

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

VOLUME I

**For the Year Ended
June 30, 2013**



**ADAM H. EDELEN
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THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2013

Background

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

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

SSWAK - Volume II will present elements required under OMB Circular A-133, including the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*, and the Schedule of Findings and Questioned Costs.

Comprehensive Annual Financial Report

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

The scope of the CAFR audit included:

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

**THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2013**

Schedule of Expenditures of Federal Awards

The SEFA presented within this report is organized by federal grantor. The Catalog of Federal Domestic Assistance (CFDA) numbers and program names are listed under the federal grantor administering the program. The state agencies expending the federal funds are listed beside each CFDA number. The notes to the SEFA provide more detailed information on certain aspects of the expenditures. Clusters of programs are indicated in the schedule by light gray shading. The identification of major federal programs and our report thereon will be presented in our report *SSWAK - Volume II*.

For fiscal year ended June 30, 2013, the total federal dollars expended by the Commonwealth of Kentucky was \$ 8,004,000,658 in cash awards and \$ 1,305,117,268 in noncash awards. For fiscal year 2013, the total federal cash expenditures as reported on the SEFA decreased in comparison with the total for fiscal year 2012.

Component Units

The reporting entity of the Commonwealth of Kentucky for the purposes of the CAFR includes various component units, including state universities and retirement systems, as identified in accordance with GASB No. 14, 39, and 61. However, except for CAFR reporting, the Commonwealth has elected to exclude component units from the statewide single audit. Thus, these component units, including state universities and retirement systems, are not included in the accompanying SEFA and reports on internal control and compliance over financial reporting. These entities are still required to have audits performed in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, if applicable, based on their total federal expenditures. Separately issued reports of components can be obtained by contacting the respective agency. Contact information for these agencies is presented in the Appendix of this report.



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

February 6, 2014

Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the year ended June 30, 2013. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

We will subsequently report to you the required elements of the Federal government's Office of Management and Budget (OMB) Circular A-133 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 Libby Carlin, Assistant Auditor of Public Accounts.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts



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LIST OF ABBREVIATIONS/ACRONYMS

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2013**

AADA	Adjusted Average Daily Attendance
AASHTO	American Association of State and Highway Transportation Officials
ACH	Automated Clearing House
ADB	Agriculture Development Board
AFR	Annual Financial Report
AGR	Department of Agriculture
AOC	Administrative Office of the Courts
APA	Auditor of Public Accounts
ARRA	American Recovery and Reinvestment Act
BPP	Business Process Procedures
CAFR	Comprehensive Annual Financial Report
CAMRA	Complete Asset Management Reporting and Accounting
CDC	Centers for Disease Control
CED	Cabinet for Economic Development
CFDA	Catalog of Federal Domestic Assistance
CHFS	Cabinet for Health and Family Services
CIO	Chief Information Officer
CMA	Commission on Military Affairs
Commonwealth	Commonwealth of Kentucky
CORR	Department of Corrections
COT	Commonwealth Office of Technology
CP	Commonwealth Paid
CPA	Certified Public Accountant
CT	Contract
CT2	Contract 2-Way Match
CTS	Comprehensive Tax System
CTT1	Contract KYTC
CTT2	Contract 2-Way Match KYTC
CW	Checkwriter
CWC	Checkwriter Cancellation
DAB	Data Analysis Branch
DBFM	Division of Budget & Financial Management
DBHDID	Department for Behavioral Health and Developmental and Intellectual Disabilities
DBR	Daily Business Report
DCBS	Department of Community Based Services
DCJT	Department of Criminal Justice Training
DCTRL	Document Control
DEI	Department of Employee Insurance
DEM	Division of Employee Management
DGA	Division of General Accounting

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

DJJ	Department of Juvenile Justice
DLA	Department of Libraries and Archives
DLG	Department for Local Government
DMA	Department of Military Affairs
DMS	Department for Medicaid Services
DTS	Division of Technology Services
DO	Delivery Order
DO2	Delivery Order 2-Way Match
DOA	Division of Accounts
DOC	Department of Corrections
DOP	Department of Parks
DTS	Division of Technology Services
DVA	Department of Veterans Affairs
DWI	Department for Workforce Investment
EBT	Electronic Benefit Transfer
EDU	Department of Education
EEC	Energy and Environment Cabinet
eMARS	enhanced Management Administrative and Reporting System
ePAY	ePayment Gateway
EPA	Environmental Protection Agency
EPPC	Environmental and Public Protection Cabinet
EPSB	Education Professional Standards Board
ERQ	Event Requirements
F&W	Department of Fish and Wildlife Resources
FAC	Finance and Administration Cabinet
FAP	Finance and Administration Cabinet Policy
Finance	Finance and Administration Cabinet
FTI	Federal Tax Information
FTP	File Transfer Protocol
FY	Fiscal Year
GAIP	General Accounting Intercept Payment
GASB	Governmental Accounting Standards Board
GAX	General Accounting Expense/Expenditure
GOV	Office of the Governor
HCBS	Home and Community Based Services
HP	Hewlett-Packard
HR	Human Resource
HRC	Kentucky Commission on Human Rights
HRG	Human Resource Generalist
ID	Identification

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

IP	Internet Protocol
IRS	Internal Revenue Service
IT	Information Technology
JUST	Justice and Public Safety Cabinet
JUV	Department of Juvenile Justice
JV2P	Parks Receivable
KAR	Kentucky Administrative Regulations
KAC	Kentucky Arts Council
KBE	Kentucky Board of Elections
KDE	Kentucky Department of Education
KHC	Kentucky Heritage Council
KHEAA	Kentucky Higher Education Assistance Authority
KHP	Kentucky Horse Park
KHRIS	Kentucky Human Resource Information System
KHS	Kentucky Historical Society
KIH	Kentucky Information Highway
KOEP	Kentucky Office of Energy Policy
KOHS	Kentucky Office of Homeland Security
KRS	Kentucky Revised Statute
KSP	Kentucky State Police
KST	Kentucky State Treasury
KVE	Kentucky Vehicle Enforcement
KY	Kentucky
KYMMIS	Kentucky Medicaid Management Information System
KYTC	Kentucky Transportation Cabinet
LABOR	Labor Cabinet
LWOP	Leave Without Pay
MAC	Media Access Control
MCO	Managed Care Organization
MIL	Military Affairs
NA	Not Applicable
NCP	Non-Commonwealth Paid
NIST	National Institute of Standards and Technology
OAG	Office of Attorney General
OATS	Office of Administrative and Technology Services
OB1	Management Budget
OC	Office of the Controller
OFM	Office of Financial Management
OLS	Office of Legal Services
OMB	Office of Management and Budget

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

OMS	Operations Management System
PA	Prior Authorizations
PAN	Personnel Action Notification
PARKS	Department of Parks
PC	Personnel Cabinet
Personnel	Personnel Cabinet
PII	Personally Identifiable Information
PO	Purchase Order
PO2	Purchase Order 2-Way Match
PON2	Proof of Necessity Agreement
Pontis	Pontis Bridge Management System
PPC	Public Protection Cabinet
PRC	Commodity Based Payment Requisition
PRCI	Commodity Based Internal Payment Requisition
PUBAD	Department of Public Advocacy
R&D	Research and Development
REV	Department of Revenue
RFC	Request for Change
SAS	Statewide Accounting Services
SEEK	Support Education Excellence in Kentucky
SEFA	Schedule of Expenditures of Federal Awards
SFY	State Fiscal Year
SOS	Secretary of State
SR	Solicitation Response
SRP	State Resort Park
SRW	Solicitation Response Wizard
SSPM	Security Standard Procedures Manual
SSWAK	Statewide Single Audit of Kentucky
TAH	Tourism, Arts, and Heritage Cabinet
TC	Transportation Cabinet
TCISO	Treasury Computer Information Security Officer
TFS	Team Foundation Server
TITIO	Treasury IT Information Officer
Treasury	Kentucky State Treasury
UI	Unemployment Insurance
UPS	Unified Prosecutorial System
US	United States
USDA	United States Department Of Agriculture
VA	Department of Veterans' Affairs
WBSCM	Web Based Supply Chain Management
WIA	Workforce Investment Act



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

Independent Auditor's Report

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated December 13, 2013, which contained unmodified opinions on those financial statements. 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 OMB Circular A-133 and is not a required 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.

Emphasis of Matter

The schedule of expenditures of federal awards is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed and not when incurred.

Opinion

In our opinion, except for the effects of the application of a different basis of accounting, as explained above, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the Commonwealth's basic financial statements taken as a whole.

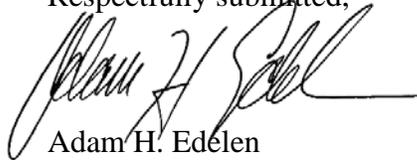


Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

Other Information

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", written over a horizontal line.

Adam H. Edelen
Auditor of Public Accounts

December 13, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care (Note 7)	AGR	\$ 357,150	\$	\$
		F&W	6,567		
10.028	Wildlife Services (Note 14)	F&W			
10.066	Livestock Assistance Program (Note 14)	AGR			
10.069	Conservation Reserve Program (Note 14)	EEC			
10.072	Wetlands Reserve Program (Note 14)	EEC			
10.086	ARRA-Aquaculture Grants Program (AGP) (Note 13)(Note 14)	ADB			
10.093	Voluntary Public Access and Habitat Incentive Program	F&W	424,266		
10.102	Emergency Forest Restoration Program	EEC	17,582		
10.103	2009 Aquaculture Grant Program (Note 14)	ADB			
10.153	Market News	AGR	6,418		
10.156	Federal_State Marketing Improvement Program	AGR	32,000		
10.163	Market Protection and Promotion	AGR	121,308		
10.169	Specialty Crop Block Grant Program (Note 14)	AGR			
10.170	Specialty Crop Block Grant Program-Farm Bill	AGR	277,947		
Supplemental Nutrition Assistance Program Cluster:					
10.551	Supplemental Nutrition Assistance Program (Note 2) (Note 10)	CHFS		1,222,095,407	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2)	CHFS	44,038,424		4,064,689
Child Nutrition Cluster:					
10.553	School Breakfast Program (Note 2)	EDU	69,770,180		69,022,679
		JUV	354,433		
10.555	National School Lunch Program (Note 2) (Note 10)	EDU	179,886,028		179,167,701
		AGR		22,568,301	
		JUV	627,604		
10.556	Special Milk Program for Children (Note 2)	EDU	41,652		41,652
10.559	Summer Food Service Program for Children (Note 2)	EDU	5,201,720		5,074,109
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	CHFS	127,085,790		27,679,993
10.558	Child and Adult Care Food Program (Note 2)	EDU	35,339,654		35,068,409
10.560	State Administrative Expenses for Child Nutrition	EDU	3,187,145		190,741
		AGR	440,784		
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program (Note 10)(Note 11)	AGR	1,705,443	6,310,604	
10.568	Emergency Food Assistance Program (Administrative Costs)	AGR	1,132,536		
10.568	ARRA-Emergency Food Assistance Program (Administrative Costs) (Note 13) (Note 14)	AGR			
10.569	Emergency Food Assistance Program (Food Commodities) (Note 10)	AGR		6,213,247	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	CHFS	130,135		
		AGR	47		
10.574	Team Nutrition Grants (Note 14)	EDU			
10.576	Senior Farmers Market Nutrition Program	AGR	324,348		
10.579	Child Nutrition Discretionary Grants Limited Availability (Note 14)	EDU			
10.579	ARRA-Child Nutrition Discretionary Grants Limited Availability (Note 13) (Note 14)	EDU			
10.582	Fresh Fruit and Vegetable Program	EDU	2,702,595		2,702,595
10.652	Forestry Research	EEC	274,688		
10.664	Cooperative Forestry Assistance	EEC	2,154,427		763,869
10.676	Forest Legacy Program	EEC	18,879		
10.678	Forest Stewardship Program	EEC	9,020		
10.680	Forest Health Protection	EEC	120,999		10,734
10.769	Rural Business Enterprise Grants	AGR	3,517		
10.771	Rural Cooperative Development Grants (Note 14)	AGR			
10.902	Soil and Water Conservation	EEC	386,171		
		F&W	414,853		
10.912	Environmental Quality Incentives Program	EEC	36,243		
10.913	Farmland Protection Program	AGR	13,111		
10.914	Wildlife Habitat Incentive Program (Note 14)	EEC			
		F&W			

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture (Continued)					
Direct Programs (Continued):					
10.923	Emergency Watershed Protection Program	EEC	20,552		
		TC	178,748		
10.923	ARRA-Emergency Watershed Protection Program (Note 13) (Note 14)	EEC			
10.NA(1)	Rural Rehabilitation Student Loan Program (Note 3)	AGR	1,297		
10.NA(2)	Conservation Farm Bill Program (Note 14)	EEC			
Total U.S. Department of Agriculture			\$ 476,844,261	\$ 1,257,187,559	\$ 323,787,171
U.S. Department of Commerce					
Direct Programs:					
Economic Development Cluster:					
11.307	Economic Adjustment Assistance	DLG MIL	\$ 271,944 1,768	\$	\$ 238,733
11.468	Applied Meteorological Research (Note 14)	KOHS			
11.469	Congressionally Identified Awards and Projects (Note 14)	PARKS			
11.555	Public Safety Interoperable Communications Grant Program	KSP KOHS	63,479 974		
11.557	ARRA-Broadband Technology Opportunities Program (BTOP) (Note 13)	DLA	82,586		72,245
11.558	ARRA-State Broadband Data and Development Grant Program (Note 13)	COT	1,603,060		
Total U.S. Department of Commerce			\$ 2,023,811	\$	\$ 310,978
U.S. Department of Defense					
Direct Programs:					
12.002	Procurement Technical Assistance For Business Firms (Note 14)	CED	\$	\$	\$
12.106	Flood Control Projects	F&W	14,319		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	EEC	125,679		
12.400	Military Construction, National Guard	MIL	14,679,578		
12.401	National Guard Military Operations and Maintenance (O & M) Projects	MIL	23,715,779		
12.401	ARRA-National Guard Military Operations and Maintenance (O & M) Projects (Note 13) (Note 14)	MIL			
12.404	National Guard ChalleNGe Program	MIL	4,805,525		
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	CMA	205,056		
12.700	Donations/Loans of Obsolete DOD Property (Note 10)	KSP		182,708	
12.NA(1)	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	EEC	518,014		50,434
12.NA(4)	Teacher and Teacher's Aide Placement Assistance Program	EPSB	82,670		
Total U.S. Department of Defense			\$ 44,146,620	\$ 182,708	\$ 50,434
U.S. Department of Housing and Urban Development					
Direct Programs:					
Community Development Block Grants-State-Administered					
Community Development Block Grant Cluster:					
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Note 2)(Note 8)	DLG MIL	\$ 31,580,657 8,832	\$	\$ 30,165,303
14.255	ARRA-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (Note 2)(Note 13)	DLG	77,875		68,417
14.251	Economic Development Initiative -Special Project, Neighborhood Initiative and Miscellaneous Grants (Note 14)	PARKS			
14.262	ARRA-Homeless Prevention and Rapid Re-Housing Program Technical Assistance (Note 13)	DLG	5,059,074		5,036,794
14.401	Fair Housing Assistance Program_State and Local	HRC	229,668		

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Housing and Urban Development (Continued)					
Direct Programs (Continued):					
14.408	Fair Housing Initiatives Program (Note 14)	HRC			
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	CHFS	180,289		177,772
Total U.S. Department of Housing and Urban Development			\$ 37,136,395	\$	\$ 35,448,286
U.S. Department of the Interior					
Direct Programs:					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	EEC	\$ 12,028,697	\$	\$
15.252	Abandoned Mine Land Reclamation (AMLR) Program (Note 2)	EEC	37,289,479		17,449,398
15.255	Science and Technology Projects Related to Coal Mining and Reclamation	EEC	247,677		
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration Program (Note 7)	F&W	4,533,002		
15.611	Wildlife Restoration and Basic Hunter Education (Note 9)	F&W	6,019,474		
15.614	Coastal Wetlands Planning, Protection and Restoration Act (Note 14)	F&W			
15.615	Cooperative Endangered Species Conservation Fund	F&W	136,482		855,142
		EEC	904,362		
15.616	Clean Vessel Act	F&W	59,718		
15.622	Sportfishing and Boating Safety Act (Note 14)	F&W			
15.623	North American Wetlands Conservation Fund (Note 14)	EEC			
15.632	Conservation Grants Private Stewardship for Imperiled Species	F&W	46,661		
		EEC	40,649		
15.633	Landowner Incentive Program (Note 14)	F&W			
15.634	State Wildlife Grants (Note 7)	F&W	795,380		
15.656	ARRA-Recovery Act Funds-Habitat Enhancement, Restoration and Improvement (Note 13) (Note 14)	F&W			
15.657	Endangered Species Conservation - Recovery Implementation Funds (Note 14)	EEC			
15.808	U.S. Geological Survey_Research and Data Collection	EEC	2,486		
		COT	316,787		
15.809	National Spatial Data Infrastructure Cooperative Agreements Program (Note 14)	COT			
15.811	Gap Analysis Program	EEC	15,606		
15.904	Historic Preservation Fund Grants-In-Aid	KHC	675,450		65,735
15.916	Outdoor Recreation_Acquisition, Development and Planning (Note 6)	DLG	275,358		275,358
		PARKS			
15.945	Cooperative Research and Training Programs-Resources of the National Park System	EEC	8,429		
Total U.S. Department of the Interior			\$ 63,395,697	\$	\$ 18,645,633
U.S. Department of Justice					
Direct Programs:					
16.003	Law Enforcement Assistance_Narcotics and Dangerous Drugs Technical Laboratory Publications (Note 14)	COT	\$	\$	\$
16.017	Sexual Assault Services Formula Program	JUST	146,608		146,608
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	CORR	733,668		
16.203	Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	JUV			
		CORR	23,516		
		JUST			
16.523	Juvenile Accountability Block Grants	JUV	360,424		47,024
		AOC	3,535		
		UPS	45,217		
		PUBAD			
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	JUV	502,056		421,372
16.543	Missing Children's Assistance	KSP	397,310		
16.548	Title V_Delinquency Prevention Program	JUV	36,823		5,000
16.549	Part E_State Challenge Activities (Note 14)	JUV			
16.550	State Justice Statistics Program for Statistical Analysis Centers	JUST	67,815		
16.554	National Criminal History Improvement Program (NCHIP)	KSP	322,729		
		KOHS			
		JUST			

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	KSP	391,101		
		JUST	90,307		
16.575	Crime Victim Assistance	JUST	5,279,899		4,975,450
		UPS	337,011		
16.576	Crime Victim Compensation	PPC	843,160		
16.579	Edward Byrne Memorial Formula Grant Program (Note 14)	JUST			
		CORR			
		KSP			
		JUV			
		PUBAD			
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	CHFS	137,636		
		KSP			
		JUST			
		PUBAD			
		CORR	44,876		
16.582	Crime Victim Assistance/Discretionary Grants	JUST	69,258		44,855
16.585	Drug Court Discretionary Grant Program (Note 7)	AOC	547,392		
		CHFS	99,958		99,958
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants (Note 15)(Note 14)	JUST			
16.588	Violence Against Women Formula Grants (Note 7)	JUST	1,629,307		1,529,685
		UPS	151,524		
		AOC	1,425		
		OAG	27,840		
		CHFS			
		KSP			
		DCJT	50,828		
16.588	ARRA-Violence Against Women Formula Grants (Note 13)	JUST	130,148		130,148
		KSP	3,489		
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program (Note 14)	JUST			
16.592	Local Law Enforcement Block Grants Program (Note 14)	KSP			
		JUST			
16.593	Residential Substance Abuse Treatment for State Prisoners	CORR	148,433		
		JUST			
		JUV	8,829		
16.606	State Criminal Alien Assistance Program	CORR	29,475		
16.607	Bulletproof Vest Partnership Program (Note 14)	KSP			
		CORR			
		JUST			
16.609	Project Safe Neighborhoods	UPS			
		KSP	20,645		
16.610	Regional Information Sharing Systems (Note 14)	COT			
16.710	Public Safety Partnership and Community Policing Grants	JUST			
		KSP	24,591		
16.727	Enforcing Underage Drinking Laws Program	KSP	212,565		120,790
16.728	Drug Prevention Program (Note 14)	TC			
16.735	Protecting Inmates and Safeguarding Communities	CORR	55,191		
		JUV	7,490		
JAG Program Cluster:					
16.738	Edward Byrne Memorial Justice Assistance Grant Program	JUST	2,022,007		1,742,380
		KSP	502,237		
		CORR	135,050		
		AOC			
		JUV	610		
		UPS			
		DCJT			
		PUBAD	28,895		
16.803	ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories (Note 13)	KSP	7		
		JUST	271,030		270,174
		UPS			
		F&W			
		AOC	50,000		
		PUBAD			
		JUV	10,994		
16.804	ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government (Note 13)(Note 14)	OAG			
		DCJT			

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	CORR	62,000		
16.741	DNA Backlog Reduction Program	KSP	566,243		
16.743	Forensic Casework DNA Backlog Reduction Program	PUBAD	53,136		
		JUST	281,913		
16.744	Anti-Gang Initiative (Note 14)	KSP			
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program (Note 7)	AOC	70,657		
16.746	Capital Case Litigation	JUST	3,232		
		OAG	44,444		
		PUBAD	18,609		
16.748	Convicted Offender and/or Arrestee DNA Backlog Reduction Program (Note 14)	JUST			
16.750	Support for Adam Walsh Act Implementation Grant Program (Note 14)	KSP			
16.751	Edward Byrne Memorial Competitive Grant Program	AOC	197,989		
		CORR	261,839		
16.800	ARRA-Recovery Act-Internet Crimes Against Children Task Force Program (ICAC) (Note 13)	KSP	227,509		
16.801	ARRA-Recovery Act-State Victim Assistance Formula Grant Program (Note 13) (Note 14)	JUST			
16.802	ARRA-Recovery Act-State Victim Compensation Formula Grant Program (Note 13) (Note 14)	PPC			
16.808	ARRA-Recovery Act-Edward Byrne Memorial Competitive Grant Program (Note 13)	KSP	295,491		
		CORR			
16.810	ARRA-Recovery Act-Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program (Note 13)	OAG	486,447		
		UPS			
16.812	Second Chance Act Prisoner Reentry Initiative	CORR	169,746		
16.813	NICS Act Record Improvement Program	AOC	1,009,160		
		KSP	1,325,451		
16.NA(1)	Drug Enforcement Administration	KSP	1,345,145		
16.NA(2)	Federal Bureau of Investigation	KSP	168,012		
16.NA(3)	Federal Methamphetamine Initiative (Note 14)	KSP			
16.NA(4)	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program	KSP	17,628		
16.NA(5)	Prescription Drug Monitoring Program (Note 14)	CHFS			
16.NA(6)	District Fugitive Task Force	KSP	11,439		
16.NA(7)	Equitable Sharing-Asset Forfeiture	KSP	515,366		
Total U.S. Department of Justice			\$ 23,134,365	\$	\$ 9,533,444
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	DWI	\$ 860,130	\$	\$
17.005	Compensation and Working Conditions	LABOR	176,607		
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	DWI	8,893,728		
17.801	Disabled Veterans' Outreach Program (DVOP)	DWI	1,390,104		
17.804	Local Veterans' Employment Representative Program	DWI	1,548,205		
17.225	Unemployment Insurance (Note 2)(Note 4)	DWI	540,427,621		
17.225	ARRA-Unemployment Insurance (Note 2)(Note 4)(Note 13)	DWI	379,080,294		
17.235	Senior Community Service Employment Program	CHFS	1,740,411		1,697,648
17.245	Trade Adjustment Assistance	DWI	7,737,706		6,204,430
Workforce Investment Act Cluster:					
17.258	WIA Adult Program (Note 2)	DWI	15,247,571		13,899,844
		EDU	275,883		275,388
17.259	WIA Youth Activities (Note 2)	DWI	13,605,177		12,516,815
		EDU			
17.278	WIA Dislocated Worker Formula Grants (Note 2)	DWI	14,216,237		13,838,322
		EDU			

