Capitalized Expenses That Were Ineligible Per Established Requirements

Condition and Context

The Kentucky Horse Park (KHP) incorrectly coded two fiscal year 2023 transactions for temporary stabling services as general construction expenses within the Commonwealth's accounting system. Temporary stabling services are not construction activities and do not meet the capitalization requirements as established by the Governmental Accounting Standards Board (GASB). Due to the misclassification, this activity was incorrectly included in KHP's construction in progress calculation, which would be capitalized upon completion of the project. This resulted in KHP's capital assets being overstated and expenses being understated by \$155,000 during the financial statement compilation process.

Cause

Internal controls failed to ensure expenses were properly coded when recorded in the Commonwealth's accounting system. The Finance and Administration Cabinet (FAC) compiles the financial statements based on posted transactions in the accounting system and information as provided by KHP. There is no further review or analysis to identify potential errors or omissions when identifying activity to be capitalized in accordance with GASB pronouncements.

Effect

This error led to an overstatement of capital assets and an understatement of expenditures of \$155,000 in KHP's financial statements. As a result, the financial statements would have been inaccurate if the error had not been detected.

Criteria

GASB codification section 1400.102 states, "Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees."

Sound internal controls dictate procedures be in place to ensure the accuracy of accounting information used during the financial statement compilation and reporting process.

Recommendation

We recommend KHP strengthen internal controls to ensure transactions are properly recorded in the Commonwealth's accounting system. Additionally, KHP should coordinate with FAC as needed to obtain further guidance to assist in identifying activity that should be capitalized during the financial statement compilation process.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-015: The Kentucky Horse Park Incorrectly Capitalized Expenses That Were Ineligible Per Established Requirements (Continued)**

Management's Response and Planned Corrective Action

After meeting with the TAH Cabinet and the Office of State Budget Directors (OSBD) in March 2023, the KHP was granted approval to use capital funds for temporary stabling expenses associated with Fredericks Equestrian International Stabling LLC. Due to this project meeting the capitalization criteria, KHP personnel was unaware that expenses associated with expense code E703 would be capitalized. Furthermore, KHP personnel was unaware that an expense code outside the E700 series could be used for capital projects, if granted permission by GOPM. After speaking with OSBD regarding this finding, permission was given to use E229 for project CAK7. All expenses for temporary stabling in FY24 have been JV to E229. KHP will continue to educate and train their staff regarding fixed assets/construction projects in progress, so they have a better understanding of what projects qualify for capitalization and how to handle those expenses moving forward.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-016: The Department Of Parks Did Not Ensure The Accuracy Of Accounts Payable Information In The Closing Package

Condition and Context

The Department of Parks (Parks) identifies accounts payable transactions at the close of the fiscal year as part of the closing package, which is year-end financial information submitted to the Finance and Administration Cabinet (FAC) for inclusion in the Commonwealth's Annual Comprehensive Financial Report (ACFR). During fiscal year (FY) 2023, Parks did not ensure the accuracy of the accounts payable information included in the closing package sent to FAC. The following errors were identified:

- The closing package included one transaction of \$14,817 as an account payable which was already reported in the state's accounting system as an expenditure. By including the transaction both as an expenditure in the state's accounting system and as an account payable on the closing package, the transaction is double counted, thereby overstating accounts payable.
- The initial closing package did not include expenditure transactions for utilities totaling \$204,422, resulting in an understatement of the accounts payable reported in the financial statements. Parks submitted a revised closing package to FAC to correct this error.
- In the revised closing package, the amount for commodities and supplies of \$144,448 was counted twice, thus overstating the accounts payable. Parks submitted a second revised closing package to FAC to correct this error.

Cause

Internal controls for the preparation and review of the closing package failed to ensure accounts payable were properly reported. The review process did not:

- Identify the reporting of one transaction in both the state's accounting system and on the closing package.
- Detect the inadvertent omission of the utility transactions total from the closing package.
- Detect the inadvertent duplicate inclusion of the commodities and supplies amount on the revised closing package.

