

# Statewide Single Audit of Kentucky

Fiscal Year 2021  
Volume 1

House Standing Committee on Small Business and Information Technology  
March 2, 2022



Office of the Auditor of Public Accounts

# Annual Comprehensive Financial Report (ACFR)

- ▶ Per KRS 43.060, the Auditor of Public Accounts (APA) does an annual audit of the Commonwealth of Kentucky's Annual Comprehensive Financial Report (ACFR) in accordance with generally accepted accounting principles.
- ▶ One area of improvement from FY 2020 to FY 2021 was that the audit opinion was unmodified for FY 2021.
  - ▶ For FY 2020, APA issued a Qualified Audit Opinion on the UI Fund because of the internal control environment and unknown amount owed to those who filed for UI benefits.

# Statewide Single Audit of Kentucky (SSWAK) for FY 2021, Vol. I

- ▶ APA conducts the SSWAK to meet the Federal Single Audit Act requirement that applies to all state & local governments expending federal awards of \$750,000 or more.
- ▶ Volume I of the SSWAK reports the financial statement internal control findings from the ACFR audit.
  - ▶ 19 findings for FY 2021, and more than half involved the Office of Unemployment Insurance (OUI) and the Unemployment Insurance (UI) fund
- ▶ FY 2021 covers July 1, 2020 to June 30, 2021.
- ▶ SSWAK, Volume I was released on February 9, 2022.
  - ▶ Full report available online at [auditor.ky.gov](https://auditor.ky.gov)

# Statewide Single Audit of Kentucky (SSWAK) for FY 2021, Vol. II

- ▶ Volume II of the SSWAK reports on compliance with federal requirements for federal awards.
- ▶ This federal compliance audit work is still underway by APA staff.
  - ▶ Volume II will be released later in 2022.

# FY 2020 Issues Not Present in FY 2021

## Audit Findings

- ▶ “Auto-Pay” allowed UI benefits to be automatically paid without requiring claimants to report the weekly wage information needed to determine whether they were actually eligible for benefits.
  - ▶ Good intentions, bad results.
  - ▶ Auto-Pay was in effect two weeks for traditional UI and eight weeks for Pandemic Unemployment Assistance.
  - ▶ Auditors identified all of the \$655 million that was paid during Auto-Pay as questioned costs.
- ▶ At least 10 OUI employees had accessed their own claims in the system and had the ability to make changes/remove stops on their own claims.

# Fraudulent Activity Within the OUI System

- ▶ Finding 2021-005: OUI Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (KEWES).
- ▶ UI Fraud increased significantly following the passage of the Federal CARES Act of 2020, which created several temporary unemployment compensation programs.

# Temporary Federal Unemployment Programs Created by CARES ACT

- ▶ Pandemic Unemployment Assistance (PUA).
  - ▶ PUA funded unemployment benefits for claimants who historically have not been eligible for traditional UI, such as self-employed individuals or “gig” workers.
- ▶ Pandemic Emergency Unemployment Compensation (PEUC).
  - ▶ PEUC provided 13 weeks of additional unemployment benefits to eligible individuals whose traditional unemployment benefits have been exhausted.
- ▶ Federal Pandemic Unemployment Compensation (FPUC).
  - ▶ FPUC provided an additional \$600 of benefits per week to all eligible claimants receiving at least \$1 of traditional unemployment compensation, PUA, or PEUC.

# Fraudulent Activity Within the OUI System - Finding 2021-005

- ▶ Auditors reviewed claims in the following categories:
  - ▶ Labor Cabinet or “Commonwealth of Kentucky” listed as employer;
  - ▶ Out-of-state claimants;
  - ▶ Third quarter of FY 2021 (January thru March 2021) due to large number of claims processed in this quarter.
- ▶ On the claims auditors reviewed, more than \$118,9000 was paid to fraudulent claimants as identified by OUI.



## Fraudulent Activity Within the OUI System - Labor Cabinet or “Commonwealth of Kentucky” as Employer

- ▶ 54 claimants in FY 2021 had reported the Labor Cabinet or “Commonwealth of Kentucky” as their employer, receiving a total of \$333,165 in UI payments.
- ▶ All 13 of the sampled claims were fraudulent because the claims were not filed by employees of the Commonwealth, totaling \$20,197.

# Fraudulent Activity Within the OUI System - Out-of-State Claimants

- ▶ 28,377 out-of-state claimants were paid a total of more than \$195 million during the fiscal year.
- ▶ Out of a sample of 34 claims, 15 were fraudulent with payments totaling \$69,703.
- ▶ One fraudulent claimant was paid \$31,911 before a fraud stop was applied by OUI.

# Fraudulent Activity Within the OUI System - 3<sup>rd</sup> Quarter Claims

- ▶ From January to March 2021 (FY 3<sup>rd</sup> quarter), 2,455 claims were filed which received only 2 weeks of payments in that quarter, totaling more than \$2.9 million.
- ▶ Auditors reviewed 26 claims, and 25 of the sampled claims were fraudulent with payments totaling \$29,050.

# Fraudulent Activity Within the OUI System - Fraud Detection

- ▶ Although OUI took action to stop payment on these fraudulent claims, it did so only after each claim improperly received at least 2 weeks of payment.
  - ▶ OUI was using various tools and software to detect fraud, but these products were not fully implemented during FY 2021.
  - ▶ Required cross-match audits (intended to verify wage info from other agencies like Social Security) were suspended for a four-month period due to COVID, and OUI fell behind on completing these.
  - ▶ The FY20 3<sup>rd</sup> quarter (Jan. to Mar. 2020) cross-match was started in August 2021.

# IT Security & Data Processing Issues

- ▶ The Kentucky Electronic Workplace for Employment Services (KEWES) System was not properly secured.
- ▶ Multiple users had access to one Admin account, which means there was no way to track who actually used the account at a given time.
- ▶ KEWES was not configured during FY 2021 to require periodic password changes.
- ▶ OUI had the mainframe set to terminate a user session after 10 hours, but OUI is working with COT to change to 30 mins.
- ▶ Repeat Findings: OUI does not have adequate technical documentation for KEWES processes. (2021-018)
- ▶ OUI does not follow COT enterprise policy requiring system security plans. (2021-004)

# The Backlog of Claims

- ▶ Repeat Finding (2021-006): OUI did not have an accurate accounts payable estimate for the backlog of claims existing in FY 2021.
- ▶ OUI didn't follow prior-year audit recommendations to update its operating manual or procedures to improve the accounts payable and accounts receivable reporting process.
- ▶ OUI submitted a closing package to FAC that did not include an amount for the potential payments due to claimants.
  - ▶ The backlog of over 120,000 claimants as of June 30, 2021.

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