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Labor (Continued)					
Direct Programs (Continued):					
17.260	WIA Dislocated Workers (Note 2)	DWI	1,153,740		827,663
		EDU	73,766		73,766
		LABOR			
17.260	ARRA-WIA Dislocated Workers (Note 2)(Note 13)	DWI	34,951		34,504
17.261	WIA Pilots, Demonstrations, and Research Projects (Note 14)	DWI			
17.267	Incentive Grants-WIA Section 503 (Note 14)	DWI			
17.268	H-1B Job Training Grants (Note 14)	DWI			
17.271	Worker Opportunity Tax Credit Program (WOTC)	DWI	301,481		
17.272	Permanent Labor Certification for Foreign Workers (Note 14)	DWI			
17.273	Temporary Labor Certification For Foreign Workers	DWI	310,764		
17.275	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (Note 13)	DWI	2,458,644		2,351,148
17.276	ARRA-Health Care Tax Credit (HCTC) (Note 13)	DWI	297,347		
17.277	Workforce Investment Act (WIA) National Emergency Grants	DWI	880,903		851,663
17.503	Occupational Safety and Health_State Program	LABOR	3,812,620		
17.504	Consultation Agreements (Note 14)	LABOR			
17.505	OSHA Data Initiative	LABOR	8,339		
17.600	Mine Health and Safety Grants	EEC	359,602		
17.603	Brookwood-Sago Grant (Note 14)	EEC			
Total U.S. Department of Labor			\$ 994,891,831	\$	\$ 52,571,191
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program	TC PARKS	\$ 2,509,398	\$	\$
Highway Planning and Construction Cluster:					
20.205	Highway Planning and Construction (Note 2)(Note 5)	TC	665,307,814		54,064,006
		PARKS	427,876		
		KSP	23,758		
		REV			
		KHS	598,218		
20.205	ARRA-Highway Planning and Construction (Note 2) (Note 13)	TC	13,008,153		176,410
		KHP	3,800		
20.219	Recreational Trails Program (Note 2) (Note 6)	DLG	1,360,723		1,324,806
		PARKS	5,006		
20.218	National Motor Carrier Safety	KSP	4,118,163		253,319
		TC	582,739		
20.231	Performance and Registration Information Systems Management	TC	216,603		
20.232	Commercial Driver's License Programs Improvement Grant	TC	321,987		
20.237	Commercial Vehicle Information Systems and Networks	TC	423,157		
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant	TC	323		
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	KSP	31,989		
		TC			
20.314	Railroad Development (Note 14)	TC			
Federal Transit Cluster:					
20.500	Federal Transit_Capital Investment Grants	TC	7,370,964		7,370,964
20.507	Federal Transit_Formula Grants	TC	1,451,013		1,451,013
20.505	Metropolitan Transportation Planning	TC	535,089		535,089
20.509	Formula Grants for Rural Areas	TC	12,523,451		11,833,079
20.509	ARRA-Formula Grants for Other Than Urbanized Areas (Note 13)(Note 14)	TC			
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	TC	2,171,998		2,121,998
20.516	Job Access_Reverse Commute	TC	2,534,488		2,534,488
20.521	New Freedom Program	TC	1,441,761		1,441,761

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of Transportation (Continued)</u>					
Direct Programs (Continued):					
20.514	Public Transportation Research	TC	11,846		11,846
Highway Safety Cluster:					
20.600	State and Community Highway Safety	TC	3,242,215		2,707,553
		KSP	1,093,928		
		OAG	176,809		
		AOC			
		DCJT			
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	KSP	928,541		
		AOC	22,164		
		TC	1,024,358		31,567
		DCJT	112,968		
20.602	Occupant Protection Incentive Grants	TC	212,464		95,745
		KSP	118,963		
20.609	Safety Belt Performance Grants	TC	182,958		
20.610	State Traffic Safety Information System Improvement Grants	KSP			
		TC	316,147		291,880
20.612	Incentive Grant Program to Increase Motorcyclist Safety	TC	101,467		
20.604	Safety Incentive Grants for Use of Seatbelts (Note 14)	KSP			
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons (Note 14)	TC			
20.615	E-911 Grant Program	KOHS	1,165,594		
20.700	Pipeline Safety Program State Base Grant	EEC	344,034		
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	MIL	285,885		
20.932	ARRA-Surface Transportation Discretionary Grants for Capital Investment (Note 13)	TC	11,908		
20.933	National Infrastructure Investments	TC	4,357,825		3,473,686
Total U.S. Department of Transportation			\$ 730,678,545	\$	\$ 89,719,210
<u>U.S. Department of Treasury</u>					
Direct Programs:					
21.NA(1)	Internal Revenue Service	KSP	\$ 14,135	\$	\$
21.NA(2)	Equitable Sharing-Asset Forfeiture	KSP	340,184		
21.NA(3)	State Small Business Credit Initiative	CED	22,769		
Total U.S. Department of Treasury			\$ 377,088	\$	\$
<u>U.S. Appalachian Regional Commission</u>					
Direct Programs:					
23.002	Appalachian Area Development	DLG	\$ 617,614	\$	\$ 617,614
		TAH	129,361		
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	DLG	1,078,702		945,000
		AOC			
Total U.S. Appalachian Regional Commission			\$ 1,825,677	\$	\$ 1,562,614
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Programs:					
30.002	Employment Discrimination State and Local Fair Employment Practices Agency Contracts	HRC	\$ 144,859	\$	\$
30.NA(1)	Other Federal Assistance	HRC	74,371		
Total U.S. Equal Employment Opportunity Commission			\$ 219,230	\$	\$
<u>U.S. General Services Administration</u>					
Direct Programs:					
39.003	Donation of Federal Surplus Personal Property (Note 10)	FAC	\$	\$ 495,100	\$
		EEC		1,178,643	
39.011	Election Reform Payments (Note 7) (Note 12)	KBE	158,801		
Total U.S. General Services Administration			\$ 158,801	\$ 1,673,743	\$

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, 2013
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>National Aeronautics and Space Administration</u>					
Direct Programs:					
43.002	Aeronautics (Note 14)	COT	\$	\$	\$
Total National Aeronautics and Space Administration			\$	\$	\$
<u>U.S. National Foundation on the Arts and the Humanities</u>					
Direct Programs:					
45.024	Promotion of the Arts_Grants to Organizations and Individuals (Note 14)	KHS	\$	\$	\$
45.025	Promotion of the Arts_Partnership Agreements	KAC	1,065,079		1,065,079
		KHS	178,946		
45.025	ARRA-Promotion of the Arts_Partnership Agreements (Note 13)(Note 14)	KAC			
45.161	Promotion of the Humanities_Research (Note 14)	HRC			
45.310	Grants to States	DLA	2,156,860		454,521
Total U.S. National Foundation on the Arts and Humanities			\$ 3,400,885	\$	\$ 1,519,600
<u>U.S. Small Business Administration</u>					
Direct Programs:					
59.061	State Trade and Export Promotion Pilot Grant Program	CED	\$ 434,424	\$	\$
Total U.S. Small Business Administration			\$ 434,424	\$	\$
<u>U.S. Department of Veterans Affairs</u>					
Direct Programs:					
64.005	Grants to States for Construction of State Home Facilities	VA	\$ 1,410,094	\$	\$
64.015	Veterans State Nursing Home Care	VA	22,777,166		
64.203	State Cemetery Grants (Note 14)	VA			
Total U.S. Department of Veterans Affairs			\$ 24,187,260	\$	\$
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
66.001	Air Pollution Control Program Support	EEC	\$ 224,509	\$	\$
66.032	State Indoor Radon Grants	CHFS	150,356		65,634
66.034	Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Note 10)	EEC	710,293	182,507	
66.040	State Clean Diesel Grant Program	EEC	406,746		406,746
66.040	ARRA-State Clean Diesel Grant Program (Note 13)	EEC			
66.418	Construction Grants for Wastewater Treatment Works	EEC			
66.419	Water Pollution Control State, Interstate, and Tribal Program Support (Note 10)	EEC	199,536	23,800	1,519
66.432	State Public Water System Supervision (Note 14)	EEC			
66.436	Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act (Note 14)	EEC			
66.454	Water Quality Management Planning	EEC	277,288		21,594
66.454	ARRA-Water Quality Management Planning (Note 13) (Note 14)	EEC			
66.458	Capitalization Grants for Clean Water State Revolving Funds	EEC	479,866		
66.458	ARRA-Capitalization Grants for Clean Water State Revolving Funds (Note 13) (Note 14)	PARKS	77,706		
66.460	Nonpoint Source Implementation Grants	EEC	4,030,135		2,374,862
66.461	Regional Wetland Program Development Grants	EEC	243,022		145,875
66.463	Water Quality Cooperative Agreements (Note 14)	EEC			
66.467	Wastewater Operator Training Grant Program (Note 14)	EEC			
66.468	Capitalization Grants for Drinking Water State Revolving Fund	EEC	3,609,939		
66.468	ARRA-Capitalization Grants for Drinking Water State Revolving Funds (Note 13) (Note 14)	EEC			
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs (Note 14)	EEC			
66.474	Water Protection Grants to the States (Note 14)	EEC			
66.605	Performance Partnership Grants	COT			
		AGR	591,953		
		EEC	7,958,309		

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Environmental Protection Agency (Continued)					
Direct Programs (Continued):					
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	EEC	165,196		
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	EEC	105,860		
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	CHFS	163,906		37,738
66.708	Pollution Prevention Grants Program	EEC	37,453		
66.709	Multi-Media Capacity Building Grants for States and Tribes (Note 14)	EEC			
66.717	Source Reduction Assistance (Note 14)	EEC			
66.801	Hazardous Waste Management State Program Support	EEC	379,433		
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	EEC	54,107		
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	EEC	468,673		
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	EEC	1,303,250		
66.805	ARRA-Leaking Underground Storage Tank Trust Fund Corrective Action Program (Note 13)	EEC	70,593		
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	EEC	126,546		
66.817	State and Tribal Response Program Grants	EEC	132,566		
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	EEC	47,663		
66.940	Environmental Policy and State Sustainability Grants (Note 14)	EEC			
66.951	Environmental Educational Grants (Note 14)	EEC			
Total U.S. Environmental Protection Agency			\$ 22,014,904	\$ 206,307	\$ 3,053,968
U.S. Department of Energy					
Direct Programs:					
81.039	National Energy Information Center	EEC	\$ 11,111	\$	
81.041	State Energy Program	EEC	903,440		179,855
81.041	ARRA-State Energy Program (Note 13)	EEC	1,017,701		500,000
		FAC			
		EDU			
		ADB			
		CED			
		DWI			
81.042	Weatherization Assistance for Low-Income Persons (Note 14)	FAC			
81.042	ARRA-Weatherization Assistance for Low-Income Persons (Note 13)(Note 14)	FAC			
81.086	ARRA-Conservation Research and Development (Note 13)	EDU	343,795		256,364
81.104	Environmental Remediation and Waste Processing and Disposal	EEC	736,847		419
		CHFS	402,609		78,739
81.119	State Energy Program Special Projects	EEC	435,822		411,731
		DLG	15,250		
81.119	ARRA-State Energy Program Special Projects (Note 13) (Note 14)	EEC			
81.122	ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis (Note 13)	EEC	225,741		
81.127	ARRA-Energy Efficient Appliance Rebate Program (EEARP) (Note 13)(Note 14)	EEC			
81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13)	DLG	2,235,552		2,235,335
		EEC	154,703		36,062
		PPC			
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight (Note 14)	CHFS			
81.NA(1)	Department of Energy (Note 14)	F&W			
81.NA(2)	Building Energy Codes-Adoption, Training and Compliance (Note 14)	PPC			
81.NA(2)	ARRA-Building Energy Codes-Adoption, Training and Compliance (Note 13) (Note 14)	EEC			
Total U.S. Department of Energy			\$ 6,482,571	\$	\$ 3,698,505
U.S. Department of Education					
Direct Programs:					
Title I, Part A Cluster:					
84.010	Title I Grants to Local Educational Agencies (Note 2)	EDU	\$ 229,722,534	\$	\$ 227,050,159

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, 2013
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.011	Migrant Education_State Grant Program	EDU	6,669,403		6,546,603
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	JUV	915,626		772,583
		CORR	47,308		
		EDU	7,686		
Special Education Cluster:					
84.027	Special Education_Grants to States (Note 2)	EDU	157,400,483		155,081,415
84.173	Special Education_Preschool Grants (Note 2)	EDU	9,618,640		9,154,156
84.048	Career and Technical Education -- Basic Grants to States	DWI	1,165,587		42,925
		EDU	15,225,422		13,466,192
		EPSB	90,000		
		CORR	82,808		
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States (Note 2)	DWI	47,110,678		1,661,429
84.128	Rehabilitation Services_Service Projects	DWI	100,920		19,282
84.144	Migrant Education_Coordination Program	EDU	13,945		13,945
84.161	Rehabilitation Services_Client Assistance Program	DWI	158,013		
84.169	Independent Living_State Grants	DWI	373,014		310,974
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	DWI	463,298		216
84.181	Special Education-Grants for Infants and Families	CHFS	3,813,535		
84.181	ARRA-Special Education-Grants for Infants and Families (Note 13)(Note 14)	CHFS			
84.186	Safe and Drug-Free Schools and Communities_State Grants (Note 14)	EDU			
		JUST			
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	DWI	433,369		
84.196	Education for Homeless Children and Youth	EDU	980,882		936,620
84.213	Even Start_State Educational Agencies	EDU	175,034		165,550
84.215	Fund for the Improvement of Education	KHS	1,885		
		EDU			
84.224	Assistive Technology	DWI	284,256		237,468
84.240	Program of Protection and Advocacy of Individual Rights	PUBAD	205,780		
84.243	Tech-Prep Education	DWI			
		EDU	45,421		45,421
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	DWI	268,541		7,250
84.287	Twenty-First Century Community Learning Centers	EDU	19,434,829		19,405,279
84.298	State Grants for Innovative Programs (Note 14)	EDU			
Educational Technology State Grants Cluster:					
84.318	Educational Technology State Grants	EDU	463,234		403,751
84.323	Special Education-State Personnel Development	EDU	688,229		682,693
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	EDU	155,088		155,088
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	EDU	568,438		145,392
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	CORR	116,627		
Teacher Quality Partnership Grants Cluster:					
84.336	Teacher Quality Partnership Grants (Note 14)	EPSB			
84.343	Assistive Technology_State Grants for Protection and Advocacy	PUBAD	45,876		
84.350	Transition to Teaching (Note 14)	EDU			
84.357	Reading First State Grants (Note 14)	EDU			
84.358	Rural Education	EDU	4,994,212		4,988,049
84.365	English Language Acquisition State Grants	EDU	3,673,981		3,566,545

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.366	Mathematics and Science Partnerships	EDU	1,955,972		1,817,008
84.367	Improving Teacher Quality State Grants (Note 2)	EDU	36,909,109		36,466,238
84.369	Grants for State Assessments and Related Activities	EDU	4,033,419		
84.371	Striving Readers	EDU	253,284		214,685
Statewide Data Systems Cluster:					
84.372	Statewide Data Systems	EDU	483,732		
		DW1	852,872		
School Improvement Grants Cluster:					
84.377	School Improvement Grants	EDU	10,690,966		10,651,560
84.388	ARRA-School Improvement Grants, Recovery Act (Note 13)	EDU	16,619,632		16,619,632
84.387	ARRA-Education for Homeless Children and Youth, Recovery Act (Note 13) (Note 14)	EDU			
84.397	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act (Note 13)(Note 14)	CORR KSP FAC DWI			
84.398	ARRA-Independent Living State Grants, Recovery Act (Note 13) (Note 14)	DW1			
84.399	ARRA-Independent Living Services for Older Individuals Who Are Blind, Recovery Act (Note 13) (Note 14)	DW1			
84.410	Education Jobs Fund	EDU	24,011,233		23,898,249
84.413	Race to the Top	EDU	3,586,286		3,362,044
Total U.S. Department of Education			\$ 604,911,087	\$	\$ 537,888,401
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	DLA	\$ 10,314	\$	\$
Total U.S. National Archives and Records Administration			\$ 10,314	\$	\$
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments (Note 7)	KBE	\$ 144,328	\$	\$ 139,935
90.402	Help America Vote Mock Election Program (Note 14)	SOS			
Total U.S. Election Assistance Commission			\$ 144,328	\$	\$ 139,935
U.S. Department of Health and Human Services					
Direct Programs:					
93.003	Public Health and Social Services Emergency Fund (Note 14)	CHFS	\$	\$	\$
93.041	Special Programs for the Aging_ Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	CHFS	72,042		71,135
93.042	Special Programs for the Aging_ Title VII, Chapter 2_ Long Term Care Ombudsman Services for Older Individuals	CHFS	310,870		149,043
93.043	Special Programs for the Aging_ Title III, Part D_ Disease Prevention and Health Promotion Services	CHFS	347,590		337,795
Aging Cluster:					
93.044	Special Programs for the Aging_ Title III, Part B_ Grants for Supportive Services and Senior Centers	CHFS	5,763,254		5,259,906
93.045	Special Programs for the Aging_ Title III, Part C_ Nutrition Services	CHFS	8,330,037		7,946,608
93.053	Nutrition Services Incentive Program	CHFS	1,921,582		1,921,582

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.048	Special Programs for the Aging Title IV_ and Title II_Discretionary Projects	CHFS	236,245		228,852
93.051	Alzheimer's Disease Demonstration Grants to States	CHFS	31,388		22,667
93.052	National Family Caregiver Support, Title III, Part E	CHFS	2,148,745		2,056,585
93.069	Public Health Emergency Preparedness (Note 10)	CHFS	8,802,897	31,609	5,578,223
93.070	Environmental Public Health and Emergency Response	CHFS	436,984		204,526
		EEC	82,225		73,523
93.071	Medicare Enrollment Assistance Program (Note 14)	CHFS			
93.087	Enhance Safety of Children Affected by Substance Abuse	CHFS	498,466		257,355
93.089	Emergency System for Advance Registration of Volunteer Health Professionals	CHFS	43,207		42,707
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	CHFS	728,400		686,116
93.103	Food and Drug Administration_Research	CHFS	114,505		
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	CHFS	1,581,217		1,574,842
93.110	Maternal and Child Health Federal Consolidated Programs	CHFS	338,509		144,974
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 10)	CHFS	596,539	83,361	301,653
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	CHFS	117,136		2,500
93.136	Injury Prevention and Control Research and State and Community Based Programs	CHFS	473,055		473,055
93.138	Protection and Advocacy for Individuals with Mental Illness	PUBAD	552,101		
93.150	Projects for Assistance In Transition from Homelessness (PATH)	CHFS	472,742		457,981
93.197	Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	CHFS	224,258		
93.217	Family Planning_Services	CHFS	5,654,605		5,008,658
93.230	Consolidated Knowledge Development and Application (KD&A) Program (Note 14)	CHFS			
93.234	Traumatic Brain Injury State Demonstration Grant Program (Note 14)	CHFS			
93.235	Affordable Care Act (ACA) Abstinence Education Program	CHFS	725,086		601,738
93.236	Grants to States to Support Oral Health Workforce Activities	CHFS	31,833		29,021
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance (Note 7)	CHFS	1,912,702		1,896,670
		AOC	1,479,327		
		JUV			
		JUST			
		CORR	252,083		
93.251	Universal Newborn Hearing Screening	CHFS	248,686		
93.267	State Grants for Protection and Advocacy Services	PUBAD	76,676		
93.268	Immunization Cooperative Agreements (Note 2) (Note 10)	CHFS	4,065,731	45,411,981	1,809,472
93.270	Adult Viral Hepatitis Prevention and Control	CHFS	97,193		
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	CHFS	5,943,316		4,641,759
93.296	State Partnership Grant Program to Improve Minority Health	CHFS	146,048		61,245
93.414	ARRA-State Primary Care Offices (Note 13)	CHFS	135,239		94,560
93.504	Affordable Care Act (ACA) - Family to Family Health Information Centers	CHFS	93,976		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	CHFS	6,654,482		6,279,915
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	CHFS	919,221		
93.507	PPHF 2012 National Public Health Improvement Initiative	CHFS	392,042		96,055
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	PPC	525,089		
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	CHFS	97,271		82,318
93.519	Affordable Care Act (ACA) - Consumer Assistance Program Grants (Note 14)	PPC			
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	CHFS	624,992		185,273
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (Note 2)	CHFS	61,100,699		
		PPC	29,917		
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease Prevention and Health Promotion Program	CHFS	213,776		65,047
93.556	Promoting Safe and Stable Families	CHFS	6,480,221		6,056,960
Temporary Assistance for Needy Families Cluster:					
93.558	Temporary Assistance for Needy Families (Note 2)	CHFS	183,500,543		26,951,050

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.563	Child Support Enforcement (Note 2)	CHFS AOC OAG	33,923,891 63,488		21,318,696
93.564	Child Support Enforcement Research (Note 14)	CHFS			
93.568	Low-Income Home Energy Assistance (Note 2)	CHFS	39,759,808		39,627,610
93.569	Community Services Block Grant	CHFS	11,656,568		11,533,843
93.571	Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs (Note 14)	CHFS			
Child Care and Development Block Grant Cluster:					
93.575	Child Care and Development Block Grant (Note 2)	CHFS	27,270,545		4,043,235
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	CHFS	48,000,030		7,979,782
93.585	Empowerment Zones Program (Note 14)	OC			
93.586	State Court Improvement Program (Note 7)	AOC	425,319		
93.590	Community-Based Child Abuse Prevention Grants	CHFS	2,541,286		2,381,241
93.597	Grants to States for Access and Visitation Programs	CHFS	70,370		70,330
93.599	Chafee Education and Training Vouchers Program (ETV)	CHFS	635,779		
93.600	Head Start	EDU GOV	154,997		
93.603	Adoption Incentive Payments	CHFS	1,095,169		
93.617	Voting Access for Individuals with Disabilities_Grants To States	KBE	14,119		12,669
93.618	Voting Access for Individuals with Disabilities_Grants for Protection and Advocacy Systems				
93.630	Developmental Disabilities Basic Support and Advocacy Grants	PUBAD CHFS	79,243 762,860		
93.643	Children's Justice Grants to States (Note 7)	PUBAD CHFS AOC OAG	671,950 186,606 60,000 30,256		13,426
93.645	Stephanie Tubbs Jones Child Welfare Services Program	CHFS	4,305,794		
93.647	Social Services Research and Demonstration (Note 14)	CHFS			
93.652	Adoption Opportunities	CHFS	295,286		290,688
93.658	Foster Care_Title IV-E (Note 2)	CHFS JUV AOC	39,528,566 1,295,747 314,645		3,187,868
93.658	ARRA-Foster Care_Title IV-E (Note 13)	CHFS	14,964		
93.659	Adoption Assistance (Note 2)	CHFS	44,927,414		
93.659	ARRA-Adoption Assistance (Note 13)	CHFS	20,347		
93.667	Social Services Block Grant	CHFS JUV FAC	16,700,601 6,469,540		40,322
93.667	ARRA-Social Services Block Grant (Note 13)(Note 14)	CHFS			
93.669	Child Abuse and Neglect State Grants	CHFS	438,918		294,826
93.671	Family Violence Prevention and Services/Battered Women's Shelters_Grants to States and Indian Tribes	CHFS	1,423,558		1,412,273
93.674	Chafee Foster Care Independence Program	CHFS	2,687,388		1,358,844
93.705	ARRA-Aging Home-Delivered Nutrition Services for States (Note 13) (Note 14)	CHFS			
93.707	ARRA-Aging Congregate Nutrition Services for States (Note 13) (Note 14)	CHFS			
93.708	ARRA-Head Start (Note 13)	DWI EDU GOV	45,910 514,592		196,600
93.719	ARRA- State Grants to Promote Health Information Technology (Note 13)	CHFS	2,816,955		
93.723	ARRA-Prevention and Wellness-State, Territories and Pacific Islands(Note 13)	CHFS	113,085		18,171
93.725	ARRA-Prevention and Wellness-State, Territories and Pacific Islands(Note 13) Program (Note 13)	CHFS	33,456		
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF-2012)	CHFS	83,792		
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Diseases Self-Management Education Programs-financed by 2012 Prevention and Public Health Funds (PPHF-2012)	CHFS	123,577		95,475

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.735	State Public Health Approaches for Ensuring Qutline Capacity-Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)	CHFS	334,800		333,107
93.744	PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	CHFS	157,913		157,913
93.767	Children's Health Insurance Program (Note 2)	CHFS	138,298,416		9,528
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units (Note 2)	OAG	2,220,461		
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2)	CHFS	7,904,989		
93.778	Medical Assistance Program (Note 2)	CHFS	3,967,418,056		2,812,951
93.778	ARRA-Medical Assistance Program (Note 2)(Note 13)	CHFS	50,451,368		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	CHFS	10,590,540		1,028,897
93.780	Grants to States for Operation of Qualified High-Risk Pools	PPC	1,341,416		
93.793	Medicaid Transformation Grants (Note 14)	CHFS			
93.889	National Bioterrorism Hospital Preparedness Program	CHFS MIL	4,944,561 125,507		4,054,258
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	DWI	63,728		38,167
93.917	HIV Care Formula Grants	CHFS	11,695,379		10,558,146
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	EDU	453,483		70,060
93.940	HIV Prevention Activities_Health Department Based	CHFS	84,686		20,876
93.941	HIV Demonstration, Research, Public and Professional Education Projects (Note 14)	CHFS	1,651,920		1,064,799
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	CHFS	350,504		219,458
93.945	Assistance Programs for Chronic Disease Prevention and Control	CHFS	226,757		112,240
93.958	Block Grants for Community Mental Health Services	CHFS DWI CORR	5,312,808 75,000 50,000		5,284,488
93.959	Block Grants for Prevention and Treatment of Substance Abuse	CHFS KSP JUST	20,416,589		20,416,139
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants (Note 10)	CHFS	804,371	340,000	181,027
93.982	Mental Health Disaster Assistance and Emergency Mental Health	MIL	241,000		193,402
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems (Note 14)	CHFS			
93.991	Preventive Health and Health Services Block Grant	CHFS	1,033,086		732,311
93.994	Maternal and Child Health Services Block Grant to the States	CHFS	6,744,196		3,867,819
93.NA(1)	Other Federal Assistance	CHFS KSP	246,319 13,754		
Total U.S. Department of Health and Human Services			\$ 4,838,432,774	\$ 45,866,951	\$ 226,682,854
U.S. Corporation for National and Community Service					
Direct Programs:					
94.003	State Commissions	CHFS	\$ 194,362	\$	\$
94.004	Learn and Serve America_School and Community Based Programs	EDU CORR			
94.006	AmeriCorps	CHFS	3,653,252		3,653,252
94.007	Program Development and Innovation Grants	CHFS	34,412		
94.009	Training and Technical Assistance	CHFS	20,553		
Foster Grandparent/Senior Companion Cluster:					
94.011	Foster Grandparent Program	CHFS	540,456		
94.NA(1)	Clinical Laboratory Improvement Act (Note 14)	CHFS			
Total U.S. Corporation for National and Community Service			\$ 4,443,035	\$	\$ 3,653,252