Effect

Park's internal controls did not identify the errors on the closing package which led to the following effects:

- Including a transaction as an expenditure in the state's accounting system and as an account payable in the closing package resulted in the transaction being double counted and accounts payable being overstated by \$14,817.
- Excluding the utilities total of \$204,422 would have understated the accounts payable in the financial statements. However, this error was resolved when the closing package was resubmitted.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-016: The Department Of Parks Did Not Ensure The Accuracy Of Accounts Payable Information In The Closing Package (Continued)

Effect (Continued)

- Including the commodities and supplies amount of \$144,448 twice would have overstated the accounts payable in the financial statements. However, this error was resolved when the closing package was resubmitted.

Internal controls not operating effectively lead to errors and omissions in the closing package which may result in misstated accounts payable in the financial statements.

Criteria

FAC's closing package instructions state:

General

Accounts payable, as applied to the Commonwealth of Kentucky's GAAP reporting system, includes liabilities incurred for goods received or services performed as of June 30 for which payment has not been made. Amounts reported on this form should include only amounts that will be paid with 'new year' (Fiscal Year 2024) funds....

Utilities, Rentals, and Other Services

Utilities, rentals, and other services include utility services, fuels, and other services incurred, but not paid for as of June 30. Do not estimate the cost of metered utilities such as gas, electric, and water from the last billing date until June 30.

Commodities and Supplies

Commodities and supplies include items consumed in the normal activities of the department or are held for resale as of June 30. These include but are not limited to office supplies, operating supplies, maintenance supplies, resale items, small tools, and equipment.

Good internal controls require management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting. The implementation of internal controls should focus on the prevention, detection, and correction of errors, omissions, and misstatements. An effective internal control system over data compilation requires sufficient procedures and review to ensure the correct amounts are used to produce the accounts payable balance in accordance with generally accepted accounting principles.

Recommendation

We recommend Parks implement policies and procedures to ensure accurate reporting of the accounts payable closing package.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-016: The Department of Parks Did Not Ensure The Accuracy Of Accounts Payable Information In The Closing Package (Continued)

Management's Response and Planned Corrective Action

The Department of Parks agrees with the finding. We will make every effort to monitor the large volume of invoices processed at year end to ensure this does not happen in the future. We will insert a column for the accounting period on our tracking sheet for invoices that roll over into the new year.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-017: The Department Of Parks Capital Asset Records Included Assets Not Recorded In The State's Accounting System At The End Of The Fiscal Year

Condition and Context

During fiscal year 2023, the Department of Parks (Parks) capital asset records included assets which were not included in the statewide accounting systems' year-end capital asset information. The accounting system information is used to prepare the Commonwealth's Annual Comprehensive Financial Report (ACFR). Capital assets valued at \$97,589 were not properly recorded in the state's accounting system; however, the assets were included in the asset listing maintained by Parks.

Information for ten capital assets was tracked by Parks, but eight of those items were not recorded properly in the accounting system. The following issues were identified:

- Four assets were entered into the statewide accounting system after June 30, 2023.
- Two assets were not entered during the fiscal year.
- One asset was not tagged or entered.
- One asset did not have a tag number and was not entered into the state's accounting system.

Cause

Internal controls did not operate effectively to ensure capital assets were recorded appropriately and timely in the state's accounting system.

Effect

Park's internal controls did not properly detect that the assets were not entered in the state's accounting system timely, although the assets appeared on a list maintained by Parks. Failure to timely record capital assets in the state's accounting system can result in inaccuracies in financial reporting.

Criteria

The Commonwealth's fixed asset policy requires equipment and vehicles valued at \$5,000 or more be capitalized for compliance with financial reporting accounting standards. FAC's FY 2023 Physical Inventory Procedures manual states, "The accuracy of the fixed asset records is necessary in order for management to demonstrate stewardship and properly ensure the property, as well as report accurately the Commonwealth's financial position at year-end through the Annual Comprehensive Financial Report (ACFR)." The manual goes on to state that, "The fixed asset inventory observation of personal property must include the following: Equipment, vehicles, artwork, and historical treasures valued at \$5,000.00 or more...."

Sound internal controls over the reporting of capital assets dictate procedures ensure capital asset information submitted to FAC contains accurate and complete information for financial reporting.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-017: The Department Of Parks Capital Asset Records Included Assets Not Recorded In The State's Accounting System At The End Of The Fiscal Year (Continued)

Recommendation

We recommend strengthening internal controls to ensure all capital assets are properly tracked and timely accounted for in accordance with FAC procedures.

