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Edelen releases volume two of state audit, finds weaknesses in federal grant monitoring

FRANKFORT, Ky. (March 27, 2012) – Kentucky State Auditor Adam Edelen has released the second volume of the annual statewide audit of Kentucky for fiscal year ending June 30, 2011, finding instances where state agencies are not properly monitoring how grant recipients spend federal funds.

The audit contains 27 findings with recommendations and notes more than \$411,000 in questioned costs.

Federal law dictates an audit of the state's compliance with federal grant requirements. The amount of federal grant dollars expended in fiscal year 2011 by Kentucky was \$11 billion. The amount of federal dollars expended in 2010 was \$11.6 billion.

“Kentucky has a responsibility to adequately oversee the expenditure of federal dollars directed at the Commonwealth,” Auditor Adam Edelen said. “The failure to do so jeopardizes the continued availability of much-needed resources in the state and increases the risk for waste and abuse of taxpayers’ money.”

The most serious findings in the audit are two material weaknesses in the internal control over compliance: Auditors question oversight of federal chemical stockpile emergency funds by the Department of Military Affairs and call for stronger controls by the Department of Agriculture in how it monitors food banks and food pantries. Last year's audit of federal grants had 21 total findings and contained similar material weaknesses by the two departments.

A material weakness could lead to a compliance requirement of a federal program not being met.

“Many of the findings in the audit are repeat findings from past years and that is disappointing,” Edelen said. “I urge those agencies to carefully consider the recommendations to ensure compliance with federal grant requirements.”

In addition, the audit contains nine significant deficiencies in the Cabinet for Health and Family Services. In particular, auditors question oversight of contracts in the Department for Medicaid Services, which is a \$6 billion program to provide health care for low-income Kentuckians.

“I’m particularly concerned about the failure of the Cabinet for Health and Family Services to properly monitor and enforce its contracts with third-party contractors,” Edelen said. “Government can outsource its functions but not its oversight responsibility.”

Volume one – an audit of Kentucky’s financial statements released in February – contained 62 findings with recommendations related to deficiencies in internal controls over financial reporting.

In the current audit, auditors found that the Department of Military Affairs and its agency, the Kentucky Division of Emergency Management, failed to properly oversee federal Chemical Stockpile Emergency Preparedness Program (CSEPP) grant funds in Jackson, Clark and Rockcastle counties – resulting in more than \$80,000 in questionable expenses.

With chemical weapons housed at the Blue Grass Army Depot in Madison County, Central Kentucky counties receive federal dollars through CSEPP, which is administered through KyDEM. These counties include: Madison, Clark, Powell, Estill, Jackson, Rockcastle, Garrard, Fayette, Jessamine and Laurel. These counties received \$12.4 million through the state in 2011.

Problems of oversight by KyDEM were first noted in the 2008 state audit and repeated in the 2009 and 2010 audits.

In one instance, the current audit found that Jackson County double-paid for a hotel room for the judge-executive to travel to Louisville. There was no indication that KyDEM questioned the \$646 reimbursement.

The audit also found that Jackson County had spent \$498 on coffee makers and coffee supplies, including \$379.99 for one coffee maker.

The audit makes recommendations to strengthen oversight of CSEPP monitoring.

The other material weakness noted in the audit involves compliance of The Emergency Food Assistance Program (TEFAP) administered by the state Department of Agriculture for food banks and food pantries across Kentucky. The total funding for the program was more than \$11 million in 2011.

Auditors found that only 16 of the required 20 pantries were reviewed by Agriculture and of the 16, none had the proper documentation. The 2010 audit noted similar instances of non-compliance. In addition, the audit found that Agriculture’s internal controls over monitoring

were not sufficient to ensure all reviews were conducted, deficiencies were followed up on and documentation was maintained.

The audit notes the 25 remaining findings are “significant deficiencies” of how state government agencies oversee and monitor federal funds. These findings do not rise to the level of material non-compliance.

In the Cabinet for Health and Family Services, auditors found the Department for Medicaid Services is not sufficiently monitoring drug rebates the state is eligible to receive from pharmaceutical companies. The deficiency led to improper reporting of the amount of drug rebates collectible by the state.

Auditors also found the Cabinet is not collecting on a timely basis audited cost reports from hospitals that provide Medicaid services. Since the department is reimbursing hospitals based on reports that are potentially incorrect and contained unaudited data, the department could be paying more than the hospitals are rightly owed.

To view the complete audit, visit www.auditor.ky.gov

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