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Office of National Drug Control Policy					
Direct Program:					
95.001	High Intensity Drug Trafficking Areas Program	KSP	\$ 1,410,232	\$	\$
Total U.S. Office of National Drug Control Policy			\$ 1,410,232	\$	\$
U.S. Social Security Administration					
Direct Programs:					
Disability Insurance/Supplemental Security Income Cluster:					
96.001	Social Security_Disability Insurance (Note 2)	CHFS OAG	\$ 43,865,415 197,086	\$	\$
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	PUBAD	211,471		
Total U.S. Social Security Administration			\$ 44,273,972	\$	\$
U. S. Department of Homeland Security					
Direct Programs:					
97.001	Pilot Demonstration or Earmarked Projects (Note 14)	KOHS	\$	\$	\$
97.004	Homeland Security Grant Program (Note 14)	KOHS DCJT MIL KSP			
97.012	Boating Safety Financial Assistance	F&W	1,580,615		
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants (Note 14)	MIL			
97.023	Community Assistance Program_State Support Services Element (CAP-SSSE)	EEC	154,398		
97.029	Flood Mitigation Assistance (Note 14)	MIL TC			
97.032	Crisis Counseling	MIL	99,927		
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters) (Note 2)	MIL TC PARKS KSP	30,336,800 2,539,430 96,328 1,260		13,802,973
97.039	Hazardous Mitigation Grant	MIL AOC	12,197,253		10,263,781
97.040	Chemical Stockpile Emergency Preparedness Program	MIL CHFS	9,817,654		7,456,446
97.041	National Dam Safety Program	EEC	116,885		
97.042	Emergency Management Performance Grants	MIL	4,175,195		1,469,331
97.045	Cooperating Technical Partners	EEC	2,984,354		
97.047	Pre-Disaster Mitigation	MIL	1,290,936		1,039,227
97.052	Emergency Operations Center	KOHS	308,470		304,263
97.055	Interoperable Emergency Communications	KOHS PPC	239,542 102,490		238,831
97.056	Port Security Grant Program	F&W KSP	237,846 529,744		
97.067	Homeland Security Grant Program	KOHS DCJT TC F&W KSP MIL KVE COT AGR JUST PPC	10,255,781 26,500 94,188		9,267,300

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, 2013
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of Homeland Security (Continued)</u>					
Direct Programs (Continued):					
97.070	Map Modernization Management Support (Note 14)	EEC			
97.076	CyberTipline (Note 14)	KSP			
97.077	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection (Note 14)	TC			
97.078	Buffer Zone Protection Program (BZPP)	KOHS	36,838		
		F&W			
		KSP	250,054		
		TC			
		COT	71,372		
97.082	Earthquake Consortium	MIL	27,782		
97.088	Disaster Assistance Projects	CHFS	102,241		82,347
97.089	Driver's License Security Grant Program	TC	1,004,835		
97.107	National Incident Management System (NIMS)	MIL	71,070		
97.110	Severe Loss Repetitive Program	MIL	245,755		245,755
97.116	ARRA-Port Security Grant Program (Note 13)	KSP	27,008		
Total U.S. Department of Homeland Security			\$ 79,022,551	\$	\$ 44,170,254
<u>Other Federal Assistance</u>					
Direct Programs:					
NA(1)	Tennessee Valley Authority (Note 14)	F&W	\$	\$	\$
NA(2)	State Justice Institute (Note 14)	AOC			
Total Other Federal Assistance			\$	\$	\$
Total All State Agencies			\$ 8,004,000,658	\$ 1,305,117,268	\$ 1,352,435,730

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEUDLE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Commonwealth, except those programs administered by state universities and component units, and is presented primarily on the basis of cash disbursements as modified by the application of Kentucky Revised Statute (KRS) 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities and other component units from the statewide single audit, except as part of the audit of the basic financial statements.

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

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 fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2013. The noncash expenditures presented on this schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

Clusters of programs are indicated in the schedule by light gray shading.

Programs that do not have CFDA numbers are identified using the two-digit federal identifier prefix, and the letters “NA” to denote that no specific number is applicable. Each program is numbered in parentheses, following the NA for each federal grantor.

The state agencies’ schedule is presented on the cash, modified cash, or accrual basis of accounting.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one 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-throughs to state universities and 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 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 expenditure 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 \$27,927,354 for FY 2013. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 13, some of which were administered by more than one state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA	Program Title	Expenditures
Supplemental Nutrition Assistance Program Cluster:		
10.551	Supplemental Nutrition Assistance Program	\$ 1,222,095,407
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	44,038,424
Child Nutrition Cluster:		
10.553	School Breakfast Program	70,124,613
10.555	National School Lunch Program	203,081,933
10.556	Special Milk Program for Children	41,652
10.559	Summer Food Service Program for Children	5,201,720

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	127,085,790
10.558	Child and Adult Care Food Program	35,339,654
Community Development Block Grant-State-Administered Development Block Grant Cluster:		
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	31,589,489
14.255	ARRA-Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	77,875
15.252	Abandoned Mine Land Reclamation (AMLR) Program	37,289,479
17.225	Unemployment Insurance	540,427,621
17.225	ARRA-Unemployment Insurance	379,080,294
Workforce Investment Act Cluster:		
17.258	WIA Adult Program	15,523,454
17.259	WIA Youth Activities	13,605,177
17.278	WIA Dislocated Worker Formula Grants	14,216,237
Highway Planning and Construction Cluster:		
20.205	Highway Planning and Construction	666,357,666
20.205	ARRA-Highway Planning and Construction	13,011,953
20.219	Recreational Trails Program	1,365,729
Title I, Part A Cluster:		
84.010	Title I Grants to Local Educational Agencies	229,722,534
Special Education Cluster:		
84.027	Special Education_Grants to States	157,400,483
84.173	Special Education_Preschool Grants	9,618,640
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	47,110,678
84.367	Improving Teacher Quality State Grants	36,909,109
93.268	Immunization Cooperative Agreements	49,477,712
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	61,130,616
93.563	Child Support Enforcement	33,987,379
93.568	Low-Income Home Energy Assistance	39,759,808

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
Temporary Assistance for Needy Families Cluster:		
93.558	Temporary Assistance for Needy Families	183,500,543
Child Care Cluster:		
93.575	Child Care and Development Block Grant	27,270,545
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	48,000,030
93.658	Foster Care_Title IV-E	41,138,958
93.659	Adoption Assistance	44,927,414
93.767	Children's Health Insurance Program	138,298,416
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	32,973,818
Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	2,220,461
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	7,904,989
93.778	Medical Assistance Program	3,967,418,056
93.778	ARRA-Medical Assistance Program	50,451,368
Disability Insurance/Supplemental Security Income Cluster:		
96.001	Social Security_Disability Insurance	44,062,501
Total Type A Programs		<u>\$ 8,672,838,225</u>

Note 3 - Federally Assisted Loan Program **CFDA 10.NA(1)**

The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U. S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments administered by the Office of Financial Management. The Department of Agriculture is no longer in the business of making student loans and reassigned all loans in payment compliance to the Kentucky Higher Education Assistance Authority (KHEAA). The Department of Agriculture retained only those loans that had a delinquent payment history. This program is currently in phase-out status, with authorization from the U. S. Department of Agriculture (USDA) to eliminate the principal through issuance of specific grants and scholarships. Most outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. The total amount of money in the investment account as of June 30, 2013 was \$1,297. Student loans and investment earned interest of \$2. Outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY13.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

Note 4 - Unemployment Insurance (CFDA 17.225)

The Commonwealth paid out \$875,744,534 in benefits in FY 2013. The amounts shown on the accompanying schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$43,763,381 of federal funds expended for administration of the program, resulting in a combined total of \$919,507,915 in federal expenditures. Included in this amount is \$379,080,294 in benefit payments funded by the American Recovery and Reinvestment ACT (ARRA).

Note 5 - Highway Planning and Construction (CFDA 20.205)

The information reported for CFDA 20.205 Highway Planning and Construction program represents the activity of all open projects during FY 2013. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration.

Program Income - The Highway Planning and Construction Program earned program income of \$17,834,151 in FY 2013. This income is comprised of program income (interest) attributable to the Garvee Bonds and is shown as other additions.

Refunds - 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 \$2,493,941 for FY 2013.

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

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

Note 7 - Research and Development Expenditures

OMB Circular A-133 Section 105 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 portion of the expenditures for each program is listed below.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

Note 7 - Research and Development Expenditures (Continued)

CFDA	Program Title	State Agency	Expenditures
10.025	Plant and Animal Disease, Pest Control, and Animal Care	F&W	\$ 6,567
15.605	Sport Fish Restoration Program	F&W	410,112
15.634	State Wildlife Grants	F&W	776,416
16.585	Drug Court Discretionary Grant Program	AOC	42,202
16.588	Violence Against Women Formula Grants	AOC	1,425
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	AOC	35,615
39.011	Election Reform Payments	KBE	5,368
90.401	Help America Vote Act Requirements Payments	KBE	412
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	AOC	360,373
93.586	State Court Improvement Program	AOC	69,201
93.643	Children's Justice Grants to States	AOC	7,338
			\$ 1,715,029

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

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

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

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

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

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

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

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

Note 10 - Noncash Expenditure Programs

The Commonwealth's noncash programs and a description of the method/basis of valuation follow.

CFDA	Program Title	Amount	Method/Basis of Valuation
10.551	Supplemental Nutrition Assistance Program	\$ 1,222,095,407	EBT Issuance
10.555	National School Lunch Program	22,568,301	Commodities issued for FY13 per WBSCM report
10.565	Commodity Supplemental Food Program	6,310,604	Commodities issued for FY13 per WBSCM report
10.569	Emergency Food Assistance Program (Food Commodities)	6,213,247	Commodities issued for FY13 per WBSCM report
12.700	Donations/Loans of Obsolete DOD Property	182,708	Acquisition Cost determined by the Department of Defense
39.003	Donation of Federal Surplus Personal Property	495,100	23.7% of federal acquisition cost (\$2,089,029)
39.003	Donation of Federal Surplus Personal Property	1,178,643	Determined by Federal Government
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	182,507	EPA contracts with Eastern Research Group for sample analysis.
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	23,800	In-kind services valued by the donor, the U.S. Environmental Protection Agency, Division of Water
93.069	Public Health Emergency Preparedness	31,609	Grant Award Document

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

Note 10 - Noncash Expenditure Programs (Continued)

CFDA	Program Title	Amount	Method/Basis of Valuation
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	83,361	Grant Award Document
93.268	Immunization Cooperative Agreements	45,411,981	CDC Report
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	340,000	Grant Award Document
	Total Noncash Expenditures	<u>\$ 1,305,117,268</u>	

Note 11 - Activity Occurring in Programs with Inventoriable Items

The Department of Agriculture operates a state-wide Commodity Supplemental Food Program (CFDA 10.565). The dollar value of the inventory, based on the USDA Commodity File dated June 2013 is as follows:

Commodity Supplemental Food Program CFDA 10.565

Beginning Inventory, July 1, 2012	\$ 1,762,147
Price Adjustment	353,990
Adjusted Inventory, July 1, 2012	<u>2,116,137</u>
Received Commodities	5,669,134
Issued to Recipients	(6,310,604)
Net Value of Inventory Adjustments, June 30, 2013	(43,334)
Ending Inventory, June 30, 2013	<u>\$ 1,431,333</u>

Note 12 - Election Reform Payments (CFDA 39.011)

Interest earned must be used for additional program expenditures.

Note 13 - Pertaining to ARRA

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

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

Note 14 - Zero Expenditure Programs

These programs had no expenditures related to the respective state agency during FY 2013. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. For CFDA numbers with multiple state agencies listed, the schedule is presented in descending expenditure amount order.

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**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***



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Commonwealth's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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. 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.



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 first paragraph of this section 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of financial statement findings that we consider to be significant deficiencies, which are identified as findings 13-CHFS-01, 13-CHFS-02, 13-CHFS-03, 13-CHFS-04, 13-CHFS-05, 13-DOC-06, 13-DWI-07, 13-DWI-08, 13-DWI-09, 13-FAC-10, 13-FAC-11, 13-FAC-12, 13-FAC-13, 13-FAC-14, 13-JUV-15, 13-JUV-16, 13-JUV-17, 13-JUV-18, 13-JUV-19, 13-JUV-20, 13-KDE-21, 13-KDE-22, 13-KHP-23, 13-KHP-24, 13-KHP-25, 13-KHP-26, 13-KHP-27, 13-KSP-28, 13-KST-29, 13-KST-30, 13-KST-31, 13-KST-32, 13-KST-33, 13-PARKS-34, 13-PARKS-35, 13-PARKS-36, 13-PC-37, 13-REV-38, 13-TC-39, and 13-TC-40.

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 are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

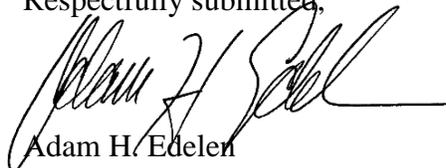
Management's responses to the findings identified in our audit are described in the accompanying schedule of financial statement findings. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Additionally, we noted certain matters that we reported to management in separate letters.

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

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written over a horizontal line.

Adam H. Edelen
Auditor of Public Accounts

December 13, 2013

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-01: The Cabinet For Health And Family Services' Department For Community Based Services Southern Bluegrass Region Did Not Follow Proper Approval Procedures For Timesheets And Leave And Overtime Requests

Due to concerns regarding payroll issues in the Department for Community Based Services (DCBS) Southern Bluegrass Region for Estill County, we tested payroll to ensure controls were in place and the payroll was accurately reported. We tested 23 payroll records from this unit, which consisted of reviewing the Master list of employees obtained from eMARS, timesheets, leave/overtime forms (CHFS-2), Kentucky Human Resource Information System (KHRIS) screen prints, KHRIS payroll data obtained from eMARS, and the Personnel Action requests (PANs).

We noted the following exceptions:

- One employee's CHFS-2 form was not signed by a supervisor.
- One employee approved their own timesheet in KHRIS from March 2013 to June 2013, for a total of seven pay periods.
- One employee's timesheet and CHFS-2 form were not signed and approved before being entered into KHRIS, which led the auditor to review five additional pay periods from the fiscal year 2013. The results of that review noted:
 1. Four timesheets did not have a supervisor's signature.
 2. One timesheet had a supervisor's signature but was not signed until two weeks after the pay period had ended.
 3. Three CHFS-2 forms did not have a supervisor's signature.
 4. Two CHFS-2 forms had a supervisor's signature but were not signed until two weeks and four months, respectively, after the pay period had ended.

Lack of controls on personnel and timekeeping information can lead to errors and omissions of employee time records. Further, failure to accurately record expenditures in eMARS can result in misstated reporting in the financial statements.

Good internal controls over payroll dictate that the process and procedures are in place for reviewing the accuracy of personnel and payroll documents. In addition, all documentation should be accurately maintained to support any and all entries in the KHRIS system.

Recommendation

We recommend CHFS develop a more efficient system in processing its payroll. This process should consist of the following:

1. Stress the importance of following procedures consistently under any circumstance and safeguarding the employee payroll records to each timekeeper, employee, and supervisor.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-01: The Cabinet For Health And Family Services' Department For Community Based Services Southern Bluegrass Region Did Not Follow Proper Approval Procedures For Timesheets And Leave And Overtime Requests (Continued)**

Recommendation (Continued)

2. Develop and implement payroll approval and reconciliation procedures to verify all entries submitted by the timekeeper have been properly entered into KHRIS.
3. Perform proper review to verify the information on the timesheet to the reported leave and/or overtime reported on CHFS-2 form for accuracy and also for the appropriate approval on any leave or overtime.

Management's Response and Corrective Action Plan

The Cabinet expectation is that supervisors sign staff timesheets and verify the timesheet to the CHFS-2 form prior to the timesheets being entered into KHRIS. Communication will be sent to Agency Heads and Managers reminding them of their responsibility to review timesheets for accuracy and to sign timesheets in a timely manner prior to timesheet entry and ensure a second-line supervisor is available to sign timesheets in their absence.

Currently, CHFS Human Resource Administrators run multiple reports during payroll entry time as part of the pre-payroll reconciliation process. These reports denote entry errors that would prevent payroll from processing on a given employee. These error reports are sent to timekeepers to investigate/correct prior to final payroll running.

The Cabinet agrees with the APA findings and will develop a plan by 01-15-14 to ensure timekeepers do not enter their own timesheets into the KHRIS payroll system. The plan will also include a process to identify back-up timekeepers and/or alternate timekeepers to ensure adequate staff availability for time entry. In addition, we will review the CHFS-2 form to determine if it can be improved or should be eliminated if determined to be redundant. Once finalized, the changes outlined in the plan will be communicated to all timekeepers and agency heads. The change in policy will ensure appropriate segregation of duties.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-02: The Cabinet For Health And Family Services Did Not Ensure All Employee Timesheets and Payroll Records Were Accurate**

During the fiscal year 2013 audit of the Cabinet for Health and Family Services (CHFS), we tested payroll to ensure controls were in place and the payroll was accurately stated. We reviewed 60 employee records, which consisted of reviewing the Master list of employees obtained from eMARS, timesheets, leave/overtime forms (CHFS-2), Kentucky Human Resource Information System (KHRIS) screen prints, KHRIS payroll data obtained from eMARS, and the Personnel Action requests (PANs).

We noted four discrepancies in our testing of 60 employee records. They are as follows:

- One employee entered and approved her own timesheet into KHRIS from July 2012 to June 2013, for a total of 23 pay periods.
- One employee approved their own timesheet in KHRIS from July 2012 to February 2013, for a total of 16 pay periods.
- One employee's sick leave on the timesheet and in KHRIS did not agree to the CHFS-2, it was under by .50 hours.
- One employee record indicated that .50 hours of overtime reported on the timesheet and the CHFS-2 was not entered into KHRIS.

Lack of controls on personnel and timekeeping information can lead to errors and omissions of employee time records.

Good internal controls over payroll dictate that the process and procedures are in place for reviewing the accuracy of personnel and payroll documents. In addition, all documentation should be accurately maintained to support any and all entries in the KHRIS system

Recommendation

We recommend CHFS:

1. Develop and implement payroll approval and reconciliation procedures to verify all entries submitted by the timekeeper have been properly entered into KHRIS.
2. Perform proper review to check for mathematical errors and/or omissions on the timesheet and CHFS-2 form before the information is entered into KHRIS.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-02: The Cabinet For Health And Family Services Did Not Ensure All Employee Timesheets and Payroll Records Were Accurate (Continued)**

Management's Response and Corrective Action Plan

The Cabinet agrees with the APA findings and will develop a plan by 1/15/14 to ensure timekeepers do not enter their own timesheets into the KHRIS payroll system. The plan will also include a process to identify back-up timekeepers and/or alternate timekeepers to ensure adequate staff availability for time entry. In addition, we will review the CHFS-2 form to determine if it can be improved or should be eliminated if determined to be redundant. Once finalized, the changes outlined in the plan will be communicated to all timekeepers and agency heads. The change in policy will ensure appropriate segregation of duties.

Currently, CHFS Human Resource Administrators run multiple reports during payroll entry time as part of the pre-payroll reconciliation process. These reports denote entry errors that would prevent payroll from processing on a given employee. These error reports are sent to timekeepers to investigate/correct prior to final payroll running.

The Cabinet expectation is that supervisors sign staff timesheets and verify the timesheet to the CHFS-2 form prior to the timesheets being entered into KHRIS. Communication will be sent to Agency Heads and Managers reminding them of their responsibility to sign timesheets in a timely manner prior to timesheet entry and ensure a second-line supervisor is available to sign timesheets in their absence.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-03: The Cabinet For Health And Family Services Did Not Ensure Invoices For Contract Employees Are Paid In A Timely Manner

During the fiscal year 2013 audit of the Cabinet for Health and Family Services (CHFS), we tested payroll expenditures of non-KHRIS employees to ensure controls were in place and the payroll was accurately processed and reported. We reviewed 27 employee records, which consisted of reviewing the following: Delivery Orders (DO2), timesheets, and invoices for the contract employee vendor.

We noted six discrepancies in our testing of payroll indicating that the invoice was not paid in a timely manner. The invoices were dated and payment processed on the following dates:

- 8/5/2012 invoice date; 10/5/2012 payment processed
- 11/18/2012 invoice date; 1/10/2013 payment processed
- 1/21/2013 invoice date; 9/9/2013 payment processed
- 4/28/2013 invoice date; 7/9/2013 payment processed
- 5/12/2013 invoice date; 7/15/2013 payment processed
- 5/26/2013 invoice date; 7/26/2013 payment processed

Individual departments are not approving invoices for payment in a timely manner in order for DGA-Payables section of CHFS to remit payment timely to each vendor. When CHFS does not pay bills in a timely manner, the vendor customer relationship is strained. Furthermore, failure to record expenditures in the eMARS statewide accounting system in a timely manner could result in misstated expenditures in the financial statements.

Failure to pay bills timely constitutes a noncompliance with KRS 45.453 which states, "All bills shall be paid within (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor."

Recommendation

We recommend CHFS develop a more efficient system in processing its payroll for Non-KHRIS employees. This process should consist of developing and implementing a process for approving and submitting invoices in order to expedite vendor payments.

Management's Response and Corrective Action Plan

The Division of General Accounting (DGA) agrees with this finding. A memorandum has been distributed to all executive staff mandating approved invoices and timesheets be submitted to DGA within 5 business days of receipt. In addition, DGA will run a monthly report to track which invoices have not been approved and submitted to DGA for payment. DGA staff will then contact the temporary staff supervisor within each office to ensure a timely payment.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-04: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Up To Date Documentation Was Retained**

As noted in the prior two audits, our fiscal year (FY) 2013 audit of the Cabinet for Health and Family Services (CHFS) Kentucky Medicaid Management Information System (KYMMIS) revealed the Department for Medicaid Services (DMS) did not maintain updated documentation of all programmed audits and edits performed during KYMMIS system processing. In addition, there were instances found during testing where neither the edit nor audit functioned as designed. These audits and edits were applied to those transactions paid by the Commonwealth for individuals not eligible for managed care. System edits ensure the data within a transaction is complete, accurate, and formatted correctly; whereas, system audits provide a check against historical transactions to ensure the current claim is valid and allowable. Multiple instances of inactive system audits or edits continued to be identified as active, whereas multiple active audits and edits were omitted from the associated documentation.

DMS uses audits and edits within the KYMMIS application for quality assurance purposes. This process ensures data input is accurate and complies with Medicaid eligibility guidelines. DMS created two manuals to document the available KYMMIS audits, which are the KYMMIS Audit Manual and the KYMMIS Claim Check Manual. In addition, DMS created the KYMMIS Edit Manual to document KYMMIS edits.

Of the 500 programmed audits tested, we determined the following:

- Seventy-six audits were denoted in the Audit Manual or Claim Check Manual as active; however, DMS has identified these audits as inactive within KYMMIS.
- Six audits within KYMMIS were identified by DMS as active, but they are not included in the Audit Manual or Claim Check Manual.

Of the 796 programmed edits tested, we determined the following:

- One hundred seven edits were included in the Edit Manual as active, but DMS indicated these were inactive within KYMMIS.
- Eighty-nine edits within KYMMIS were identified by DMS as inactive and were not included in the Edit Manual.
- Ten edits within KYMMIS were identified by DMS as active but were not included in the Edit manual.

Additionally, on the listing of active edits provided by DMS, there were 31 codes that were later identified as actually being Check Claim codes. These codes are listed in the Check Claim Manual. In past years, these codes have been identified as audits or edits at different times. The Check Claim Manual does not specifically identify whether the codes are audits or edits.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-04: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Up To Date Documentation Was Retained (Continued)**

We sampled five audits and five edits reporting less than five claims failed for the current fiscal year to determine if they were active and functioning as intended. All five audits appeared to be functioning correctly. However, out of five edits tested, two edits were determined to be unnecessary, either due to the criteria being included in another edit that was functioning properly or the rules contained in the edit not being applicable to Kentucky. As a result of this review, DMS has requested these be made inactive within KYMMIS.

Further, 26 procedure codes related to Home and Community Based Services (HCBS) were reviewed to identify audits or edits in place to ensure maximum allowances of the procedures were not exceeded. We determined prior authorizations (PA) are required on these HCBS procedures, which means a nurse reviews the claims before they can be entered into KYMMIS. There are edits established within KYMMIS to ensure the PAs are authorized and complete. Once the HCBS procedure claims pass these edits, there are audits to ensure the maximum allowances are not exceeded. However, we noted two of these audits were not accurate based on the maximum allowance established.

We are aware DMS is undergoing a project to review the functionality and documentation related to all audits and edits. Corrections to the configuration and documentation are being made as the audits and edits are reviewed. DMS is working with the vendor to address these changes. This review project is expected to be completed in 2014.