Management's Response and Planned Corrective Action

The Department of Parks agrees with the finding. We will work with field staff and emphasize the importance of reporting and tagging assets in a timely manner.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-018: State Agencies Failed To Accurately Identify And Classify Amounts Reported As Passed Through To Subrecipients On The Schedule Of Expenditures Of Federal Awards

Condition and Context

The School Facilities Construction Commission (SFCC) and the Tourism, Arts, and Heritage Cabinet (Tourism) failed to evaluate and accurately classify expenditures reported as passed through to subrecipients on the Commonwealth's Schedule of Expenditures of Federal Awards (SEFA) for Assistance Listing Number 21.027, Coronavirus State and Local Fiscal Recovery Funds (SLFRF). Amounts reported by these agencies identified as provided to subrecipients were overstated by a combined \$180,674,800. Activity was incorrectly identified as funds passed through to subrecipients instead as for beneficiaries in accordance with the U.S. Department of the Treasury (Treasury) guidance.

Cause

Most federal award programs administered by the Commonwealth adhere to the Office of Management and Budget's (OMB) Uniform Guidance, which is a government-wide framework for grants management. In response to the COVID-19 public health emergency, a new subset of federal awards was created as governed by Treasury. Agencies responsible for providing information necessary for the SEFA compilation were unaware of the requirement to evaluate if their financial activity constituted a contractor, subrecipient, or beneficiary relationship in accordance with the new Treasury guidelines.

Effect

Failure to properly identify and categorize subrecipients caused a misstatement on the Commonwealth's SEFA. SFCC and Tourism overstated the amount provided to subrecipients by \$168,694,800 and \$12,000,000 respectively. The subrecipient or beneficiary designation is an important distinction for Treasury federal award programs as funding provided to beneficiaries is not subject to audit pursuant to the Single Audit Act and 2 CFR Part 200, Subpart F. The incorrect identification of whether a subrecipient or beneficiary relationship exists could lead to noncompliance with federal requirements over subrecipient monitoring and reporting.

Criteria

2 CFR 200.510(b) states, "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." 2 CFR 200.510(b)(4) further requires that the SEFA must "include the total amount provided to subrecipients from each Federal program."

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-018: State Agencies Failed To Accurately Identify And Classify Amounts Reported As Passed Through To Subrecipients On The Schedule Of Expenditures Of Federal Awards (Continued)**

Criteria (Continued)

According to the SLFRF Final Rule Frequently Asked Questions, “the distinction between subrecipients and beneficiaries is addressed in the supplemental information to Treasury’s final rule. For example, when recipients of SLFRF funds provide award funds to individuals or entities as a result of experiencing a public health or negative economic impact of the pandemic, those receiving such funding are beneficiaries of the funds. In contrast, when recipients provide award funds to an entity to carry out a program in response to the public health emergency or its negative economic impacts, the entities receiving such funding are subrecipients.”

Recommendation

Following notification, impacted agencies completed an evaluation of amounts reported as provided to subrecipients, and adjustments were made accordingly to the Commonwealth’s SEFA. We recommend the Finance and Administration Cabinet Financial Reporting Branch update SEFA instructions and provide additional guidance and training to agencies responsible for making contractor, subrecipient, or beneficiary determinations. Provided guidance should clarify any differences in presentation between programs governed by OMB and Treasury.

Management’s Response and Planned Corrective Action***SFCC Response:***

The School Facilities Construction Commission (SFCC) has consulted with the Office of the Controller and has been made aware that the FY 2023 SEFA has been updated according to the APA’s recommendation. SFCC staff will look for updated guidance on SEFA reporting should it be necessary.