Failure to accurately document system audits and edits increased the risk that agency staff will be unfamiliar with audit and edit criteria. In addition, outdated documentation could also be a reflection of inaccuracies within the KYMMIS audit or edit configurations, which could lead to erroneous claims being processed or valid claims being denied. Inaccurate audit or edit configurations could allow eligible payments that should be processed to be declined, ineligible payments to be processed, or transactions for inaccurate or excessive amounts to process. Failure to adequately maintain audits and edits could result in transactions not being paid timely or accurately.

Updated documentation of all system audits and edits should be retained for quality assurance purposes. Documentation should be distributed to all responsible personnel. In addition, all system audits and edits should be configured according to the agreed upon and approved criteria.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-04: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Up To Date Documentation Was Retained (Continued)**

Recommendation

We recommend DMS continue work on their audit and edit project, working with the vendor to correct any configuration and documentation inaccuracies as the audits and edits are reviewed. All audits and edits should comply with statutes and regulations, and the logic behind the configuration should match the desired function. The Audit, Edit, and Claim Check manuals should be updated to reflect this review, including descriptions of all audits or edits and the active, inactive, or end-dated status of each audit or edit. In addition, within the Claim Check manual, the designation of whether the error code will function as an audit or edit should be explicitly stated.

Once this project is complete, any new audits and edits should be reviewed and thoroughly tested in a similar manner prior to being implemented. Documentation of this process should be maintained for audit purposes. Further, related to HCBS procedures, DMS should ensure the audits identified as being incorrectly coded are corrected. Finally, documentation of the specific requirements and restrictions related to these procedures should be fully descriptive and kept up to date.

Management's Response and Corrective Action Plan

DMS will continue work on the audit and edit project due to be completed in 2014, working with the vendor to correct any configuration and documentation inaccuracies as the audits and edits are reviewed. Included in the audit and edit project is an effort to update the KYMMIS Audit, Edit, and ClaimCheck manuals to reflect this review, including descriptions of all audits or edits and the active, inactive, or end-dated status of each audit or edit. DMS will also update the Claim Check manual with the designation of whether the error code functions as an audit or edit.

Any new audits and edits will be reviewed and thoroughly tested in a similar manner prior to being implemented. DMS will ensure that the HCBS audits identified as being incorrectly coded are corrected, and documentation of the specific requirements and restrictions related to these procedures will be fully descriptive and kept up to date.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-05: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Encounter Data Submitted To The Medicaid Management Information System Is Accurate And Complete

Our fiscal year (FY) 2013 audit of the Cabinet for Health and Family Services (CHFS) Kentucky Medicaid Management Information System (KYMMIS) revealed the Department for Medicaid Services (DMS) did not ensure the encounter data sent from the Managed Care Organizations (MCO) was complete or accurate. Encounter data contains contractually required data elements related to each service or item provided to a patient through the healthcare system.

The MCOs submit their encounter data to the vendor of the KYMMIS, and then the vendor uploads this data to KYMMIS. If the data is rejected due to incompleteness or inaccuracy, it is sent back to the appropriate MCO for correction. Once the corrections are made, the MCO resubmits the data to the vendor and it is uploaded into KYMMIS. DMS staff has the ability to view the KYMMIS data by the batch file submitted or by the specific claim. In November 2012, DMS created an Encounter Resubmission Tracking Report, which tracks the data that had to be resubmitted after correction. The contracts between CHFS and the MCOs state if the data is not resubmitted within 30 days of the date the records are returned, penalties will be assessed against the MCO. Prior to November 2012, DMS had no report to track this information to ensure all rejected data was corrected and resubmitted in a timely manner.

A set of Encounter Activity Status reports has been developed to run weekly and monthly for each MCO. These reports are reflective of a point in time and track files by paid, denied, voided, and adjusted status. Discussions with CHFS staff indicated these reports cannot be completely relied upon, because the MCOs do not consistently use the same tracking number. Therefore, it is not always possible for the KYMMIS to determine whether a submitted claim record is new or a resubmission of a previously reject claim record.

DMS has determined none of the four MCOs have met the expectations regarding encounter data submission. One letter was sent to each MCO in September 2012 to express the deadline of November 2012 to resolve their submission issues; however, although the MCOs failed to meet the contractual obligations, no repercussions have occurred as of the end of audit fieldwork. We are aware that in March 2013, CHFS published clarified and revised encounter submission definitions and specifically shared this information with the MCOs.

Further, when the Encounter Resubmission Tracking Report was implemented, DMS determined the MCOs did not consistently resubmit corrected data within 30 days, as stipulated in the contracts. However, at the time of our review, no penalties had been assessed against the MCOs for their failure to consistently meet the contract terms.

Based on the fact that as of September 2012, all four MCOs did not comply with the acceptance rate of transactions and DMS did not have a process in place during the period to consistently identify the resubmission of data corrections from the MCOs, we cannot state with any certainty that the data housed within KMMIS related to the MCOs is complete and accurate.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-05: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Encounter Data Submitted To The Medicaid Management Information System Is Accurate And Complete (Continued)**

Failure to track KYMMIS encounter data could lead to incomplete or inaccurate data. Also, failure to penalize the MCOs for not meeting contract terms could result in data being resubmitted untimely.

According to the MCO contracts,

17.1 Encounter Data Submission

The Contractor shall ensure that Encounter Records are consistent with the terms of this Contract and all applicable state and federal laws... The Contractor shall have a computer and data processing system sufficient to accurately produce the data, reports and Encounter Record set in formats and timelines prescribed by the Department as defined in the Contract. The system shall be capable of following or tracing an Encounter within its system using a unique Encounter Record identification number for each Encounter. At a minimum, the Contractor shall be required to electronically provide Encounter Record to the Department, on a weekly schedule. Encounter Record must follow the format, data elements and method of transmission specified by the Department.... The Contractor shall submit electronic test data files as required by the Department in the format referenced in this Contract and as specified by the Department. The electronic test files are subject to Department review and approval before production of data. The Department will process the Encounter Record through defined edit and audit requirements and reject Encounter Record that does not meet its requirements. Threshold and informational editing shall apply...

39.4 Health Care Data

- A. Encounter data is due on a weekly basis and shall be considered late if not received after four (4) calendar days from the weekly due date. Beginning on the fifth calendar day late, the Department shall withhold Five Hundred (\$500.00) Dollars a day for each day late from the Contractor's Capitation Payment for the month following non-submission.

- B. If the Contractor fails to submit health care data derived from processed Claims or Encounter data in the required form or format required by the terms of this Contract for one calendar month the Department shall withhold an amount equaling five (5%) percent of the Contractor's Capitation Payment for the month following non-submission. The Department shall retain the amount withheld until the data is received and accepted by the Department less Five Hundred (\$500.00) Dollars per day for each day late.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-05: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Encounter Data Submitted To The Medicaid Management Information System Is Accurate And Complete (Continued)

- C. An Erred Encounter Record File shall be transmitted to the Contractor electronically on 997 acknowledgement file and 277U response file for correction and submission. The Contractor shall have ten (10) days to resubmit the corrected Encounter Record File. The Department may assess and withhold for the month following non-submission, an amount equaling one-tenth (0.1%) of a percent of the Contractor's Capitation Payment a day until the Encounter Record File is received and accepted by the Department. EPSDT Encounter Record shall be completed in accordance with EPSDT Reports and these penalties may apply...

Recommendation

We recommend DMS continue to use the Encounter Resubmission Tracking Report, along with other reports available in KYMMIS, to track the submission of MCO data. If MCOs do not consistently resubmit their corrected data within 30 days, as stipulated in the contract, DMS should exercise contract language allowing DMS to withhold penalty amounts from payments to contractors.

In addition, DMS should continue to provide specific guidelines and instructions to the MCOs related to the submission of data in order to reduce errors, which would reduce the amount of files rejected and resubmitted. Further, DMS should provide specific guidelines to all MCOs concerning the use of a unique, identifiable tracking number to be retained for all encounter data records. This tracking number should be used by the KYMMIS to identify when rejected data records are resubmitted and to identify rejected data records that are outstanding from the MCOs. If MCOs are unable to meet the expectations and requirements for data submission, DMS should enforce the consequences stated in the contracts.

Management's Response and Corrective Action Plan

The Managed Care Oversight – Contract Management Branch within DMS will continue to use the Encounter Resubmission Tracking Report, along with other reports available in KYMMIS, to track the submission of MCO data. If MCOs do not consistently resubmit their corrected data within 30 days, as stipulated in the contract, DMS will exercise contract language allowing DMS to withhold penalty amounts from payments to contractors.

DMS will continue to provide specific guidelines and instructions to the MCOs related to the submission of data in order to improve the quality of the submitted encounters. DMS will review the feasibility of using a unique, identifiable tracking number to be used to identify when rejected data records are resubmitted and to identify rejected data records that are outstanding from the MCOs. If MCOs are unable to meet the expectations and requirements for data submission, DMS will enforce the consequences stated in the MCO contracts.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-05: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Encounter Data Submitted To The Medicaid Management Information System Is Accurate And Complete (Continued)**

Management's Response and Corrective Action Plan (Continued)

To accomplish the aforementioned recommendations from APA, DMS and HP will continue to use the weekly MCO-IT meetings and the MCO requested encounter specific meetings to discuss the requirements. These discussions include dialogue related to specific guidelines and instructions to the MCOs related to the submission of data. Additionally, an encounter technical workgroup consisting of all MCOs, DMS, and OATS staff is scheduled to begin in June 2013.

Finally, DMS recognized a need for additional monitoring tools. To meet that need, DMS requested the MCOs submit a self-report called the "Encounter Data Summary – Report #64." MCOs were requested to provide the report for the first time May 15, 2013. DMS is reviewing and comparing the accuracy of the encounter data summary reports versus the DMS existing encounter summary reports. DMS is working closely with the MCOs to reconcile the encounter summary reports. Since complete and accurate encounter data submission impacts the MCO's risk adjustment and rate setting, the MCOs have an incentive to submit complete and accurate encounter data.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DOC-06: The Department Of Corrections Did Not Consistently Adhere To The User ID And Password Protocol To Ensure Sufficient Authentication Is Required To Access Potentially Sensitive Information

During our fiscal year (FY) 2013 security vulnerability assessment on Department of Corrections (DOC) machines, instances were discovered where logon credentials were not changed from the vendor default which would allow an outside user to gain access to the service running on a designated port. We determined two of 26 scanned machines, or 7.7 percent of the population, permitted the auditor to gain access through the use of default credentials. The access rights granted could have potentially allowed the user to alter settings on the machine. One of these machines was also reported during the prior year audit.

For security purposes, detailed information that would identify the specific machines contributing to these findings is being intentionally omitted from this comment. However, these issues were thoroughly documented and communicated to the appropriate agency personnel.

If a machine is allowed to provide excessive information associated with the machine to an anonymous user, then an intruder could potentially use this information to attempt to gain access to the machine or network or view documents that are confidential or sensitive.

Only necessary and required users should have access to services, particularly those services containing potentially sensitive information. Even if sensitive information is not present on the noted machines, gaining access to one machine on a network could allow additional network machines containing sensitive information to be compromised.

According to DOCIT-010, User ID and Password Protocol passwords must not be “Vendor default password (default passwords must be changed immediately upon use)...” This protocol is in agreement with the CIO-072, UserID and Password Policy.

Recommendation

We recommend DOC staff ensure the DOCIT-010, User ID and Password Protocol is strictly adhered to, in particular, the requirement to change all default credentials at initial setup. Further, DOC should ensure all services on network machines are restricted to only those users with a specific, business related need. Public or anonymous users should not be allowed access. Going forward, as any new devices are placed on the network, they should be reviewed for open ports and services to verify that all default credentials have been altered and do not allow access to public or anonymous users. Unnecessary services should be disabled.

Management’s Response and Corrective Action Plan

DOC Institution IT Staff that were transferred to COT completed the corrections.

Per Executive Order 2012-880, effective November 1, 2012, all IT Network responsibilities were transferred to the Commonwealth Office of Technology.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DWI-07: The Department Of Workforce Investment Did Not Have Sufficient Internal Controls In Place To Ensure The Accuracy Of Unemployment Insurance Drawdowns In eMARS**

During our FY 2013 audit of the Department of Workforce Investment (DWI), we noted a significant variance of \$23,950,003 between the DWI loans payable balance to the federal government and eMARS Trial Balance accounts payable amount. The Unemployment Insurance (UI) Trust Fund record indicated the loans payable balance to the federal government as of June 30, 2013 as \$624,869,533. The Trial Balance amount was \$600,919,530, for a difference of \$23,950,003.

The \$23,950,003 error is attributed to the failure to have internal controls in place to detect eMARS program coding errors for federal UI reimbursements received in June 2013. The DWI staff miscoded a UI drawdown during the month of June, 2013. Therefore, the errors caused the FY 2013 Trial Balance to be understated by the \$23,950,003. Although there appeared to be compensating controls at the Finance and Administration Cabinet (FAC) to detect and correct this error, DWI should have controls in place within the agency to detect and prevent coding errors. When the error was brought to their attention, DWI management acknowledged the mistakes and agreed to establish measures to avoid future occurrence.

DWI did not adequately review the June 2013 drawdown transactions to ensure all UI program draw downs were properly and accurately coded or classified. By not adequately reviewing drawdown activities/functions, there is a greater risk that the financial statement liabilities could be understated by \$23,950,003.

Effective internal controls require adequate review and proper supervision to ensure that all UI program draw downs were accurately coded, classified and properly recorded. Sound accounting practice dictates entities establish adequate compensating controls to ensure errors are detected and corrected in a timely manner.

Recommendation

We recommend DWI implement additional review and monitoring procedures to ensure UI program draw downs are accurately coded, classified and properly recorded.

Management's Response and Corrective Action Plan

The individual entering the calculated amounts from the Drawdown sheet into e-Mars was using the wrong code and coded borrowed money as though it was money in the trust fund. This individual received additional training on proper coding. Further, the agency has put in place a second level approval, where one of two additional individuals trained on the proper codes review the submission in e-Mars prior to the two front-line individuals submitting the response.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DWI-08: The Department Of Workforce Investment Made A Closing Package Error Resulting In An Accounts Payable Understatement Of \$306,865 To Other States**

As part of our review of DWI's Closing package information we noted that the agency process for reviewing and overseeing the work flow for preparing the closing package did not function as intended. In reviewing the FY 2013 DWI Accounts Payables closing package, the auditor noted initial reported payment for accounts payable was \$2,139,411 and the audited amount was \$2,446,276. This led to understating the accounts payable amount of the financial statements by \$306,865. A similar type issue in the prior year audit was also noted.

DWI did not ensure the submitted closing package for accounts payable was complete with all appropriate information, properly accounted for, and adequately reviewed for completeness. DWI handles approximately one billion dollars of UI transactions per year, and the failure to submit accurate information could lead to inaccurate closing package amounts being reporting, while potentially understating or overstating the financial statements reported in the CAFR.

Failure of the agency to adequately review the accounts payable to other states, during computation, understated the accounts payable closing package by \$306,865. This will cause the accounts payable amount on the financial statement to be understated.

Adequate and effective internal controls require agency management to regularly review internal control processes, including the accounts payable to other states computation, to accurately determine the closing package reporting balance.

Good internal controls over the closing package forms and activities dictate that adequate review procedures should be created to ensure that the closing packages contain verifiable and accurate data before submission. Financial data includes, but is not limited to, the proper establishment of adequate and consistent methods, and properly accounting for all transactions for completeness and accuracy assertions. In addition, proper internal controls dictate that all supporting financial data be reconciled and reported in a timely manner.

Recommendation

We recommend agency management continue reviewing the adequacy of the internal control process, including the accounts payable to other states, before submitting the closing package to the Finance Cabinet.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

FINDING 13-DWI-08: The Department Of Workforce Investment Made A Closing Package Error Resulting In An Accounts Payable Understatement Of \$306,864 To Other States (Continued)

Management's Response and Corrective Action Plan

The error occurs due to the time of the printout from the ICON system used for preparing the closing package varying from later printouts, which may include additional items. These additional items are easily identifiable when the report used for the closing package are compared to later printouts. DWI will double check the numbers in the closing package with the printout being used before filing the closing package report. Then DWI will ensure a copy of all system printouts used in completing the report is maintained to support the numbers in the closing package. Documentation of the date and time of the report will be maintained as amounts can change frequently due to the nature of the account activity. This documentation will be reviewed and two individuals will sign off on the report to ensure that all data is accurate for inclusion in the closing package per the required reporting dates. The Trust Fund Office will ensure that the closing package is submitted as required.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DWI-09: The Department Of Workforce Investment Did Not Ensure The Key Daily And Monthly Financial Reconciliations Were Reviewed And Accurately Maintained

Each year the Office of Unemployment Insurance (UI) handles approximately one billion dollars in state and federal funds flowing through funds 6200 and 6210. All financial data reports are agreed and reconciled to the Tax Cash Book, related bank account, the Benefits Cash Book, the related Bank account, various eMARS reports, and the Trust Fund Account. This monthly reconciliation, performed by the Trust Fund Officer, is a critical function of the UI Trust Fund, designed to ensure all activities within the UI Trust Fund are accounted for on a daily and monthly basis. All UI financial data is reportable monthly and quarterly via various UI grant reports.

As part of our review of the reconciliation process, the auditor reviewed the various monthly reconciliations for the period December 2012 through February 2013. Each of these reconciliations showed one or more components did not balance with differences ranging from (\$302,195) to \$3,319,212. These discrepancies had not been researched and resolved. Further, there was no evidence that the reconciliations had been reviewed and approved by appropriate supervisory personnel.

The UI Trust Fund Office has a written procedures manual that covers various UI processes, including the key monthly financial reconciliation of accounts. However, the agency process for reviewing and overseeing the work flow for preparing the key monthly reconciliation did not function as intended.

During this period, a new employee took over the responsibilities for preparing the reconciliations. The agency did not adequately oversee the key financial reconciliation process during the transition period. The transition of this critical role to a new employee was difficult, and therefore makes it imperative that effective written policies and procedures are in place to help prevent mistakes, ensure compliance, save time, and ensure consistent reporting. Furthermore, because of the turnover in staff, it is important that adequate oversight procedures are performed during the employee transition periods to ensure that the reconciliation functions are properly and accurately completed.

Proper internal control dictates agency management be actively involved in ensuring new employees are properly trained and assigned duties are adequately executed.

Written policies and procedures help prevent mistakes, ensure compliance, save time, provide staff training, ensure consistency, improve quality and provide an accurate accounting of the funds. The written policies and procedures should be detailed and address daily processing, monthly processing, quarterly, and annual processing. They should include written procedures covering monthly reconciliations, monthly reports, and all reports prepared for any segment of the Federal government. The policies and procedures should link the tasks to the cash book for benefits and the cash book for taxes.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DWI-09: DWI Did Not Ensure The Key Daily And Monthly Financial Reconciliations Were Reviewed And Accurately Maintained (Continued)**

Recommendation

We recommend DWI actively oversee staff activities during difficult transition periods. The agency should continue to revise as deemed necessary their policies and procedures for the UI Trust Fund. Periodically, management should conduct reviews to ensure personnel are adhering to written procedures. Also, periodic reviews and updates to the UI Trust Fund Manual should be done to ensure the accuracy of the written policies and procedures.

Management's Response and Corrective Action Plan

DWI is working currently to correct these actions as recommended. In January 2013, the agency hired a Branch Manager to oversee the transition of new employees. The UI Trust Fund Office has updated the written procedures manual and is making changes as needed to the procedures to ensure compliance and to ensure consistent reporting. DWI just recently hired two new employees to train and help in the UI Trust Fund Office to ensure the agency has adequate staff to monitor the program to help prevent mistakes. The agency believes that in hiring additional staff, it can effectively monitor the updating of the procedures manual and make sure all employees are crossed-trained in the UI Trust Fund. The new staff will be adequately monitored and trained during this transition period.

DWI believes that in taking these steps the agency will meet the corrective action plans as recommended.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-FAC-10: The Finance And Administration Cabinet Did Not Properly Restrict Access Through Network Neighborhood

Based on a control weakness originally identified during the fiscal year (FY) 2009 audit of the Office of Financial Management (OFM) related to the ability to access a machine housing the Complete Asset Management, Reporting, and Accounting (CAMRA) application, it was determined that the Finance and Administration Cabinet (Finance) did not properly restrict access to machines on one of its domains. During the FY 2013 audit, a review of this Finance domain through Network Neighborhood revealed 184 out of 217 machines within the oversight responsibility of the Commonwealth Office of Technology (COT) allowed access without authentication of the requesting user. Of the 184 machines, 113 machines had files or folders that were visible. Also, the auditor was able to access sub-folders within 42 machines. Of the 42 machines housing sub-folders, 40 machines contained files or documents which the auditor could view. The information found on the accessible machines included, but was not limited to, messaging logs, reports, manuals, drivers, and software configuration and executable files.

Of the 40 machines containing accessible files or documents, the machine housing data for the Comprehensive Tax System (CTS) contained files that provided Internet Protocol (IP) addresses. We also noted a machine that housed data for the Department of Corrections (DOC), which contained 58 files providing IP and Media Access Control (MAC) address information, one document containing wireless router login information, one document containing approved visitor listing with inmate and visitor names, and 32 documents containing social security numbers. Additionally, we identified a machine housing various programs and executable files, which contained files providing IP addresses. We also discovered a machine containing 55 documents providing IDs and passwords for businesses with a link to a website in order to update data for their business, as well as one document containing a social security number. The relation of this machine to a particular agency or application could not be determined. These instances were immediately reported to Finance and COT during audit fieldwork and corrective actions to secure these machines were taken by COT staff.

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

Sensitive or confidential information that is placed in a shared file can be obtained by unauthorized users if not properly secured. Further, if a machine is not configured to properly restrict access, then an intruder could potentially use this available resource to attempt to gain access to the network.

Security policies should be in place to address adequately securing files on local workstations. Access to an agency's domain machines should be restricted to only users requiring access related to a valid business purpose. All access should be appropriately restricted.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-FAC-10: The Finance And Administration Cabinet Did Not Properly Restrict Access Through Network Neighborhood (Continued)**

Recommendation

We recommend Finance work with COT to review all machines within the domain discussed above to ensure resources are adequately secured and policies are implemented to address this issue. Security on all network machines should be configured to properly restrict access, unless a valid business purpose is determined and specifically documented. Periodic reviews of domain machines should be performed to ensure only proper access is allowed. We recommend COT provide sufficient training to appropriate agency staff to ensure they are aware of the risk this issue poses and that they fully understand the steps to take to ensure this information is properly secured.

Management's Response and Corrective Action Plan

COT is currently reviewing the detail documentation provided by the auditors. Through this review, COT will document in detail any specific business needs, mitigating controls, or actions taken to remediate the individual items in the finding detail. This review is expected to be completed by November 29th, 2013. Upon completion of this review, the resulting documentation will be provided to the auditors to be used in subsequent audits. In addition, efforts will be made to work with the areas of responsibility to establish procedures that will ensure that appropriate permissions are applied at the time of creation.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-FAC-11: The Finance And Administration Cabinet Did Not Formalize A Policy To Govern Security Of The eMARS Checkwriter Interface Process**

The Finance and Administration Cabinet (Finance) did not implement a formal policy identifying specific responsibilities of those individuals involved with the Enhanced Management Administrative and Reporting System (eMARS) Checkwriter (CW) interface process. An informal process was developed in response to the prior year audit, but this process was not approved or finalized. Our fiscal year (FY) 2013 review of the logical security surrounding the CW interface process found the informal procedures were not consistently performed. These issues have been addressed with the agency since the FY 2007 audit.

Finance Statewide Accounting Services (SAS) is ultimately responsible for the processing of CW files. Further, SAS is responsible for ensuring access to CW files is reasonable. SAS should ensure a proper segregation of duties exists between the creator of the CW file and the person certifying the file for processing and check generation through eMARS. These duties are established through the use of eMARS security roles and a manual review process performed by SAS during the central level certification.

Our examination of the CW certification process revealed three CW files where the individual who loaded the file at the department level also certified the file. No documentation was on file with SAS authorizing this individual to perform both actions. For proper segregation of duties, Finance management should have provided formal approval prior to these actions being taken. Also, we found instances where Finance staff is loading and/or certifying other agency checkwriter data; however, specific documentation of the requests for these actions to be taken were not maintained by Finance. During the review of the drafted policy, it was noted that there was no specific requirement for Finance approval related to these types of deviations from the established process.

Allowing users the ability to both create CW files and certify those files for processing and check generation increases the likelihood of unauthorized payments and may compromise the integrity of data processed through the system. A lack of formalized policy and procedures concerning the CW file access and processes can lead to inconsistent understandings between the agency, management, and users.

Formally implemented policies and procedures concerning CW access and established processes are necessary to allow both management and users to have a clear understanding of respective responsibilities. These controls are imperative to ensure the reasonableness of individual access as it relates to CW files and proper segregation of duties when processing CW files.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-FAC-11: The Finance And Administration Cabinet Did Not Formalize A Policy To Govern Security Of The eMARS Checkwriter Interface Process (Continued)**

Recommendation

We recommend Finance management approve and implement the informal policy governing the security surrounding CW interface access and the submission and certification processes. This policy should explain the responsibilities associated with each of the CW interface security roles and discuss the need to assign these roles to different individuals, where possible, to ensure proper segregation of duties. In the event that the same user is required to load and department certify a CW file, the policy should document the requirement that the department head or designee request prior approval from SAS. Additionally, if the central level person providing the certification determines that a CW file has already been loaded and certified by the same user, the policy should reflect that SAS is to elicit justification for these actions from the department. Further, the policy should address the documentation requirements for Finance to follow when requested by an agency to load or certify agency data. Finally, all documentation should be maintained for audit purposes.

Management's Response and Corrective Action Plan

Finance has submitted (proposed FAP 102-25-00) checkwriter policies/procedures for approval with the Finance & Administration Cabinet. These procedures govern the processing of checkwriter files, listing the responsibilities of the agencies and Finance SAS and the necessity for segregation of duties (within the agency) when loading and certifying the same checkwriter file.

If there is a time when it is necessary for Finance to load an agency file (i.e. Personnel/payroll file for the year-end deferred payroll) we will maintain all correspondence with the agency for auditing purposes.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-FAC-12: The Finance And Administration Cabinet Did Not Ensure Available Information Within infoAdvantage Universes Was Complete To Allow Accurate Reporting

As noted in the past six audits, our fiscal year (FY) 2013 audit of the Finance and Administration Cabinet (Finance) revealed infoAdvantage, the reporting solution used in conjunction with the enhanced Management Administrative and Reporting System (eMARS), could not be consistently relied upon to provide the user with complete and accurate data. During the audit, we found instances where reporting was not functioning properly.

We identified three instances where a data field related to a document was not available within the associated universe, but was either explicitly required or prohibited by the Document Control (DCTRL) table and available for use on the online version of the document.

- We noted that the “Customer” field was prohibited for the Solicitation Response (SR) and Solicitation Response Wizard (SRW) documents, based on the DCTRL table; however, there was not a “Vendor/Customer Code” within the SR class or linked to the document codes within the Procurement Awards Universe. This field was available to be populated when the document was developed, due to the fact that a “Vendor” code is allowable. When a user develops a report of SR or SRW documents from the infoAdvantage Procurement Awards universe including this field, the values for the “Vendor/Customer Code” are populated from the Award Accounting Line. However, there was not a direct relationship between the SR and the Award Accounting Line tables in the Procurement Awards universe. Therefore, the data values returned cannot be relied upon.
- We found that the “Cited Authority” field was required for the Contract (CT), Contract 2-Way Match (CT2), Contract KYTC (CTT1), Contract 2-Way Match KYTC (CTT2), Delivery Order (DO), Delivery Order 2-Way Match (DO2), General Accounting Expense/Expenditure (GAX), Purchase Order (PO), Purchase Order 2-Way Match (PO2), Proof of Necessity Agreement (PON2), Commodity Based Payment Requisition (PRC), and Commodity Based Internal Payment Requisition (PRCI) documents based on the DCTRL table; however, the “Cited Authority” field was not available in the Accounting Journal class or linked to the document codes within the General Accounting Universe. The field was available for use when these documents were developed.
- We noted there was no “Event Type” field available within the Accounts Payable - KY Universe; therefore, the auditor was not able to test for required or prohibited fields based on the Event Requirement (ERQ) table. Specifically, this issue affected the Check Writer Check Cancellation (CWC) document.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-FAC-12: The Finance And Administration Cabinet Did Not Ensure Available Information Within infoAdvantage Universes Was Complete To Allow Accurate Reporting (Continued)

Additionally, we identified two instances where a data field related to a document was available within the anticipated universe, but the linking was not established to allow for reporting that will include the data field.

- We identified instances where the “Event Type” field was available, but not linked to the Document Header within the Accounts Payable Universe. Without this linking to the “Event Type,” it was not possible for reporting to be developed to determine the appropriateness of coding for required and prohibited fields from the ERQ table on the Management Budget (OB1) or CWC, and General Accounting Intercept Payment (GAIP) documents.
- We determined the Vendor/Customer information was not linked to the Document Header within the Accounts Payable Universe. Without this linking, it was not possible to ensure edits related to Vendor/Customer fields were operating effectively. Specifically, the GAIP document was affected by this issue.

We are aware Finance is preparing for an upgrade infoAdvantage when eMARS is upgraded to version 3.10 in fall of 2014.

The lack of a data dictionary in conjunction with the inability of a normal end-user to see the underlying database links related to data elements increases the risk that a user will develop reports based on incorrect data elements, or inadvertently exclude data due to links that the user is unaware of when developing the report. Such reporting issues could cause the results to be inaccurate or incomplete.

For reports to be useful and valid for management decision-making purposes, the reporting solution used should be appropriately designed to allow users to view data and develop reports that are complete and accurate. A reporting solution must, therefore, be understandable by the end user in structure, content, and context. Further, the underlying structure of the data must be appropriate for the overall accounting regulations of the organization; otherwise, the solution may provide information that is not expected by the end user.

Recommendation

We recommend Finance continue work on the infoAdvantage reporting solution, in conjunction with the vendor, to ensure that all known reporting problems are corrected or properly addressed. Further, a review of the established links within the universes should be performed to ensure they are functioning as intended for the Commonwealth of Kentucky.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-FAC-12: The Finance And Administration Cabinet Did Not Ensure Available Information Within infoAdvantage Universes Was Complete To Allow Accurate Reporting (Continued)**

Recommendation (Continued)

To further assist end user reporting capabilities, Finance should develop a data dictionary that is available to all users. This data dictionary should include information concerning:

- The originating table location of the data element;
- A description of the data element;
- A description of all pertinent joins involving the data element; and,
- A listing of other data elements that the data element is dependent upon for reporting purposes.

Management's Response and Corrective Action Plan

Finance will continue to work with our infoAdvantage vendor to address any and all reporting issues/problems that arise. There is an eMARS upgrade tentatively scheduled for the spring of 2015. As part of this upgrade the infoAdvantage application will be upgraded from the current 3.6 universes to the 3.10 universes. There are numerous enhancements in the 3.10 universes. Finance and vendor resources will be working diligently over the course of the next 12-16 months to ensure the infoAdvantage application is configured so that the Commonwealth's reporting needs are accurately met.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-FAC-13: The Finance And Administration Cabinet Did Not Formalize And Consistently Apply A Policy To Govern The Security Of The eMARS Production Databases**

Our fiscal year (FY) 2013 audit of the Finance and Administration Cabinet (Finance) revealed that informal logical security procedures existed for granting access to the Enhanced Management Administrative and Reporting System (eMARS) production databases and for establishing non-expiring passwords for specific types of accounts. However, these procedures were not written or consistently applied. This situation was also noted during the previous five audits.

In order to request access to the eMARS production databases, a COT-F181 form must be completed, authorized electronically, and emailed to the Commonwealth Service Desk for processing within the Commonwealth Office of Technology (COT) service tracking application. Of the eleven new individual users with access to the eMARS production databases, the auditor noted two users did not have sufficient documentation to support their access. Additionally, two users' security profiles found on multiple databases had a profile setting regarding failed login attempts that did not comply with the CIO-072 COT Userid and Password Policy.

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

Failure to consistently apply logical security controls could lead to a lack of understanding by management and users that could result in a failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources. This situation increases the risk of unauthorized data modification, destruction of assets, interruption of services, or inappropriate or illegal use of system resources. In addition, whenever electronic signatures are accepted forms of authorization, there should be another form of documentation on file, such as emails, to substantiate those signatures.

Established security policies and procedures should be formally documented and consistently applied to provide continuity for policy implementation and set the tone of management concern for a strong control system to secure assets and resources. Access should only be granted to approved users, and access should be removed promptly upon termination of employment or when said access is no longer required.

Further, the Userid and Password Policy (CIO-072) states “[t]o prevent individuals from attempting to log-in with UserIDs by guessing passwords, accounts will be locked after three (3) consecutive invalid log-in attempts.”

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-FAC-13: The Finance And Administration Cabinet Did Not Formalize And Consistently Apply A Policy To Govern The Security Of The eMARS Production Databases (Continued)**

Recommendation

We recommend Finance create written logical security procedures related to Oracle databases and consistently apply them to ensure only authorized access is granted to the ePayment Gateway, Finance and Administration, Vendor Self Service, and infoAdvantage production databases. These procedures should require the COT-F181 form to be used to establish or change access for accounts and the COT-F085 forms to authorize a non-expiring password to be consistently used. Furthermore, emails authorizing these forms should be retained for audit purposes and authorization to support the access granted should be consistently retained in the COT tracking system. All documentation establishing a user's access should be retained in a central repository for audit purposes. Further, the profile settings should be set to comply with the COT password policy.

Management's Response and Corrective Action Plan

The user accounts identified in the detail findings have been addressed. A process is being developed to ensure documentation is properly completed and stored for future retrieval. The user security profiles have been acknowledged and the appropriate exemption documentation is being established so the profiles can remain in use going forward. This has been incorporated in the processes within the Data Management Branch to ensure that documentation is collected and retained for each account creation, deletion, and modification.

COT has met with Data Management and addressed the importance of maintaining proper documentation going forward. Managers are required to work with staff to reaffirm their knowledge of, and need to comply with, established policies and procedures. As part of this process, employees are required to sign an acknowledgement of these responsibilities.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-FAC-14: The Finance And Administration Cabinet Did Not Adequately Protect Sensitive And Confidential Data

Our fiscal year (FY) 2013 audit revealed weaknesses in the Finance and Administration Cabinet's (Finance) internal controls involving the security of confidential and sensitive data. While the agency generally complies with the Commonwealth Office of Technology (COT) Standard Procedure, COT-067 Security Standard Procedures Manual, it was revealed that data was not adequately protected from potential intentional or unintentional access or misuse of information.

Detailed information that could potentially increase the risk that agency security is compromised was intentionally omitted from this comment. However, this information was communicated to the agency.

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. This significant type of control weakness could potentially be exploited either internally or externally.

Sensitive or confidential data should be protected from unauthorized users or exposure to the general public. The National Institute of Standards and Technology (NIST) Publication 800-111 states, "[m]any threats against end user devices could cause information stored on the devices to be accessed by unauthorized parties. To prevent such disclosures of information, particularly of personally identifiable information (PII) and other sensitive data, the information needs to be secured."

Recommendation

We recommend Finance management ensure confidential and sensitive data is sufficiently protected and ensure the maintenance of confidential and sensitive data remains a top priority. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner.

Management's Response and Corrective Action Plan

Finance and the Commonwealth Office of Technology (COT) employ strong logical and physical security controls to protect sensitive data and restrict access on a need to know basis. To further strengthen these controls and address these findings going forward, Finance will work with COT to investigate areas of potential improvement based on the detail findings provided by the auditors. Finance will take a risk-based approach and work with COT to ensure that sufficient protective mechanisms are evaluated and employed where viable to commensurate with the sensitivity and criticality of the data.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-JUV-15: The Department Of Juvenile Justice Internal Controls Are Not Sufficient To Ensure Expenditures Are Paid Timely And Supported By Adequate Documentation

During the course of our Department of Juvenile Justice audit, we tested 60 expenditure transactions to ensure that expenditures were paid timely and supporting documentation was adequate to support the transaction. We noted the following exceptions as detailed below:

- Two expenditures were paid more than 30 business days after receipt. One expenditure was paid 55 days after receipt.
- Four expenditures lacked adequate supporting documentation or the documentation did not support the amount of the expenditure:
 - One Travel voucher for reimbursement of \$532 was completely illegible that the auditor was unable to determine whether the amount was accurate.
 - Two travel vouchers did not support the total mileage reimbursed. Total mileage was not added correctly on the vouchers. As a result, one employee was reimbursed for an additional 100 miles and a second employee's reimbursement was short 188 miles as documented by their travel vouchers.
 - DJJ mistakenly paid for an extra haircut due to an error on the DJJ 24 Form.
 - The supporting documentation for a JV was not sufficient to explain or support the purpose for the movement of expenditures.
- Six expenditures did not have required prior authorization documented. While we only noted this for six expenditures specifically, we also determined that there was no central written policy or procedure regarding the prior approval of expenditures.

Expenditures should be documented sufficiently to support the amount of the expenditure, determine whether the item is an allowable purchase, document approvals including prior authorization to make a purchase, and most importantly to provide an audit trail. Failure to maintain or provide appropriate, complete, and accurate supporting documentation for expenditures results in unsubstantiated expenses.

Agencies may be responsible for a 1% penalty on each payment not made within 30 working days. Failure to pay vendors in a timely manner also erodes relationships with those vendors. Thus, failure to pay invoices on time costs the agency money, can affect the running of the agency, and can negatively impact the services provided by the agency.

Good internal controls dictate that appropriate supporting documentation should be maintained for expenditures. Also FAP 111-58-00 6c states: "An agency shall maintain the documentation for all transactions in accordance with the General Schedule for State Agencies, FAP 111-28-00 and FAP 120-21-00. Receipts for source documentation shall include the vendors name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or card number."

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-JUV-15: The Department Of Juvenile Justice Internal Controls Are Not Sufficient To Ensure Expenditures Are Paid Timely And Supported By Adequate Documentation (Continued)**

KRS 45.451 through KRS 45.458 and Finance and Administration policy BO 120-05-00 address prompt payment to vendors. The policy can be summarized, as “all bills shall be paid within 30 working days of receipt of goods and/or services, except when the purchasing agency has transmitted a rejection notice to the vendor.”

KRS 45.454 states, “An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of the goods or services or vendor’s invoice by a purchasing agency.”

Recommendation

We recommend DJJ develop and implement uniform procedures to ensure payments are made in a reasonable time frame in compliance with legal statutes. The agency should review the statutes and policy noted above to ensure full compliance. The agency should take steps to ensure that the staff involved in receiving merchandise, or processing and approving payments read and understand the relevant laws and policies.

DJJ should improve procedures related to recurring monthly charges to ensure that each month’s payments are made timely and no invoices are missed. A checklist of recurring payments that includes each vendor and due dates would allow staff responsible for these payments to track payments as they are made each month and quickly identify what needed to be paid at any point in the month.

Further we recommend that DJJ ensure that supporting documentation is maintained to support the necessity of the purchase, the entire approval process, and the amount paid. DJJ should implement uniform procedures dictating the required documentation to be maintained.

When inaccurate documentation is submitted for expenditures, the reviewer or approver should return documentation such as travel vouchers to the submitter for necessary corrections. Illegible documentation should never be accepted as support for an expense.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-JUV-15: The Department Of Juvenile Justice Internal Controls Are Not Sufficient To Ensure Expenditures Are Paid Timely And Supported By Adequate Documentation (Continued)**

Management's Response and Corrective Action Plan

Central Office Fiscal Branch, specifically the Branch Manager will provide copies of KRS 45.451 through KRS 45.458 and Finance and Administration policy BO 120-05-00 to all staff responsible for payment of expenditures and receiving merchandise on behalf of DJJ to read and review within 30 days of this response. DJJ will institute operational procedure changes and make changes to policy to include the following:

- 1. Require remittance of payment for invoices within thirty days of the date of receipt.*
- 2. Inaccurate or illegible travel vouchers will be sent back to the approving supervisor for corrective action.*
- 3. Require all approval to be attached or referred on the payment document.*

The department will review and update agency policies and procedures to address any finding within this record of control weakness.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-JUV-16: The Department Of Juvenile Justice Did Not Ensure Adequate Review And Prior Approval Of ProCard Expenditures

DJJ lacks policies and procedures that dictate documented prior approval and verification of purchases made by ProCard. Signature on the receipt or invoice by the purchaser indicates they made the purchase, signature by another staff indicates that the purchase was a valid expenditure of the department and was received. When one or both of these signatures were missing the auditor was not able to determine either who made the purchase, that the purchase was approved or both.

During our audit of Department of Juvenile Justice, we tested 60 ProCard transactions and noted a total of nine exceptions. These errors included three transactions with no documentation of approval, two purchases made by someone other than the holder of the ProCard, three transactions where the purchaser was not documented, and one purchase had no receipt to support the transaction.

ProCard purchases are point of sale purchases. While we found nothing to indicate non compliant purchases, if such a purchase were to be made, due to the lack of a prior approval and review policy it is unlikely that it could be caught before the purchase was made by the card holder and the funds paid to the vendor.

Good internal controls require prior approval of all purchases made including those made with a ProCard. This ensures that purchases are necessary for agency and fit within the agency budget.

Recommendation

We recommend DJJ implement a policy that requires all ProCard holders to obtain and document prior approval of any purchase made with the ProCard. Further, the receipt or other documentation should be signed by the purchaser to verify that they actually made the purchase. All transactions should also be verified and approved by someone that did not make the purchase.

Management's Response and Corrective Action Plan

Department of Juvenile Justice disagrees with the first statement of condition, "DJJ lacks policies and procedures that dictate documented prior approval and verification of purchases made by ProCard." The JP Morgan card holder user agreement is read to and signed by each cardholder. Item 10 explicitly states the cardholder will obtain prior approval; however, this does not state prior approval to be in written format. Verbal approval from the supervisor of the cardholder is and must be given in order to execute the transaction. This agreement is outlined below:

[The agency provided the cardholder usage agreement for additional consideration.]

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-JUV-16: The Department Of Juvenile Justice Did Not Ensure Adequate Review And Prior Approval Of ProCard Expenditures (Continued)

Management's Response and Corrective Action Plan (Continued)

FAP 111-58-00 does not require written prior approval for ProCard transactions. Section 6(B) states, "Each cardholder and procurement card user shall be informed about the level of supervisory approval needed for various purchases." DJJ requires the card holder to obtain prior approval as outlined in the cardholder agreement above and is in compliance with FAP-111-58-00. In addition, DJJ has internal control policies for cardholders as required in the Procurement Card Program Policy and Procedures Guide and FAP 111-58-00 section 6(G). The internal control plan is listed below.

[The agency provided their internal control plan for additional consideration.]

Upon updating DJJ Policy and Procedures, the DJJ Cardholder Internal Control Plan will be incorporated.

The noted exceptions are addressed as follows:

1. 3 transactions with no documentation of approval

DJJ cardholders will be required to review the DJJ Cardholder Internal Control Plan to reiterate DJJ cardholder requirements.

2. 2 purchases made by someone other than the holder of the procard

It is DJJ's position that the signatures on the receipts that were not the cardholder's are for verification purposes only. These purchases were not made by someone other than the cardholder. DJJ cardholders will be required to review the DJJ Cardholder Internal Control Plan to reiterate DJJ cardholder requirements.

3. 3 transactions where the purchaser was not documented

DJJ cardholders will be required to review the DJJ Cardholder Internal Control Plan to reiterate DJJ cardholder requirements.

4. 1 transaction with no receipt

DJJ cardholders will be required to review the DJJ Cardholder Internal Control Plan to reiterate DJJ cardholder requirements.

DJJ will be implementing a mandatory ProCard holder training on an e-learning management system, which will be required annually. This will include the DJJ Cardholder Internal Control Plan, along with the Commonwealth of Kentucky Procurement Card Program Policies and Procedures Guide.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-JUV-16: The Department Of Juvenile Justice Did Not Ensure Adequate Review And Prior Approval Of ProCard Expenditures (Continued)**

Auditor's Reply

While DJJ has policies and procedures in place over ProCard expenditures, these do not specifically address the documentation of approvals, or specify various levels of approvals. There is no mention of approval levels except in relation to the small purchase authority, which is \$1,000 in these policies. DJJ policy 107.1 IV (K) states that the Procard User Manual, DJJ Card holder requirements, and (Bank) Purchasing Agreements are to be given to card holders and the signed agreements maintained. These do not address documentation of prior approval.

DJJ's response indicates verbal approvals are sufficient. However, verbal approvals cannot be verified by 3rd parties, causing them to be a source of abuse. Written approvals reduce this risk and are verifiable by all parties.

We recognize DJJ's efforts to have effective policies and procedures in place for the operation of its facilities, but we reiterate our recommendation that DJJ create a policy requiring written approvals for purchases including purchases made by ProCard.

Further, as noted, sufficient documentation should be in place to verify the purchase of items and approvals should be evident for all purchases.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-JUV-17: The Department of Juvenile Justice's Internal Controls Over Payroll Did Not Ensure Appropriate And Timely Approvals Were Obtained For Leave Or Overtime Approvals

We tested a total of 60 Department of Juvenile Justice employee time sheets at both the facility operations and agency levels. During our testing we noted 29 exceptions which included the following:

- Five timesheets did not have a leave or overtime request present when leave was used or overtime was worked.
- Twenty-three timesheets did not have the appropriate prior approval for overtime worked or leave time taken during the pay period. We noted that these approvals were routinely signed at the end of the pay period.
- One timesheet did not agree to the Payroll Summary Report of hours worked as distributed to overtime, shift differential pay, and regular hours worked.

We also noted during our review that timesheets were routinely completed by hand with adjustments or corrections made that were not verified by the signature or initials of the employee or the supervisor, which indicates that their approval of these changes was not documented or not obtained. Further, this practice made these timesheets difficult to read and trace back to other reports and documentation.

Expenditures, including payroll, should be supported by documentation that agrees to the amount paid for that expenditure. Due to the errors and omissions described above these payroll expenditures were not adequately substantiated by the documentation including timesheets, properly approved leave requests, and overtime forms.

DJJ has not implemented consistent agency wide policies concerning leave and overtime documentation and approval. Overtime worked requires the prior approval of supervisors to support the necessity of the extra time worked. Leave time taken should be approved before it is taken when possible. Where prior approval is not possible approval should be documented upon return.

Good internal control over payroll dictates that payroll charges should be supported by adequate documentation including signed timesheets or timecards, leave and overtime forms that detail and substantiate hours and times worked by each employee, and approved by management.

Recommendation

We recommend DJJ review established standards for recordkeeping including requirements for the use of leave and overtime approvals and ensure that procedures are uniform across all facilities. In addition, the agency should consider establishing a periodic review of payroll at each facility that includes agreeing timesheets and other supporting documents to ensure that they support payroll and are completed per the established guidelines.

DJJ should require that changes or corrections to timesheets be verified by the initials or signature next to the changes on the timesheet or when significant changes are required a new corrected timesheet should be prepared.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

FINDING 13-JUV-17: Department of Juvenile Justice Internal Controls Over Payroll Did Not Ensure Appropriate And Timely Approvals Were Obtained For Leave Or Overtime Approvals (Continued)

Management's Response and Corrective Action Plan

The Department of Juvenile Justice will create policy and procedures that set forth the requirement of prior approval of overtime and leave, requiring all timesheets to be signed by supervisor and employee, and any changes or corrections to timesheets must be verified by initials next to the changes or require a corrected timesheet. The agency acknowledges that prior approval and record of leave and overtime for Youth Workers and Youth Worker Supervisors is recorded and maintained in shift reports and facility schedules. In addition, the Department will write into the policy and procedures a timesheet and payroll review of a percentage of the department staff to ensure that payroll is completed per the established guidelines.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-JUV-18: The Department Of Juvenile Justice Does Not Have Written Policies Or Procedures Requiring Monitoring Of Financial Controls At Juvenile Facilities

We performed audit procedures at the Department of Juvenile Justice (DJJ), which included visiting various facilities to observe the financial controls over receipts and disbursements. We also reviewed DJJ policies and procedures and noted that DJJ has not documented their system for monitoring the financial controls at the youth development centers, group homes, day treatment centers, and detention centers. The lack of a documented internal monitoring function possibly leaves gaps in the process and does not allow the auditor to ensure that processes are adequate and complete. Further, this prevents DJJ from determining if required or necessary monitoring procedures are being performed. These failures potentially provide opportunity for theft and/or errors to occur and remain undetected at these facilities.

The agency's mission is compromised when appropriate financial accounting controls are not in place. A lack of internal control, which includes policies and procedures and management oversight, increases the opportunity for fraud, waste, and/or abuse to occur and likelihood that it would remain undetected due to a lack of monitoring of the facilities. When policies are not specific, the facilities must develop their own policies for processing transactions and no one can determine that adequate procedures have been performed because this has not been defined.

Also, a lack of control or oversight at these facilities means that facilities must develop their own system of controls for processing transactions, thus there is no uniformity in how the facilities operate across the state.

Good internal controls dictate that the agency has a system in place for monitoring the financial activities and management of the youth development centers, group homes, day treatment centers, and detention centers. Monitoring controls are necessary for ensuring that funds received from DJJ are accounted for appropriately and spent for their intended purpose. Further these required processes must be documented in writing in order to verify both their efficacy and sufficiency in monitoring the facilities and preventing theft and/or fraud.

Recommendation

DJJ should develop and implement monitoring procedures for all of its facilities – youth development centers, group homes, day treatment centers, and detention centers. The monitoring system should include the establishment of policies and procedures applicable for all facilities and include all facets of program operations and financial activities. Minimum monitoring procedures should also be included in DJJs written procedures.

An effective monitoring system would require documentation to support the review of facilities, conclusions reached, decisions made, approval of those by management, and reporting all activity to management. Further, communication of any findings and recommendations for improvement should be communicated to the monitored entity, as well as any follow-up on problems noted during any reviews.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-JUV-18: The Department Of Juvenile Justice Does Not Have Written Policies Or Procedures Requiring Monitoring Of Financial Controls At Juvenile Facilities (Continued)**

Management's Response and Corrective Action Plan

The Department of Juvenile Justice will develop and implement policy and procedure outlining the monitoring procedures for the financial activities of all of its facilities – youth development centers, group homes, day treatment centers, and detention centers. The policy and procedure will set forth a standardized process and require documentation to support the financial activities at each facility, review of such documentation, conclusions reached, decisions made, and approval or reporting of activity to those in the facility management. Additionally, the policy and procedure will require communication of any findings and/or recommendations for improvement to be communicated to the monitored entity, as well as any follow-up or corrective action with regard to the findings of the monitoring procedures.