Tourism Response:

As noted in the Recommendation, adjustments to the Commonwealth’s SEFA were made upon notification. Appropriate staff will continue to attend the SEFA training provided by the Finance and Administration Cabinet and will seek additional guidance on any funding governed by U.S. Department of Treasury.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2023-019: The Finance And Administrative Cabinet's Financial Reporting Branch Failed To Implement Adequate Internal Controls To Ensure The Completeness And Accuracy Of The Schedule Of Expenditures Of Federal Awards

Condition and Context

The Financial Reporting Branch within the Finance and Administration Cabinet's (FAC) Office of the Controller prepares the Commonwealth of Kentucky's Schedule of Expenditures of Federal Awards (SEFA). Following the preparation of proposed audit adjustments, additional unintentional changes occurred which were undetected by the Financial Reporting Branch's internal control structure. The following exceptions were noted:

- Activity for one federal program was incorrectly removed from the SEFA resulting in an understatement of \$391,308,579 in cash expenditures and \$22,444,666 in amounts provided to subrecipients.
- An additional federal program's activity was overstated by \$403,727,928 of cash expenditures and \$86,005,278 for amounts provided to subrecipients.

Numerous adjustments were required to ensure the SEFA was complete and accurately stated.

Cause

The Financial Reporting Branch implemented a new process to collect data used for the compilation of the Commonwealth's SEFA. While the process has streamlined the SEFA compilation, internal controls were not in place to ensure adjustments were accurately recorded.

Effect

The SEFA is the foundation for the identification and selection of major federal programs as required by federal regulations. Inaccurate information could mislead federal oversight agencies and other entities who rely on the accuracy of the SEFA. Errors on the SEFA could also lead to additional noncompliance with federal regulations over the identification, monitoring, and reporting of major federal programs.

Criteria

2 CFR 200.510(b) states, "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." 2 CFR 200.510(b)(4) further requires that the SEFA must "include the total amount provided to subrecipients from each Federal program."

Additionally, internal controls should be in place to ensure the completeness and accuracy of reported information on the Commonwealth's SEFA.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2023-019: The Finance And Administrative Cabinet's Financial Reporting Branch Failed To Implement Adequate Internal Controls To Ensure The Completeness And Accuracy Of The Schedule Of Expenditures Of Federal Awards (Continued)**

Recommendation

We recommend the Financial Reporting Branch implement additional internal controls over the preparation of the SEFA. All adjustments should be adequately reviewed and approved to ensure the completeness and accuracy of the SEFA.

Management's Response and Planned Corrective Action

We agree with the auditor's comments. The implementation of data collection and SEFA compilation in WDesk for the Commonwealth's SEFA has greatly improved the compilation process for FAC. The Financial Reporting Branch has been working on best practices for data validation and tracking changes made throughout the compilation process. Going forward, we will be sure to implement the "track changes" and "blackline" features within the WDesk software to verify that only necessary adjustments are made.

APPENDIX

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2023**

This report is available on our website, auditor.ky.gov, in PDF format. For other requests, please contact Maira Gomez, the APA's Open Records Administrator, at (502) 564-5841 or maria.gomez@ky.gov. If copies of the ACFR for FY 2023 are required, the report is available on the Finance and Administration Cabinet website at finance.ky.gov in PDF format.

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

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

Council on Postsecondary Education
100 Airport Road
Frankfort, KY 40601

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

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

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

Kentucky Communications Network Authority
500 Mero Street
Frankfort, KY 40601

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

Kentucky Department of Labor - Special Fund
500 Mero Street, 3rd Floor
Frankfort, KY 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

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

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

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

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

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

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

Kentucky Infrastructure Authority
100 Airport Road, 3rd Floor
Frankfort, Kentucky 40601

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

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

Kentucky Public Employees' Deferred Compensation Authority
501 High Street, 2nd Floor
Frankfort, KY 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Kentucky Public Pensions Authority
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

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

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

Kentucky State Fair Board
Kentucky Fair and Exposition Center
937 Phillips Lane
Louisville, KY 40209

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

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

Louisville Arena Authority
1 Arena Plaza
Louisville, KY 40202

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

Murray State University
200 Sparks Hall
Murray, Kentucky 42071

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)**

Northern Kentucky University
Office of Financial Services
Nunn Drive
Highland Heights, Kentucky 41099-8101

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

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

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

Turnpike Authority of Kentucky
200 Mero Street, 5th Floor
Frankfort, KY 40622

University of Kentucky
107 Main Building
Lexington, Kentucky 40506-0032

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

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

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