The Department of Juvenile Justice disagrees with the recommendation stating, “The monitoring system should include the establishment of policies and procedures applicable for all facilities and include all facets of program operations....” The agency is monitored through the Quality Assurance Branch as set forth in numerous policies and procedures. Additionally, the Department of Juvenile Justice is accredited by the American Correctional Association and has been awarded the Golden Eagle. The agency’s accreditation is evidenced by the certificate and Golden Eagle on display in the entry at Central Office.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-JUV-19: The Department Of Juvenile Justice Does Not Have Adequate Segregation Of Duties Over Financial Management At Juvenile Facilities

We performed site visits at certain DJJ facilities, as part of our FY2013 audit. We noted the following internal control weaknesses during our visits at these facilities:

- The fiscal manager at the Center is responsible for collecting cash, making deposits, posting transactions to the general ledger and the eMARS statewide accounting and reporting system, and reconciling the bank account. These are incompatible duties that should be separated.
- There is no independent review of the Center's bank reconciliations. Although the bank reconciliations are completed on a monthly basis, the reconciliations should be reviewed by either a supervisor or someone not involved in the routine daily operations. Independent reviews are a key component of good internal controls. Also, the current DJJ "Policy 315, IV-G." only calls for a quarterly review of the deposits and disbursements, however, a monthly reconciliation with appropriate supervisory review should be required.
- For two of the Department of Juvenile Justice facilities we noted that bank accounts kept by the facilities commingled funds received from the state and youth activity funds. The youths at these facilities have earned these funds through youth programs run by the facility. While the funds are accounted for separately by the facility primarily in an excel spreadsheet, all funds reside in one bank account. DJJ policy 315 part IV states that all funds of the facility should be kept this way. Sound accounting practice suggests governmental funds should be maintained separately from fiduciary funds and controls should be in place to separately identify them.

The Department of Juvenile Justice Policy 315 part IV states "A DJJ facility shall establish one account for various funds collected. However specific accounting procedures shall be established and detailed to identify various funds."

The Department of Juvenile Justice's policy 114 part IV states "3. Any money collected shall be turned into the Business office daily and kept in a secured, locked box until such time as it is deposited or forwarded to the fiscal branch. The business office shall forward a check or money order to the fiscal branch of the DJJ Central Office at least monthly." The policy makes no mention of performing any kind of reconciliation of the cash collected or how such reconciliation should be performed.

A lack of segregation of duties at the facilities has led to the same person depositing funds and preparing the bank reconciliation. Even when the reconciliation is approved by another person, cash should not be handled by the person preparing the reconciliation.

Failure to adequately separate the fiscal manager's duties could lead to undetected errors and omissions, as well as incorrect financial reports and budgetary assumptions. By not having an independent review of the bank reconciliations, if errors or omissions occurred, they would remain undetected; incorrect financial data could be reported to DJJ management; and, the center could be reimbursed for incorrect or unsubstantiated amounts.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-JUV-19: The Department Of Juvenile Justice Does Not Have Adequate Segregation Of Duties Over Financial Management At Juvenile Facilities (Continued)

When funds are commingled they lose their separate identity and increase the risk of the funds being usurped by the wrong entity or for unintended purposes. When youth development funds, which rightfully belong to the facility residents, are mixed with state government money in one bank account, there is no physical mechanism that prevents spending of the youth funds for state government expenditures.

A properly designed internal control system should prevent one individual from having custody and control over two or more of the following duties: authorizations and approvals, custody of assets such as collecting cash and making the deposits, recordkeeping, and reconciliations. By not separating these responsibilities, it puts both the agency at risk and the employee at risk and it increases the risk of errors or fraud, should they occur, of remaining undetected.

Job duties should be segregated so that an employee responsible for handling checks does not authorize transactions or reconcile the bank accounts and post transactions in eMARS. The objective of segregation of duties is to ensure that assigned duties are separated such that no one employee or group of employees is in a position both to commit and conceal errors or irregularities in the normal course of performing their assigned duties. In general, the principal incompatible duties to be segregated are:

- Authorization of transactions
- Custody of assets, and
- Recording or reporting of transactions.

Adequate segregation of duties reduces the likelihood that errors, either intentional or unintentional, will remain undetected. This is carried out by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed.

DJJ Policy 315 – Use of Non-Governmental Funds and Youth Activity Funds (4) g, states the following, “The primary trustee of each fund shall review the account at least quarterly and certify the accuracy of the deposits and disbursements.”

Further, good internal control systems should maintain governmental funds separately from funds belonging to individuals or separate entities to ensure that these funds can be separately identified at all times.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-JUV-19: The Department Of Juvenile Justice Does Not Have Adequate Segregation Of Duties Over Financial Management At Juvenile Facilities (Continued)**

Recommendation

In its oversight of the facilities, we recommend the Department of Juvenile Justice consider the following steps to strengthen fiscal management controls:

- Provide training, guidance, and management oversight to assist the facilities with their fiscal management responsibilities.
- Develop fiscal policies requiring facilities to reconcile and review all accounts on a monthly basis; the reviewer should be independent of the person performing the reconciliation.
- Evaluate the fiscal manager's office responsibilities at these facilities to ensure that duties are appropriately divided among the available staff.
- DJJ should consider revising policy 315 part IV to require youth funds be held in bank accounts separate from state government funds at all facilities. Similar controls regarding reconciliation and segregation of duties as recommended above should also apply to these funds.

Management's Response and Corrective Action Plan

During SFY 2013 DJJ started the process of setting up additional accounts per applicable facility to keep funds separate and distinct. This administrative function should be completed in SFY 2014. Training, guidance and oversight has been initiated by the Central Office Fiscal Branch for each facility with activity fund accounts. DJJ audits each activity fund each year and additional training and guidance is included within this function. DJJ has hired a new employee to perform audits and train employees who manage the activity funds. Fiscal policy relating to the management and administration of the accounts will be reviewed and an applicable policy will be formulated to be included within DJJ Policy. Policy 315 part IV will be replaced with the aforementioned changes.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-JUV-20: Department of Juvenile Justice Has No Standardized Allowance And Compensation Rates For Payments Made To Juveniles**

DJJ has no standardized allowance and compensation rates for youth under their care. The allowance and compensation rates paid to the youth are recommended by the superintendent of the facility for approval by the education branch manager or designee. The pay rate is currently included and paid from each programs operating budget, but there is no standard policy among the facilities. Currently, there are youth development centers, group homes, day treatment centers, and detention centers, but there are no standardized rates for the allowance money paid to the youth.

DJJ has no standardized reporting method for the facilities to use to request reimbursement – for example, names or case numbers of the kids, the number of kids in care, hours worked, and hourly rates paid. DJJ currently has no system in place for verifying the accuracy and completeness of what is submitted by the facilities before the reimbursement is made.

In the prior year findings DJJ stated that a standard form would be created for reimbursement and that policies would be changed to include a formula for a standardized allowance rate. DJJ policy 316 has not been updated to show a standardized formula for allowance calculation and we could find no evidence of a standard form created for reimbursement.

Facilities do not have a consistent method for to request reimbursement from the central office and a consistent formula for allowance calculation has not been added to the policies and procedures.

Good internal control dictates that consistent policies for reimbursement request and rate calculation be applied to all participants to ensure that all reimbursements are accurately requested.

DJJ Policy 316 B:

Each program shall set forth in their Standard Operating Procedures Manual Guidelines for Work Details, to include allowance and/or compensation schedules. Allowance and/or compensation schedules shall be recommended by the Superintendent for approval by the Education Branch Manager or designee and shall be paid from the program's annual operating budget.

Recommendation

We recommend DJJ review the policy for the Youth Work Programs and standardize the pay rates for similar work programs where possible as stated in response to finding 12-DJJ-21. The weekly reimbursement form should also be standardized and incorporated into the updated policy. DJJ should also establish a method of verifying or reconciling the form that is used for requesting the weekly reimbursements from the Central Office. Finally, DJJ should verify the accuracy of the reimbursement request prior to payment.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-JUV-20: Department of Juvenile Justice Has No Standardized Allowance And Compensation Rates For Payments Made To Juveniles (Continued)**

Management's Response and Corrective Action Plan

The Department of Juvenile Justice will amend policy 316 to provide for a standard allowance rate and standardized pay rate for similar work programs. However, if standardization is not possible, then the Department will ensure that each facility has a set pay rate for work programs, which is clearly documented at the facility and in Central Office. The Department will update the weekly reimbursement form and standardize the information contained, e.g., youth names, the number of kids in care, hours worked, and hourly rates paid. This policy and procedure will establish a method of verifying the form that is used for requesting the weekly reimbursements from the Central Office.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KDE-21: The Kentucky Department Of Education Did Not Follow The Policy Currently In Place With Regard To The Review And Approval Process For School District SEEK Payments

During our testing of the Kentucky Department of Education's (KDE) FY 2013 Support Education Excellence in Kentucky (SEEK) funding program, we identified seven documents that included 11 transactions lacking evidence of the appropriate authorization for payment. For three of the transactions, the Division Director did not provide their initials to signify approval of the related payment memo. Likewise, an approval by authorized Budget Branch personnel was not present for eight of the transactions.

The failure to properly document the review and approval process of SEEK payment memos may be attributed to oversight.

The omission of an authorization step in the processing of a payment memo is contrary to KDE's documented SEEK payment policies and procedures. Those policies and procedures require evidence that the personnel responsible for authorizing such payments has reviewed, approved, and/or taken responsibility for the transaction. Failure to properly review and document evidence supporting the approval is an internal control deficiency.

KDE's policies and procedures require that the approval of each SEEK payment memo be substantiated with the initials of the District Funding & Reporting Branch Manager next to the preparer's signature, the initials of the Director of the Division of District Support next to the Division Director's name, and the Budget Branch Manager's signature or authorization by designated Budget Branch personnel.

Recommendation

We recommend KDE follow the policy currently in place with regards to the review and approval process for SEEK payments. All signatures and initials required on the supporting documentation should be present after each step of the review and approval process.

Management's Response and Corrective Action Plan

DBFM acknowledges the inadvertent oversight and has subsequently addressed with staff. The Budget Branch is aware of the timing for each SEEK payment and closely monitors available funding prior to the payment being made. Additionally, there are controls within eMARS that reject any payment for insufficient funds and any Budget issue would be quickly remedied. With each SEEK payment there is always communication between the Division of District Support, Budget Branch, and Accounting and Finance Branch.

The Division of Financial Data Management made changes in the payment procedures which require the Division Director or designee to initial the payment documents prior to processing. These changes were made in November 2012 as a result of the previous audit findings and are still in place today. The documents referenced by the APA findings were prior to the change and this process has since been corrected.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KDE-22: The Kentucky Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2013 School District SEEK Payments

During our audit of the Kentucky Department of Education's (KDE) Support Education Excellence in Kentucky (SEEK) funding program, we noted that the basis utilized in calculating school district SEEK payments for the first, second, and third quarter of fiscal year (FY) 2013 was noncompliant with the calculation method required by Kentucky Revised Statute (KRS) 157.410. Consequently, five of the school districts tested were underpaid a total of \$154,262 during the first quarter of FY 2013. The five school districts were subsequently overpaid SEEK payments totaling \$793,883 for the second quarter, and \$793,883 for the third quarter of FY 2013.

We did note, however, that the SEEK payment formula utilized in the final three months of FY 2013 was accurate. Accordingly, the school districts received the correct total of SEEK funds by the end of FY 2013, therefore no financial adjustment is necessary.

The first quarter of FY 2013 SEEK payments to school districts appear to have been calculated based on the FY 2013 forecasted SEEK total. The second and third quarter payments appear to be based on the FY 2013 tentative SEEK total. The calculation of the SEEK payments for the first quarter should, however, be based upon the prior year's allotment, reduced by any capital outlays and/or the SEEK nickel state equalization. The SEEK payments for the remaining quarters should be based upon 1/12th of the current year tentative SEEK total.

As a result of the incorrect payment calculation, five of the school districts were collectively underpaid a total of \$154,262 during the first quarter. The five school districts were subsequently overpaid \$793,883 in the second quarter and \$793,883 in the third quarter. In order to correct the payment calculations from the first, second, and third quarters, the five school districts were collectively underpaid a total of \$1,433,504 during the fourth quarter. With the fourth quarter payment adjustment, the five school districts did receive, in total, the correct amount of SEEK base funds by the end of the FY 2013.

KRS 157.410 states that "On July 1, August 1, and September 1, of each fiscal year, one-twelfth (1/12) of the prior year's allotment minus the capital outlay shall be paid each school district. On the first of each month thereafter until the final calculation is completed, one-twelfth (1/12) of each district's share of the tentative calculation minus capital outlay shall be distributed."

Recommendation

We recommend KDE carefully review the payment calculation procedures and pay SEEK funds in accordance with all state statutes.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KDE-22: The Kentucky Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2013 School District SEEK Payments (Continued)**

Management's Response and Corrective Action Plan

In response to the November 27, 2013 "Record of Control Weakness/Record of Noncompliance" regarding the SEEK forecast calculation, KDE submits the following:

For many years, the SEEK Forecast calculation has been used to determine the payment amounts for the first three months of a fiscal year. It appears the practice was changed from utilizing the prior year's allotment in order to create more accurate payment amounts. For example, a district anticipating growth of AADA, would be able to capture that growth and the SEEK payments for the following year, using the SEEK Forecast, would more accurately reflect the actual attendance levels, rather than waiting several months to capture the updated data in the SEEK tentative calculation. The converse would also apply. The practice of utilizing the most recent data projections minimizes the fluctuation in monthly payments between the forecast and tentative calculations and allows for a more predictable revenue stream for the districts. The difference between the two methodologies is the timing of the revenues. Each district receives the total amount of SEEK funding to which they are entitled for the year, it is merely a matter of when that revenue is received. Utilizing the SEEK forecast calculation more closely matches the revenue with actual data.

The APA 'Record of Control Weakness/Record of Noncompliance' states:

As a result of the incorrect payment calculation, five of the school districts were collectively underpaid a total of \$154,262 during the first quarter. The five school districts were subsequently overpaid \$793,883 in the second quarter and \$793,883 in the third quarter. In order to correct the payment calculations from the first, second, and third quarters, the five school districts were collectively underpaid a total of \$1,433,504 during the fourth quarter. With the fourth quarter payment adjustment, the five school districts did receive, in total, the correct amount of SEEK base funds by the end of the FY 2013.

KDE does not take issue with the wording of 'incorrect payment calculation'; however, KDE's approach results in a practical payment methodology to allow school districts to operate in an efficient and effective manner throughout the year. In the subsequent three quarters of FY 2013, those five districts' payments were adjusted either upward or downward, depending on the results after all actual data was received and utilized in the SEEK calculations, and this resulted in the total annual SEEK amount distributed by the end of the year to be accurate as a whole.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KHP-23: The Kentucky Horse Park's Internal Controls Over Inventory And Cash Handling Procedures Were Not Sufficient To Ensure Accurate Results For Year-End Procedures

At the request of the Kentucky Horse Park (KHP), and to ensure cash and inventory is properly accounted for and protected, the Auditor of Public Accounts (APA) observes the process of the annual inventory counts performed by KHP at year end. We also perform recounts on the inventory that the KHP counted prior to our arrival. In addition at this time, we observe surprise cash counts involving various cash registers throughout the park.

During our FY 2013 inventory count conducted on July, 1, 2013, we discovered a weakness with the alcoholic beverage inventory at the Altech Arena. The Altech Arena inventory was counted prior to our arrival, therefore, we recounted a sample of the inventory. Of the 21 items sampled, five items were miscounted with four items being under-counted and one being over-counted. An inventory recount later by KHP revealed the original inventory count for this area to be undervalued by \$991.

Also on July 1, 2013, the APA observed a surprise cash count conducted by the Director of Support Services. During the cash count, it was revealed to the auditor and to the Director of Support Services that the cash drawer of the register at the parking booth was broken and could not be closed, thus increasing the risk of loss for cash received at that particular location. Further conversation indicated that the drawer had been broken for some time (no exact date was given). Cash coming through the parking booth during the busy season can be as much as \$1,400 a day.

KHP personnel performing the inventory counts were not properly trained in inventory procedures and no test counts were taken by KHP to ensure the accuracy of the year-end inventory.

KHP management was never informed that the parking booth cash register was broken, and therefore there was no opportunity to fix the machine.

Incorrect inventory counts, lead to inaccurate reporting of inventory for year-end financial purposes. In addition, lax controls in accounting correctly for inventory, and in particular alcohol, open the KHP to numerous potential problems.

As cash is the most liquid of assets, care should be taken to ensure the safety of those assets, and a broken cash register leaves assets vulnerable to misappropriation.

Strong internal controls dictate inventory items are accurately and meticulously accounted for. Procedures should be in place for controlling and monitoring inventory at all times. Accurate records of each inventory item should be kept from the beginning and updated periodically, with discrepancies investigated.

Due to the ease with which cash can be misappropriated, strong internal controls dictate that access to cash be limited and properly controlled.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-KHP-23: The Kentucky Horse Park's Internal Controls Over Inventory And Cash Handling Procedures Were Not Sufficient To Ensure Accurate Results For Year-End Procedures (Continued)**

Recommendation

KHP should adequately train all personnel responsible for inventory counts at year-end and perform test counts in all areas to ensure that inventory is accurate at year-end.

KHP should repair the cash register in the parking booth and improve communication within the personnel chain to ensure that all issues regarding control of cash are brought to management's attention quickly.

Management's Response and Corrective Action Plan

The Kentucky Horse Park's management agrees with the auditor's recommendation. It is management's intent to improve upon the training of all personnel responsible for inventory counts at year-end and perform test counts in all areas on a periodic basis to ensure that inventory is accurate throughout the year as well as at year-end.

Furthermore, the KHP took actions to repair the cash register in the parking booth upon discovery of the reported cash register defect. Additionally, the KHP has taken actions with the various departments to immediately report and repair similar cash register defects should they occur in the future.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KHP-24: The Kentucky Horse Park Did Not Pay All Invoices In A Timely Manner

During the Fiscal Year 2013 Kentucky Horse Park (KHP) audit, we tested a sample of 50 invoices to verify that controls were in place and ensure accuracy and completeness of KHP expenditures. Based on the evidence provided for the sample items tested, we noted 11 invoices that were not paid in a timely manner. We also noted that KHP paid \$19 in late fees during fiscal year 2013. From our calculations, the amount owed to vendors as an interest penalty, per KRS 45.454, for the 11 late payments was \$1,176. Late payments are a recurring problem for KHP since the Fiscal Year 2007 audit, and we do not see any indication this issue is improving.

The business office does not receive invoices from the various departments within the park timely and there are a large number of bills to be processed. When the business office receives the bills, they cannot be processed quickly and efficiently due to limited staffing resources.

When KHP does not pay bills in a timely manner, there is a monetary loss to the park through late fees and the vendor customer relationship is strained. Furthermore, failure to record expenditures in the eMARS statewide accounting system in a timely manner could result in misstated expenditures in the financial statements.

Failure to pay bills timely constitutes a noncompliance with KRS 45.453 which states, "All bills shall be paid within (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor."

KRS 45.454 states, "An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of the goods or services or vendor's invoice by a purchasing agency."

Recommendation

We recommend KHP develop and implement controls to ensure all invoices are paid timely as required by KRS 45.453. Invoices not paid timely should include the proper interest penalty as required by KRS 45.454. The procedures should include reiterating to all KHP departments the importance of submitting invoices to the business office when received. KHP should also implement a plan for improving processes in the business office.

Management's Response and Corrective Action Plan

The Kentucky Horse Park management agrees with the auditor's recommendation. It is true that occasionally departments do not submit invoices to the Business Office in a timely manner. Although this has been an ongoing issue, the instances of late submittal are becoming less frequent. This is because of the regular reminders the Business Office provides and the use of seasonal labor.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KHP-24: The Kentucky Horse Park Did Not Pay All Invoices In A Timely Manner (Continued)**

Management's Response and Corrective Action Plan (Continued)

Although, the Kentucky Horse Park has employed seasonal labor to help alleviate the issue of late payments, this continues to be an issue as the seasonal labor is limited due to the nature of the "interim" status. The Park has requested an addition of a full-time employee in the business office specifically to correct this ongoing issue as part of the Park's 2014-2016 budget proposal. The Kentucky Horse Park understands the urgency of paying invoices in a timely manner and is constantly striving to improve this matter.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KHP-25: The Kentucky Horse Park Overpaid Vendors Due to Poor Internal Controls**

During the Fiscal Year 2013 Kentucky Horse Park (KHP) audit, we tested a sample of 18 invoices to check for duplicate payments to vendors. Based on the evidence provided for the sample items tested, we noted three invoices that were paid twice for a total of \$19,806. We also noted two invoices whose invoice number had been incorrectly entered into eMARS. These two invoices did not appear to have been paid twice, but the incorrect invoice numbers would cause the system not to recognize these invoices as duplicates should they be resubmitted by the vendor.

Invoice numbers were incorrectly entered into eMARS allowing the same invoices to be paid twice. Further, these discrepancies were not discovered during the invoice review process. The business office does not receive invoices from the various departments within the park timely and there are a large number of bills to be processed. When the business office receives the bills, they cannot be processed quickly and efficiently due to limited staffing resources.

Incorrectly entering invoices into eMARS caused KHP to overpay vendors by \$19,806 during FY 2013 and creates the possibility of further overpayments in the future.

Good internal controls dictate that controls be in place to ensure payments are made for the valid obligations of the Commonwealth.

Recommendation

KHP should implement procedures to ensure that invoices are only paid once and that a review process be in place to ensure that discrepancies like these don't occur. In addition, a plan for improving processes in the business office should be implemented to ensure that invoice numbers are correctly entered into eMARS to prevent further overpayments to vendors.

Management's Response and Corrective Action Plan

The Kentucky Horse Park's management agrees with the auditor's recommendation. It is management's intent to improve upon its policy to ensure that invoices are only paid once. Additionally, the KHP intends to implement a review process to ensure that such procedures are effectively discarding duplicate invoices in the future.

The Park has requested an addition of a full-time employee in the business office as part of the Park's 2014-2016 budget proposal. The new person would help relieve the invoice payment workload thus making these oversights less likely to occur.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KHP-26: The Kentucky Horse Park Did Not Reconcile Bank Accounts And Ensure Reconciliations Were Reviewed Promptly**

During our Fiscal Year 2013 audit of the Kentucky Horse Park, we reviewed controls over bank reconciliations. We looked at all available bank statements and completed reconciliations for the receipt account and the charge card account for the fiscal year under audit. As of the time of our audit, August 23, 2013, each account had ten completed reconciliations for the fiscal year 2013 statements. We reviewed all activity in these accounts to ensure the bank reconciliations were performed, reviewed, and approved in a timely manner and unusual reconciling items were explained.

We noted the following findings for the Receipt account:

- Five bank statements were not signed by the person reconciling the statement.
- Nine out of ten bank statements were reconciled late.
- May and June 2013 bank statements had not been reconciled at the time of the audit.
- All ten statements that had been reconciled were reviewed late and all were reviewed in June 2013.
- The person reconciling the bank statements was not independent of the process.

We noted the following with the Charge Card account:

- All ten statements were reconciled late, with seven reconciled in May 2013.
- May and June 2013 bank statements had not been reconciled at the time of the audit.
- All ten statements that had been reconciled were reviewed late and all were reviewed in June 2013.
- The May 2013 bank statement was missing at the time of the audit.
- The person reconciling the bank statements was not independent of the process.

If errors or omissions occurred, they would remain undetected when bank reconciliations are not reviewed timely. If the reconciliations do not contain signatures and dates, we cannot verify that reconciliations were performed timely.

Good internal controls require bank accounts to be reconciled in a timely manner. Bank reconciliations should be performed monthly to account for all activity of the organization and should contain the signatures and dates of both the preparer and reviewer.

Recommendation

We recommend the KHP implement procedures to ensure bank reconciliations are performed in a timely manner and contain both the preparer's and reviewer's signature and date to evidence their work.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KHP-26: The Kentucky Horse Park Did Not Reconcile Bank Accounts And Ensure Reconciliations Were Reviewed Promptly (Continued)

Management's Response and Corrective Action Plan

The Kentucky Horse Park's management agrees with the auditor's recommendation. It is management's intent to improve upon its policy in order to ensure bank reconciliations are performed in a timely manner and contain both the preparer's and reviewer's signature and date to evidence their work.

The Park has requested an addition of a full-time employee in the business office as part of the Park's 2014-2016 budget proposal in order to rectify this issue.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KHP-27: The Kentucky Horse Park Did Not Finalize Year-End Financial Reporting Information In A Timely Manner**

For the FY 2013 audit, the business office was significantly delayed in its completion of its year-end closing package and trial balance, which impeded the auditor's ability to perform the audit in a timely manner. This is a concern each year and has been discussed with KHP management over the past several years, and continues to be a concern. For FY 2013, the KHP closing package required for proper reporting by the Finance and Administration Cabinet, was not complete as of December 6, 2013.

KHP appears to be delayed in its preparation of critical year-end financial data due to inadequate staffing and an inability to prioritize these functions due to other important competing objectives placed on the business office during the same time frame. The failure to finalize year-end financial information in a timely manner not only delays the audit, but increases the risk of material misstatement in financial statements that could go undetected. Furthermore, KHP is a major enterprise fund of the Commonwealth, and delays also impact the audit of the CAFR. Additionally, these delays result in higher audit costs to KHP due to additional time spent in coordinating the work.

A good internal control system mitigates the risk for errors, theft, and promotes processing of transactions, and the creation of financial reports in a timely and efficient manner. In addition to protecting the organization, internal controls are intended to protect employees in the course of performing their assigned duties.

Recommendation

We recommend KHP management implement procedures to ensure year-end financial reporting is completed in a timely manner, and submitted to FAC within the scheduled deadlines. This may require KHP management to develop new procedures, hire additional staff, request assistance from another agency, or rearrange functions of current employees in a way that assists in meeting this objective.

Management's Response and Corrective Action Plan:

The Kentucky Horse Park's management agrees with the auditor's recommendation. It is management's intent to improve upon this issue to ensure year-end financial reporting is completed in a timely manner, and submitted to FAC within the scheduled deadlines.

The Park has requested an addition of a full-time employee in the business office as part of the Park's 2014-2016 budget proposal in order to rectify this issue.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KSP-28: Kentucky State Police Did Not Deposit Checks In A Timely Or Efficient Manner Per KRS 41.070

During the course of our 2013 financial audit of the Kentucky State Police (KSP), concerns were brought to our attention regarding extensive delays for the deposit of receipts from the processing of background checks for concealed carry permits conducted by KSP's Records Branch.

After reviewing deposit procedures for the Conceal Carry permits we found that KSP was not depositing these receipts in a timely manner. Based on the documentation we reviewed deposits were made on average 30 days after receipt by KSP.

KSP's Records Branch receives applications for Concealed Carry Permits from all 120 Kentucky Sheriffs. Sheriffs are required to submit these applications weekly. Currently, these are bundled together after processing the background check and submitted to KSP Operations. These deposits are reviewed, and then submitted to the Kentucky State Treasurer for Deposit. As a result of waiting until background checks are performed to deposit the fees, checks are being deposited often more than a month after receipt, resulting in delays in recognizing revenue earned by KSP. Further, these delays increase the likelihood of NSF checks, stopped payments, or closed bank accounts leading to a loss of income.

As a steward of the Concealed Carry deposits, KSP has a responsibility to ensure that the funds are deposited timely to the State Depository. KRS 41.070 states, "All receipts of any character of any budget unit, all revenue collected for the state, and all public money and dues to the state shall be deposited in state depositories in the most prompt and cost-efficient manner available."

Recommendation

We recommend KSP update procedures to ensure that all deposits are made in a timely manner. At a minimum, receipts for Concealed Carry background checks should be deposited within five business days of receipt.

Management's Response and Corrective Action Plan

Processing CCDW receipts in a more timely manner has been addressed within the Criminal Identification and Records Branch. The delay witnessed by the State Auditor's Office was due to an unexpected nationwide response to public safety incidents that manifested in Kentucky receiving more than a 100 percent increase in applications for a CCDW license. Typically, the KSP CCDW unit receives 4 to 7 totes of mail to process weekly. During the period of review by the State Auditor's Office, there were occasions when 32 totes would be delivered to the unit within 2 week period. Inevitably, there were delays in processing checks and applications. In response to this backlog, the Criminal Identification and Records Branch initiated cross-training of employees to open mail, process checks, enter data, and complete background investigations. There is no longer a backlog in processing and employees are adequately cross-trained to prevent future delays in processing.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KSP-28: Kentucky State Police Did Not Deposit Checks In A Timely Or Efficient Manner Per KRS 41.070 (Continued)**

Management's Response and Corrective Action Plan

After assessing the policies and procedures of the CCDW unit, it is not recommended that the agency adopts the suggestion to place the check number on the application. It is an additional step that would cause delay in processing. Pursuant to KRS 237.110, the agency must accept or deny the application within 60 days of receipt. Adding an additional step would reduce the efficiency in which the unit processes applications. Further, this approach would result in separating the documents upon receipt and extra handling of the paperwork which could lead to a lost or misplaced check. The check number is logged into the CCDW database for record keeping purposes.

The request for policy changes states that the Sherrifs are required to submit CCDW applications weekly. This is unfortunately inaccurate. There is no obligation on the Sherrifs to submit the applications weekly. The submission from each county varies. Further, the deposits are not submitted after the background checks are processed. The checks are seperated from the application during processing and check order reports are sent in bundles of 850. KSP does not hold the processing of the check until the background check is complete.

To address your concerns, the Criminal Identification and Records Branch shall increase the turnaround for depositing checks with the KY Treasury by submitting check reports to Headquarters more frequently with fewer checks on each report. Currently, a check report contains 850 checks before it is sent to Financial Grants and Management. It takes approximately 5 to 10 days for the CCDW unit to submit a check report currently. To improve efficiency in processing checks, the check reports will be sent to FGM after processing 500 checks. This modification will decrease the time it takes for checks to be deposited from 3-5 days upon receipt.

Auditor's Reply

To reiterate, our review of the CCDW deposits found that these deposits were routinely made more than 30 days after KSP received the check, so the timeliness of the submission of the applications or when the payments were separated from the application, had no impact on this measurement. The auditor's understanding of KSP's process was based on our interviews of KSP staff during the audit. We will review and update this during our 2014 audit.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KST-29: The Kentucky State Treasury Failed To Reconcile Bank Accounts Timely Throughout The Fiscal Year And No Official Review of Reconciliations Were Performed

In prior year audits, we reported significant deficiencies with Kentucky State Treasury (KST) failing to reconcile the state's bank accounts promptly at the end of each month. Unfortunately, this continued to be an issue for KST throughout much of fiscal year 2013. Our review for fiscal year 2013 also noted KST had been behind during the fiscal year with reconciling bank accounts timely. We found during October of 2012, KST was still completing the April 2012 (FY 12) bank account reconciliations. In January 2013, KST began reconciling the bank accounts for July 2012, a full six months late.

During our fieldwork we did note that KST had made significant strides in accomplishing the task of catching up the reconciliation process to a current period. We were informed at the conclusion of our fieldwork that the reconciliations were caught up to current. However, our finding relates to the internal control weakness throughout the fiscal year.

We also reviewed controls over bank reconciliations. We judgmentally selected three different small account bank statements and reconciliations for the month of May 2013 and the main general account for June 2013. These four bank accounts are reconciled monthly to account for deposits in transit, outstanding checks, eMars cash balance, and other reconciling items. For the four accounts selected, we reviewed all activity in these accounts to ensure the bank reconciliations were performed, reviewed, approved, and any unusual reconciling items were explained.

Our review of controls noted the three accounts reviewed for May 2013 and general account for June 2013 had no evidence of a preparer's signature with date or a review by the Assistant State Treasurer.

If bank reconciliations do not contain appropriate approval signatures and dates, we cannot verify reconciliations were performed timely. Second, untimely or late bank reconciliations can lead to oversights, errors, and miscalculations occurring that could go undetected for months at a time. Increasing the complexity of reconciling bank accounts and ultimately these mistakes could misstate the account balances for financial reporting purposes.

Good internal controls require bank accounts to be reconciled in a timely manner, reviewed by appropriate personnel, and signed or initialed with a date to indicate review. At a minimum bank reconciliations should be performed as promptly as possible and contain the signatures with dates of the preparer and reviewer.

Recommendation

We recommend KST continue to improve its effort to ensure bank reconciliations are reconciled as promptly as possible, reviewed by management and contain both the preparer's and reviewer's signature with a date to evidence their work.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-29: The Kentucky State Treasury Failed To Reconcile Bank Accounts Timely Throughout The Fiscal Year And No Official Review of Reconciliations Were Performed (Continued)**

Management's Response and Corrective Action Plan

The State Treasurer's Office is very excited that all of the accounting system glitches that were distorting the reconciliation data and, consequently, slowing the reconciliation process and preventing a "to the penny" monthly account reconciliation have now been identified and corrected. When the last system corrections were recently put into place, every month of FY 2013 fell into complete balance with the exception of July 2012, which remains out of balance by 3 cents. This represents a monumental achievement by the staffs of the Treasury Department and the Controller's Office, who have worked together diligently to build a functioning reconciliation system. Barring any future accounting system or banking system changes which have unanticipated reconciliation consequences, the monthly account reconciliations performed by the Treasurer's Office should be timely and complete. The Treasury staff hopes to be an active participant in any future system enhancements so that reconciliation issues can be thoroughly vetted beforehand.

The Treasury Department's management team has been closely involved in the reconciliation challenges of recent years, working to resolve pending issues and receiving daily updates on the status and progress of the efforts. Going forward, the accounting branch staff will sign off on the monthly account reconciliations when they are completed, and the Assistant Director, Director, or Assistant Treasurer will formally acknowledge their review of the completed work.

Auditor's Reply

It its response, the State Treasurer's Office indicated that reconciliations will be formally "acknowledged" upon completion. We would like to clarify the purpose of supervisory review is to enhance proper segregation of duties, to review for accuracy, and deter errors or even fraud from being imbedded into reconciliation line items (i.e. such as numbers plugged into outstanding checks, etc.)

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KST-30: The Kentucky State Treasury And The Finance And Administration Cabinet Failed To Authorize And Approve All Outside Bank Accounts

During our fiscal year 2013 audit of the Kentucky State Treasury (KST), we tested new outside bank accounts opened by various state agencies during the fiscal year. Our testing revealed lapses in controls for the authorization, modification, and closure of outside bank accounts. The Finance & Administration Cabinet (FAC) permits agencies to open accounts beyond the main central depository. Any time a new bank account is opened, the state agency opening the account is required to fill out form SAS54 Request for Approval of Bank Account. These forms are then to be filed and approved by KST & FAC. We initially tested 14 SAS54 request forms for new bank accounts opened during FY 13, and found seven failed to have any authorization by KST or Finance Cabinet (FAC). After inquiry with FAC and KST, we discovered 27 other new outside accounts had been opened during the fiscal year that failed to have required signatures for authorization or had been turned in timely to KST. In one particular instance, an agency failed to submit SAS54 forms timely. An entire year had almost passed without 26 SAS54 forms before being submitted to KST. In this case, FAC received them first before being submitted to KST.

KST and FAC were not aware of new outside banks accounts due to the failure by state agencies to submit the required SAS54 Request for Approval of Bank Accounts form to KST as required by FAC policy, as clearly stated on the SAS54 form, before sending the SAS54 form to FAC.

KST can neither, approve, disallow, or even be aware of bank accounts opened, closed, or modified by state agencies, if they are not part of the bank account process. Furthermore, accounts opened without KST's or FAC's knowledge by an agency isn't permissible under KRS 41.070 and could lead to the failure to properly account for money (cash) by FAC.

KRS 41:070 allows the FAC to authorize state agencies to temporarily deposit funds into bank accounts other than the central depository of the state. The form SAS54 Request for Approval of Bank Account created by FAC clearly states all the required criteria for a new, modified, or closed bank account.

Recommendation

We recommend the following:

- Kentucky State Treasury, in conjunction with the Finance & Administrative Cabinet, should reemphasize the rules and regulations governing opening bank accounts with state agencies.
- Ensure all forms have been submitted to the appropriate agency with all appropriate approvals.
- Confirm with state agencies all outside bank accounts and determine that all have appropriate approvals.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-30: The Kentucky State Treasury And The Finance And Administration Cabinet Failed To Authorize And Approve All Outside Bank Accounts (Continued)**

Management's Response and Corrective Action Plan

KRS 41.220 specifies that "Banks shall be designated as depositories for state funds upon agreement of the State Treasurer and the secretary of the Finance and Administration Cabinet." For this reason, the Treasurer's approval is required on the SAS 54 Request For Approval of Bank Account form.

Outside bank accounts are normally opened for one of two purposes:

- 1. As a temporary depository account authorized under KRS 41.070; or*
- 2. As an Imprest Cash Fund authorized under KRS 45A.655.*

In both instances, the Finance and Administration Cabinet is the authorizing agent for the establishment of the processes that will take place through the outside bank accounts. Consequently, the Division of Statewide Accounting has historically been the entity that solicited the Form SAS 54 at the time that the authorities were given, and has been the agency that monitored the compliance with the relevant statutes.

The Division of Statewide Accounting currently has a large project underway to document properly through the SAS 54 Request For Approval of Bank Account form all outside bank accounts which have been opened under their various authorities. All agencies have been instructed to update their written approvals for any outside accounts which they are currently operating. The agencies are complying in mass numbers.

The State Treasurer's Office will continue to inform agencies of the paper trail required in actually opening an outside bank account once the processes necessitating those bank accounts have been authorized. We will review all bank account requests received in our office and, where appropriate, will give our prompt approvals to the bank accounts and forward the approvals to the Finance Cabinet for final processing. We stand ready and willing to assist the Finance Cabinet with their updating process for the SAS 54 approval forms as needed.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-31: The Kentucky State Treasury And The Finance And Administration Cabinet Failed To Escheat Checks Timely In The eMars Accounting System**

During our fiscal year 2013 audit of Kentucky State Treasury (KST), our testing revealed errors with the outstanding check write-off process. We discovered 98 checks totaling \$48,181 were not properly written off in the eMARS accounting system. These errors occurred in eight out of 12 months for the fiscal year. These errors are routinely caught when KST performs monthly reconciliations timely. Unfortunately, KST was behind on the monthly reconciliation process during part of the fiscal year.

KST and the Finance Cabinet are responsible for escheating checks in the eMARS accounting system, however, no formal policy exists that indicates when the check status query, which updates the eMARS system, should be run.

Because the bank reconciliations were not up-to-date for much of the fiscal year, the eMars Accounting System query job created to move outstanding checks to the escheat category did not categorize all checks properly, as checks were escheated whether it truly was an escheat or not.

Further, because there is no formal policy specifying when the check status job query should be run in eMARS, potential outstanding checks are not properly written off in the accounting system.

Outstanding checks that are not moved to the correct check status, escheat, in the e-Mars Accounting System, permit outdated checks (more than 365 days) to be cashed against the states various bank accounts. Failure to get checks correctly escheated also prevents the bank from applying stops to the checks timely. This also makes it difficult for the bank to apply stops to checks that are stale dated.

Untimely escheats and reconciliations create difficulties in reconciling the various bank accounts for the State.

Furthermore, failure to have a policy detailing when and who runs the check status job query in the e-Mars accounting system allows stale dated checks, to be cashed erroneously.

Strong internal controls require a policy and procedure in place specifying when to escheat checks and by whom. Failure to write-off out dated checks directly affects account balances. Account balances impacted run the risk of inaccurately reflecting the cash available.

The state fails to comply with KRS 41.370 which requires outstanding checks to be written-off after one year. Cash should also be restored to the account/fund that the check was drawn against. KRS 41.370 (1) states "Any check issued by the State Treasurer shall not be valid as an order for payment after one year from its date of issue and this limitation shall appear on all checks issued."

Timely reconciliations of outstanding checks are a direct reflection of good internal controls. A failure to reconcile escheats may result in errors or fraud occurring without being detected.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-31: The Kentucky State Treasury And The Finance And Administration Cabinet Failed To Escheat Checks Timely In The eMars Accounting System (Continued)**

Recommendation

We recommend the following:

- KST should continue to ensure bank reconciliations are performed timely thus enabling the escheats job query to be promptly performed.
- Kentucky State Treasury, in conjunction with the Finance Cabinet, should work together to develop a policy and procedure for escheats and determine the optimal time to run the escheats job query in e-Mars.
- KST needs to provide the State's bank with a stop payment listing promptly after each month ends so stops can be applied where appropriate.

Management's Response and Corrective Action Plan

The proper timing of the escheats process has been one of the lingering issues in our processing with the Commonwealth's bank. With our former bank, a blanket stop payment was placed on all uncashed checks at the end of the month one year after the checks were written. This stop was based on the last check number written in the month one year earlier. It was a clear cut and simple process that halted the payment of checks at our bank over one year old. The formal escheat process in the accounting system could then be performed by the Finance Cabinet after the month-end hard close was completed.

This type of processing is not possible with the State's current bank, however. With the current bank, instead of an actual stop payment being placed, which would be cost prohibitive, the checks over one year old are cancelled in the Positive Pay System. If they are not found in Positive Pay, they would not be recognized as state checks, and would be referred to Treasury for a pay/no pay decision. Positive Pay processing, however, causes a lag on paid check records for the last day of the month that could last from 3-5 days. Expiring checks which were presented before the end of the month deadline and should be paid may not get through the Positive Pay research mode and verification process for 3-5 working days. The cancellation process for stale-dated checks cannot be run until these legitimate checks have been allowed time to clear.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-31: The Kentucky State Treasury And The Finance And Administration Cabinet Failed To Escheat Checks Timely In The eMars Accounting System (Continued)**

Management's Response and Corrective Action Plan (Continued)

Going forward, it will be the intention of the Treasury Department to provide the State's bank with a Positive Pay cancellation file within 5 working days after the close of the month. This should, under normal circumstances, allow sufficient time for the Positive Pay payment process to play out, and for all checks presented before the end of the month to be paid. If the escheat process in the eMARS accounting system cannot be run by the Finance Cabinet by this time, the Treasury Department hopes to build this Positive Pay cancellation file independently so as to minimize the time interval between when checks legally become stale-dated and when they are rendered non-negotiable in the banking system. The actual accounting system escheat transaction is generally not run by the Finance Cabinet until after the month's end hard close.

Since the Treasury bank reconciliation process is now up-to-date, and hopefully will continue to be so, escheat issues should be much easier to detect and correct.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KST-32: The Kentucky State Treasury Did Not Provide Sufficient Segregation Of Duty Controls Over The Data Processing System

Our Fiscal Year (FY) 2013 review of the Kentucky State Treasury (Treasury) system controls revealed Treasury did not employ sufficient segregation of duties between the system security administration, operation, and programming functions in relation to their data processing system. Our testing revealed all critical functions had been granted to a single individual. This individual has unlimited access to every aspect of Treasury's data processing system including management of the use, configuration, functionality, and security of the system and acted as the programmer, security administrator, and operator during the audit period. This individual also acted as librarian until May 2013. While Treasury management has begun to document security procedures within their Security Standard Procedures Manual (SSPM) that will allow for more oversight related to these functions, there are still numerous security controls that could potentially be circumvented without detection. Similar issues have been reported to Treasury since FY 2008 and auditors have suggested methods to address these issues that do not require hiring additional staff.

To determine the extent of this individual's access, we reviewed the authorities established over four critical libraries, with exceptions being noted with three of them:

- The vendor-supplied library housing all production and test libraries used to perform daily and monthly processing;
- The library housing 'new' objects used to select enhanced Management Administrative and Reporting System (eMARS) data to assist with the monthly reconciliation; and,
- The library housing all source code objects used to process the reconciliation programs and generate the monthly reconciliation reports.

Similar issues noted below for each of these libraries have been reported to Treasury since the FY 2008 audit.

In regards to the vendor-supplied library, testing revealed that one individual had unlimited access through two different user profiles used within this library. However, it should be noted that the individual only uses one of the two user profiles. A programmer should only have access related to the development process and should not have the ability to alter or delete objects in the master library.

In regards to the testing of the library housing eMARS-related objects, the auditor noted that one individual had unlimited access through two user profiles used within this library. The only person that should have access to create and delete information from this library is a designated librarian, which, for proper segregation of duties, should be someone other than the programmer/operator. While Treasury assigned librarian duties to another current staff member, this individual did not take over this role until May 2013. Further, testing revealed that this individual's user profile was not granted authority to this library.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-32: The Kentucky State Treasury Did Not Provide Sufficient Segregation Of Duty Controls Over The Data Processing System (Continued)**

Testing of the third library that houses reconciliation programs revealed that one individual's user profile had unlimited access to this library. This individual should not have access to this library via this account since this person is also responsible for making changes to the accounting and reconciliation programs. The only person that should have access to create and delete information from this particular library is a designated librarian, which should be someone other than the programmer/operator. Further, specific review of the main program and report related to the reconciliation program found that this individual also had unlimited access to these objects. As noted above, another Treasury staff member was designated as the new librarian; however, testing revealed that this individual's user profile was not granted authority to this library.

Further, this individual, along with two computer operators, had read and write access to a directory on the processing system housing the Automated Clearing House (ACH) file provided by the Finance and Administration Cabinet (Finance), which contains several eMARS electronic fund documents. This file is generated from eMARS production tables, downloaded by the Treasury computer operators from a file transfer protocol (FTP) server and stored temporarily on the data processing system. Once reviewed for dollar value and number of records, the file is transmitted to the bank and then removed from the data processing system. The two computer operators are both responsible for the retrieval of the ACH file from Finance and transmission of the file to the bank; the individual noted above having multiple incompatible duties serves as the backup for the computer operators. Although this is not considered direct access to eMARS production data, it still represents a segregation of duties issue since unauthorized changes could be made to this file within the data processing system prior to transmission to the bank.

The individual also has unlimited authority to the data processing system's history log. In addition, this individual is responsible for monitoring this log for suspicious activity.

During previous audits, Treasury stated that attempts had been made to obtain funding in order to hire additional resources to alleviate our concerns with segregation of duties. Since these requests for additional funding have been rejected, we acknowledge Treasury's steps to train a current staff member to perform librarian functions on the data processing system. Furthermore, Treasury has drafted the SSPM that explains current security processes and procedures in place. While there is discussion within this manual about segregation of duties, there are still significant concerns with this since the system administrator/programmer still retains unlimited access to all libraries and functions on the data processing system.

Employing strong segregation of duty controls decreases the opportunity for unauthorized modification to files and programs, and decreases the likelihood of errors or losses occurring because of incorrect use of data, programs, and other resources.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KST-32: The Kentucky State Treasury Did Not Provide Sufficient Segregation Of Duty Controls Over The Data Processing System (Continued)

According to section 3.3.3 of the Security Standards Procedure Manual, “[d]evelopment staff shall not have access to production information unless approved by the agency owning the data to perform a particular request, or should fiscal restraints prevent the separation of duties. Exceptions to access policy must be documented, and for short-term tasks or projects access shall be revoked after the assignment has been completed.” In addition, “[i]t is the responsibility of the TITIO (Treasury IT Information Officer) to manage staff to work with the current administration executive staff (Division Director) and the TCISO (Treasury Computer Information Security Officer) to ensure that separation of duties exists among KST (Kentucky State Treasury) development staff performing various functions.” Furthermore, section 8.6 of the SSPM states, “[t]he least amount of security privileges required for a person, process, or application to perform their job must be assigned. Privileges must be layered to reflect job functions and separation of duties.” Finally, section 9.2 of the SSPM states, “[t]o the extent possible, every process involving sensitive, valuable, or critical information, at least dual controls must be required to coordinate their information-handling activities.” Further, “[a]t a minimum, separate directories or libraries with strictly enforced access controls must be employed. Development staff must not have the ability to move any software into the production environment.”

Computer programmers should not have direct access to the production version of program source code or be able to directly affect the production environment. The reason for this control is to ensure that the programmer does not intentionally or unintentionally introduce unauthorized or malicious source code into the production environment. Smaller organizations that cannot easily segregate programmer duties from librarian duties should implement compensatory controls to supervise programmer activities to ensure only properly tested and authorized programs are migrated into production.

Programmer duties should not include the migration of programs into production libraries or performing operator procedures such as executing production programs. Programmers should be restricted from the production environment and their activities should be conducted solely on “test” data. This control is designed to ensure an independent and objective testing environment without jeopardizing the integrity of production data.

The same individual should not retrieve the text file with eMARS funding data and also submit that same file to the bank, unless there are compensating controls in place to ensure no changes have been made to the data from the time it was received from Finance to the time it was submitted to the bank.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-32: The Kentucky State Treasury Did Not Provide Sufficient Segregation Of Duty Controls Over The Data Processing System (Continued)**

Recommendation

We recommend Treasury review the current job duties of the individual performing the security administrator, programmer, and operator function within the data processing system, and determine how these job functions can be redistributed among staff to ensure a proper segregation of duties and compliance with their SSPM. Specifically, Treasury should ensure that someone other than the system administrator, who has unlimited access to the system, be the primary programmer who creates changes within the production programs.

In addition, Treasury should ensure the individual performing the programming function is restricted to a "Read Only" level of access within the production environment (including libraries, files, programs, etc.). The individual responsible for monitoring the history log of suspicious activity should have "Read Only" access to that file.

Based on our understanding of the Treasury staffing limitations and budget constraints, we acknowledge the difficulty in hiring additional staff to accomplish complete segregation of duties. Therefore, our recommendation is focused on the redistribution of certain job duties currently completed by the security administrator among existing staff. We recommend the security administrator select staff members to mentor in security administration function with the eventual goal of these individuals taking over these responsibilities. Since the current system administrator has the most data processing system expertise, we recommend he continue to make programming changes. As the security administration functions are transitioned to other staff, we recommend Treasury work toward establishing segregation of functions as discussed above. With the disbursement of duties among multiple existing staff members, we do not foresee these efforts requiring significant time, thereby allowing staff to also perform their existing routine job duties.

Further, we recommend one computer operator be primarily responsible for the retrieval of the ACH file from Finance and the other be primarily responsible for the submission of the ACH file to the bank. In addition, we recommend the operator sending the file to the bank compare it to the original file downloaded from Finance to identify any changes prior to submission. A log with the date, time, and name of the reviewer should be maintained to document this review. In the event one of the computer operators cannot fulfill his duties, a backup should be appointed to perform his part of the above process.

Management's Response and Corrective Action Plan

The Treasury Department is pleased that the Auditor has acknowledged the office's staffing limitations, and the prior efforts to obtain funding for an IT position that would allow for the level of segregation of duties called for in the audit recommendation. The Treasury will submit a new personnel funding request to add the needed position or positions for the FY 2015 - 2016 budget.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-32: The Kentucky State Treasury Did Not Provide Sufficient Segregation Of Duty Controls Over The Data Processing System (Continued)**

Management's Response and Corrective Action Plan (Continued)

The compensating controls suggested by the Auditor, while much appreciated, are only marginally feasible. As noted, the Treasury has moved some of the Librarian responsibilities for the I-Series System to another employee of the IT Branch. This employee is not trained in I-Series operations, and has extremely limited knowledge of the mainframe system. However the employee does have sufficient environment knowledge to move objects from development/test to production. This change fulfills the highest priority concern of limited access of the system administrator/developer to the production library.

Other than the new Librarian function, we do not plan to add any additional tasks as this employee is already stretched very thin while occupying a dual role as agency network administrator and the primary source of eMARS technical knowledge needed in the reconciliation process. Mentoring for other individuals is limited as there is no one individual in the department with sufficient technical mainframe computer knowledge.

Much like the Auditor's criteria, the descriptions in the Treasury's Security Standards Procedures Manual concerning the level of segregation of duties which should be in place reflect the ideal situation. It is obvious that current staffing and budgetary limitations prevent the Treasury from attaining its own stated goals on security and segregation of duties at this time. However, the Treasury Department does understand the validity and desirability of those goals. We have initiated, commensurate with the amount of available resources, additional internal logical security systems that significantly reduce the likelihood of an undetected event.

The recommendation that the process of retrieving ACH files from eMARS and submitting them to the bank for dissemination be performed by two different individuals is not realistic. There are not always two operators present to make this division of labor possible. Even on days when both operators are in the office, they may not be here for the same hours. One oftentimes comes in very early to begin the day's work, and the other may come in later and stay later to complete the late-day printing and transmission requirements. The ACH files being transmitted on a daily basis to our bank are very time sensitive. It would not be workable to have an operator draw down files from eMARS and then have to wait until someone else is available to verify the totals and then to transmit them to the bank. The files must be sent in a timely manner.

The only feasible way to bring about the level of segregation of duties described by the Auditor is to have additional personnel in the IT Division. We will make this request once again. Meanwhile, we are exploring various software programs that would monitor and record changes made to the I-Series or to any files passing through the office.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-32: The Kentucky State Treasury Did Not Provide Sufficient Segregation Of Duty Controls Over The Data Processing System (Continued)**

Auditor's Reply

We acknowledge Treasury's reasoning for not having two different individuals retrieve and submit the ACH file to the bank. However, our primary concern with this process is that the Security Administrator and Programmer continues to have unlimited access to the ACH file and acts as a backup for the operators. We continue to recommend that this individual not be allowed to perform such job duties. If this is not feasible, a compensating control should be implemented so that management can review the ACH file prior to and after submission to the bank to ensure data reported in the file has not been altered.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KST-33: The Kentucky State Treasury Did Not Adequately Protect Sensitive And Confidential Data**

Our fiscal year (FY) 2013 audit revealed weaknesses in the Kentucky State Treasury's (Treasury) internal controls involving the security of confidential and sensitive data. It was revealed that data was not adequately protected from potential intentional or unintentional access or misuse of information.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, the Auditor of Public Accounts (APA) office thoroughly discussed this issue with Treasury staff.

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. This significant type of control weakness could potentially be exploited either internally or externally.

Sensitive or confidential data should be protected from unauthorized internal or external users or from exposure to the general public. The National Institute of Standards and Technology (NIST) Publication 800-111 states, "Many threats against end user devices could cause information stored on the devices to be accessed by unauthorized parties. To prevent such disclosures of information, particularly of personally identifiable information (PII) and other sensitive data, the information needs to be secured."

Recommendation

We recommend Treasury address these weaknesses. Treasury management should ensure confidential and sensitive data is sufficiently protected and ensure the maintenance of confidential and sensitive data remains a top priority. Management should ensure sufficient resources are dedicated to complete this in a timely manner.

Management's Response and Corrective Action Plan

This is the first year that data protection controls were audited by the State Auditor's Office, so this finding is new and completely unanticipated. The Treasury Department will evaluate the audit findings and will make every effort to ensure that all data is adequately secured to the current recommended standards.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-PARKS-34: The Department Of Parks Failed To Correctly Track And Account For The Acquisition, Disposal and Transfer Of Fixed Assets

During our audit of the Kentucky Department of Parks, auditors were made aware of 35 golf carts at a resort park that Parks officials were unable to account for. These amounts were listed on the Fixed Assets \$500 and over report prepared by the Department of Parks and inventoried at year-end each year. Auditors inquired with the Business and Park Manager about the whereabouts of the 35 golf carts, to which, neither the Business Manager or Park Manager could supply information on the whereabouts. Although, a contract specifying the removal of the golf carts was located in old documentation from 1999, the 35 carts were never properly removed from the Fixed Asset \$500 and Over Report. The historical value of the 35 golf carts totaled \$115,300.

Our work at the park also revealed a significant breakdown in accurately tracking fixed assets greater than \$500. Auditors attempted to locate numerous fixed assets on the \$500 and over report but encountered significant difficulties in locating the assets. Auditors would visually see a fixed asset, but were unable to find the specific asset on the report. Auditors also couldn't physically find assets which were listed on the report. Our work further revealed assets lacking required fixed asset tag numbers, old outdated fixed asset tag numbers that no longer were in use affixed to equipment, and personal equipment brought in by employees for use to complete daily tasks.

Examples of fixed assets auditors were unable to locate: Seven air-conditioners, computer, printer and keyboard, fax machine, commercial carpet cleaner, HVAC refrigerant recovery system, two heat pumps, utility trailer, snow plow & snow blower, auto pressure washer, merry go round and swing set, pole climber, two electric plumbing snakes, seven mowers/mower decks, two log splitters and a Bushhog deck. These items in total are valued at \$28,972 on the fixed assets \$500 and over report.

The Kentucky Department of Parks was negligent in their responsibility to correctly account for the transfer, acquisition, disposal, and cannibalization of fixed assets at resort parks in the states accounting system eMars.

Failure by the Kentucky Department of Parks to correctly account for fixed assets gives a false representation of actual fixed assets for Parks and incorrectly states the Parks inventory balance on the financial statements. Furthermore, this causes the states Comprehensive Annual Financial Report to be incorrectly reported.

FAP 120-20-01, states departments are encouraged to expand the personal property inventory effort to include all items valued at \$500 or more in order to maintain a comprehensive inventory of fixed assets.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-PARKS-34: The Department Of Parks Failed To Correctly Track And Account For The Acquisition, Disposal And Transfer Of Fixed Assets On The Fixed Assets (Continued)**

Recommendation

We recommend the Kentucky Department of Parks:

- Review the Finance & Administration Cabinets policy & procedures for fixed assets, specifically FAP 120-20-01, with all employees.
- Ensure all asset acquisition, transfer, disposal and cannibalization forms are promptly completed and entered in the states accounting system, eMars.
- Conduct a comprehensive fixed asset inventory at all parks for assets valued greater than \$500 and update the current report to accurately reflect fixed asset values.

Management's Response and Corrective Action Plan

Due to restrictive budget constraints, the Department of Parks has not had a full time position to oversee the tracking of assets in approximately 30 years. Commissioner Elaine Walker recognized the necessity for a full time position to manage the physical assets of the 49 state parks and related TAH agencies and earlier this year requested approval to hire for this position. A property control officer was hired for that full-time position October 1, 2013.

Prior to the October 1st placement, an outline was submitted requesting time to "clean up" the records in eMARS, the Department of Parks inventory tracking system. Due to the position being held in conjunction with other job responsibilities, park staff has concentrated on the mandated asset audit of items \$5,000.00 and above, while many of the parks' assets valued below that threshold were not audited.

Permission was granted by the Commissioner to begin a possible three year plan where on site visits would verify the physical presence and correct tracking of assets \$500 and over, research the absence of assets by determining if transfers or disposals simply weren't documented, to assess the current conditions of assets and to determine if other parks or state agencies may be able to utilize assets that are not being fully utilized by another park. All this is in her effort to be the greatest possible steward of tax payer dollars.

Currently in place, as part of the Division of Purchasing, the property control officer is notified when items needing a tag come through the purchasing department. The FA shells generated through PRC payment documents are checked each week for potential items to be tagged and each month, at the suggestion of the prior auditor, a monthly equipment report is required by the 10th of the month verifying whether the park has made any asset purchases requiring tagging for the previous month.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-PARKS-34: The Department Of Parks Failed To Correctly Track And Account For The Acquisition, Disposal And Transfer Of Fixed Assets (Continued)**

Management's Response and Corrective Action Plan (Continued)

We now request, in addition to consistently affixing the tag to the right side of the equipment (facing), a permanent marker and/or etcher be used to ensure the number is inconspicuous, but easily viewed and will remain visible on the asset over time.

Incidents such as the items listed above in the auditor's findings will be corrected as we are able to provide on-site visits by property control officer, with the assistance of Director of Purchasing. After the actual on-site visits, time will be allotted for property control officer to remove dated or disposed assets, correctly identify assets as historical versus equipment, meet with park staff to review the reports and to create appropriate documents in eMARS to create a truer reflection of Parks' inventory.

After meeting with the Maintenance Supervisor for Facilities Management, we feel some of the items that were visually seen by the auditors but not found on the asset report may be part of the P9 crew inventories. Maintenance Supervisor of Facilities Management suggested we begin our inventory audit with the P9 crew first and etch identifiers on P9 equipment so it is not mistaken as Park inventory.

It has always been discouraged for employees to bring personal assets to work. With tight budgets and inability to purchase needed tools and equipment, some employees feel the need to bring items from home to complete job duties. It was suggested that an inventory be taken of any personal items and put into the employee's personnel file. I agree with this suggestion and plan to have that requirement written into the Fixed Assets policy and procedures.

We appreciate the attention that has been brought to the importance of properly tracking and maintaining our Parks' assets. We have been reviewing the FAP for fixed assets and are developing an SOP that all Park's staff, including those in Central Office, will be required to follow. Purchase control officer and Director of Purchasing will be visiting our parks to conduct training on the proper handling of our assets. The first training session is scheduled to be held at Lake Barkley on January 27th for maintenance and golf superintendents organized by the Maintenance Supervisor for Facilities Management.

We have increased communication with Facilities Management and Operational Maintenance. Prior to joining with the Preventive Maintenance Initiative at the beginning of this year, fixed assets did not require items that were "hard-wired" into the building to be tagged. If they were plug-in, they required a tag. We now require any item requiring preventive maintenance to be tagged and turned in on a monthly equipment report; however, this initiative has only been implemented at Resort Parks and not our Recreation and Historic Parks.

Tremendous progress has already been made and will continue.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-PARKS-35: The Department of Parks Failed To Ensure Timely Deposit Of Receipts**

During the fiscal year 2013 audit of the Department of Parks (Parks), the auditor tested 64 receipt transactions and found three exceptions to the timely deposit and recording of daily receipts:

- Two Exceptions: Park did not record day's receipts to eMARS via JV2P within one week of the date listed on the Daily Business Report.
- One Exception: Cash Count Sheet did not include two signatures, documenting that the sheet was counted by two separate individuals as required. Furthermore, the second signature line was simply left blank.

However, it should be noted Parks made improvements since the prior year audit in this area.

Delays in processing ePAY transfers to the general fund and preparing documents to record the deposits to eMARS increase the likelihood of mistakes due to human error.

Failure to complete the cash counting process and document that at least two separate individuals counted the cash and verified the cash deposit agreed to the DBR, could lead to bank errors.

Given their current economic constraints, Parks depends on funds collected from guests at the state park level. All delays to the deposit and recording of these transactions prevent Parks from having an accurate record of available funds. This alone could impact their ability to promptly pay vendors.

Per the Department of Parks Business Procedures Manual:

- Deposits for each day will be kept separate and each day's receipts must be deposited intact. Deposits should be taken to the local bank no less than on Mondays & Fridays". (Section 4—"Change Fund—Cash Receipts—Cash Control")
- Two signatures must be obtained for the Daily Cash Log to document that a separation of duties is being achieved. Section 6—"Daily Business Report"—"New Daily Cash Log Instructions"

Good internal controls dictate the state's accounting system (eMARS) be updated timely and accurately to reflect the funds available to Parks, which leads to accurate reporting.

Recommendation

We recommend Parks follow its written policies regarding the timeliness of cash deposits and the recording of these transactions to the state's accounting system and reemphasize the importance of timely deposits.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-PARKS-35: The Department Of Parks Failed To Ensure Timely Deposit Of Receipts (Continued)**

Management's Response and Corrective Action Plan

The Department of Parks is in agreement with the findings and has addressed the issue with each park involved directly. Unfortunately all the cases occurred during a time when limited staff was available due to hour reductions or positions being vacant. Financial Operations will try and be more aware when these conditions exist to aid parks in meeting the desired timeframes. We will also reiterate to the Parks business staff the importance of the timeframes set to complete e-Pay transactions, as well as all JV entries and the local bank deposits.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-PARKS-36: The Department Of Parks Payroll Documentation Failed To Include Required Approvals Or Fully Support Expenditures**

During testing of payroll expenditures for the 2013 fiscal year, the auditor noted the following exceptions:

- Nine instances where a timesheet or timecard were not signed by the employee, supervisor, or both.
- Three instances where no proof of prior authorization for overtime was documented.

We also note that nine of the 12 exceptions occurred after December 2012, when a similar audit finding was issued for Parks FY12 audit, therefore indicating that corrective action was ineffective.

Expenditures including payroll should be supported by documentation that agrees to the amount paid for that expenditure. Due to the errors and omissions described above, these payroll expenditures were not adequately substantiated by the documentation including timesheets, properly approved leave requests, and overtime forms.

Good internal controls for payroll dictate charges be supported by adequate documentation including signed timesheets or timecards, leave and overtime forms that detail and substantiate hours and times worked by each employee.

Recommendation

We recommend Parks review established standards for recordkeeping including requirements for the use of leave and overtime approvals and ensure that procedures are uniform across all Parks facilities. In addition, Parks should consider establishing a periodic review of payroll at each park that includes agreeing timecards and other supporting documents to ensure they support payroll and are completed per the established guidelines.

Management's Response and Corrective Action Plan

We are in the process of contacting each park manager that had exceptions, to review with the managers the exceptions for their park. As stated in the 2013 Audit, the findings were similar to the findings in the 2012 audit. Although there were fewer exceptions this review period which we believe shows that we are improving with the new processes as we've transitioned to KHRIS, we will continue to work with the Parks office staff to address these issues. Therefore to ensure that the Department of Parks adheres to the payroll procedures and are in compliance in the future we plan to take the following steps:

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-PARKS-36: The Department Of Parks Payroll Documentation Failed To Include Required Approvals Or Fully Support Expenditures (Continued)**

Management's Response and Corrective Action Plan (Continued)

We will communicate the findings with all Park Managers, Business Managers, and HR Generalists (HRG's) and reiterate the importance of adhering to park policies and procedures. We will send each HRG a copy of the Payroll Procedures for review.

There was one exception where an employee refused to sign. We will discuss that situation with the manager as the payroll division was not aware of this situation. As employees are required to sign the timesheet, refusal of an employee to do so, should have brought to the attention of the HR Division.

DOP will continue to conduct follow up audits to ensure all policies and procedures are being adhered to and that the DOP will take appropriate action if the deficiencies are not corrected.

We will meet with the DOP Internal Audit Branch to review the findings and request that a follow up audit is done in 3 to 4 months on each of the parks that had exceptions to ensure payroll policies and procedures are followed. This review will include agreeing timecards and other supporting documents to ensure that they support payroll and are completed per the established guidelines.

The exceptions for General Butler SRP are particularly disturbing as they had six of the nine exceptions of missed signatures. They also had several exceptions last year. General Butler SRP has experienced several management changes in the past two years and this may have been a contributing factor. We will discuss the past two audits with the new park manager to ensure the policies and procedures are being followed.

The Parks audited that had exceptions were Lake Cumberland SRP, Rough River SRP, General Butler SRP, Jenny Wiley SRP, and Natural Bridge SRP.

The Department of Parks Policy requires employees to utilize the Leave/Compensatory Form for all leave time and compensatory time earned and used. We will reiterate the memo sent to all the Parks on December 13, 2012, reviewing the standards for recordkeeping including requirements for the use of leave and overtime approvals to ensure that procedures are uniform across all DOP facilities. We will reiterate that supervisors must show on the Leave/Comp form that the leave was approved in advance, by signing or initialing the Leave/Comp form for each occurrence and that it is not acceptable to just sign the bottom of the form. Park Policy 01-01, instructing park managers/payroll officers to review with supervisors and employees the payroll policies as well as the types of errors that were found to ensure that all employees are fully aware of the payroll policies and to ensure that payroll officers are reviewing employee payroll more carefully. We believe that the payroll officers and managers have a good understanding of the payroll process. However when transferring payroll data from employee time cards to the official KHRIS timesheets, the HRG's are not taking the necessary steps to follow up and ensure that the timesheets are being signed by both the employee and the supervisor. They need to review the payroll more closely and catch these types of errors.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-PC-37: The Personnel Cabinet Did Not Maintain Current System Documentation To Support Processing Performed By The Kentucky Human Resource Information System

Our Fiscal Year (FY) 2013 audit of the Personnel Cabinet's (Personnel) Kentucky Human Resource Information System (KHRIS) revealed Personnel did not maintain documentation describing critical processing performed by the system. This issue has been addressed with the agency since FY 2011.

KHRIS is the software system used to manage human resource data for the Commonwealth of Kentucky. The KHRIS system was implemented on April 1, 2011. Various modules and components are used to process payroll, personnel administration, life and health benefits, and time administration within KHRIS.

During the FY 2012 audit, it was found that while there were numerous Business Process Procedures (BPP) available on the Personnel website to assist users with maneuvering through the system to perform daily tasks, there were no manuals or other documented procedures that reflect how payroll is processed within KHRIS once time is entered. It was noted during the FY 2013 audit that during the Personnel Cabinet redesign of their website, the KHRIS Knowledge Center was decommissioned. This website was the repository for the BPPs developed to show how to perform actions within the KHRIS system. Although Personnel stated that they have included all necessary information on the website, the auditor's work with the new website found that it is very difficult to find information.

Specifically, our testing of annual and sick leave accruals for the Department of Veterans Affairs (DVA) revealed for employees donating sick leave hours, Human Resource Generalists (HRGs) manually added hours to the quota of the employee receiving sick leave instead of processing this time as regulated by the Sick Leave Sharing Program. The donated sick leave quota is created electronically and is not recognized in KHRIS when a manual adjustment occurs. Processing documentation related to sick leave sharing was not located on the Personnel Cabinet's website. Furthermore, quota corrections were made inappropriately by DVA HRGs. Testing of the sick leave balances revealed that the replace feature was used in one instance to increase an employee's sick leave balance. Since this function overwrites Time Evaluation adjustments to reflect the new data, management has instructed HRGs not to use this function to increase/decrease an employee's leave quota. However, we were unable to locate processing documentation related to quota corrections on Personnel's website.

Furthermore, Personnel implemented a rolling retroactive date cap, which will prevent changes to benefits data more than five months in the past. For changes exceeding the five month limit and affecting Non- Commonwealth Paid (NCP) employees, these must be submitted on the Retro Cap Override Form. Retroactive changes affecting Commonwealth Paid (CP) employees are less common; therefore, a form is not required and Division of Employee Management (DEM) staff manually process these requests. Though forms are completed and Personnel tracks these changes centrally, they have not developed a report that would identify all health plan changes made within KHRIS. Also, to assist with this review, DEM instructed agencies to review employee's time data records that do not have recorded time in KHRIS for more than 30 days. This will ensure associated personnel actions are processed timely, including such actions as Leave Without Pay (LWOP) or Withdrawn/Termination. However, DEM did not make available the procedures to perform this review on the Personnel Cabinet's website.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-PC-37: The Personnel Cabinet Did Not Maintain Current System Documentation To Support Processing Performed By The Kentucky Human Resource Information System (Continued)**

As noted during FY 2012, we could not determine how the leave and attendance hours entered on timesheets and information in the associated Infotypes is used to process payroll. The Infotypes we believe to be used in this process would include recurring payments/deductions, basic pay, bank details, etc. Follow-up for FY 2013 found that the agency has developed system documentation associated with personnel actions and the processing of PAN documents; however, management has not finalized these documents.

Further, system edits and audits have been built into the configuration of the system. Solution Manager is an application housing technical and functional documents which supports the current configuration and programming logic associated with KHRIS. Review of the documentation specifically associated with personnel and payroll data revealed:

- One hundred two of 403, or 25.3 percent, documents specified a date and/or revision number; however, the documents appear outdated because they were updated or last reviewed prior to the April 1, 2011, which was the KHRIS Go-Live date.
- One hundred fifty of 403, or 37.2 percent, documents had no date and/or a revision number provided; therefore, the auditor could not determine when the document was developed or if it reflected current KHRIS processing.

In addition, design documents associated with the Operations Management System (OMS) interface were outdated. Also, many of these documents indicate error reports were generated; however, there were no actual error reports generated by the system. Kentucky Transportation Cabinet (KYTC) and Personnel Cabinet staff confirmed errors are actually captured via output screens at the time of processing. Further, the Equipment Usage Interface to OMS function specification document contained incorrect references to two data fields within the Data Mapping section. Auditors identified that the Target Fields 'MILES-USED' and 'HOURSUSED' appeared to be switched based on the remaining data elements provided.

Finally, as noted since our FY 2011 audit, training material related to holiday pay may be inaccurate. Within KHRIS, employees will be paid for a holiday as long as they are designed as on full time and active status, in a Personnel Area that observes Kentucky holidays, and on a non-24/7 work schedule. However, this was documented incorrectly within the HRG training manual.

Lack of documentation increases the likelihood of erroneous or incomplete processing. It further increases the likelihood of unauthorized or unintentional data modification, destruction of assets, and interruption of services.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-PC-37: The Personnel Cabinet Did Not Maintain Current System Documentation To Support Processing Performed By The Kentucky Human Resource Information System (Continued)

Proper documentation should be maintained for each critical program in production to, at a minimum, identify the purpose of the programs, the origin of data, the specific calculations or other procedures performed, and the output of data or reports. Processing documents should be readily available for staff to complete their daily job tasks.

Recommendation

We recommend Personnel finalize all system documentation associated with personnel actions and the processing of PAN documents. Also, Personnel should update HRG training materials to accurately reflect the processing of holiday pay. Also, we recommend that Personnel thoroughly review their website to ensure that sufficient information is supplied for HRGs needing access to information quickly. Personnel should ensure HRGs are properly trained on the coding of sick leave time and informed not to use the replace function within KHRIS. We are aware Personnel is working to develop a variant to the ZTMQ0001 Quota Corrections query/report within KHRIS to ensure the use of this functionality is not used. We recommend Personnel implement this new variant as quickly as possible and monitor use of the replace functionality regularly. Personnel should also develop a report that would identify all changes made to state employee's benefit plans more than five months in the past to ensure all changes are reviewed for appropriateness.

Further, we recommend Personnel perform a review of all technical and functional documentation available within the KHRIS Solution Manager application, making necessary updates to accurately reflect current processing and program logic. In addition, all technical documents associated with OMS should be updated to accurately reflect how errors are generated and displayed. Also, the Equipment Usage Interface to OMS function specification document should be reviewed and updated to ensure the references used for the 'MILESUSED' and 'HOURS-USED' target fields are accurate. Finally, HRG training materials should be reviewed and updated to ensure the explanation of how holiday leave is paid to employees to accurate. The individual responsible for updating the documentation should identify each change and provide a date in which the update was made, or the date of the last review, if no changes were required. These documents should be updated on a regular basis going forward, or as necessary based on changes made to KHRIS processing.

Management's Response and Corrective Action Plan

The Personnel Cabinet appreciates the Auditor's Office's comments and recommendations to ensure appropriate and accurate documentation is in place related to system documentation, training materials and business processes. Significant efforts have been made over the last year to address the concerns identified. This is a considerable ongoing effort as operational support and project-related initiatives are ever evolving. HRG training materials are updated on a quarterly basis as needed. When interim changes need to be addressed, DEM leverages multiple avenues by which to communicate including, but not limited to, DEM newsletters, the HR

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-PC-37: The Personnel Cabinet Did Not Maintain Current System Documentation To Support Processing Performed By The Kentucky Human Resource Information System (Continued)**

Management's Response and Corrective Action Plan (Continued)

Administrators SharePoint site, email notifications and additional training materials. An overview of the SharePoint site is now provided during HRG Training, and the "Find It" functionality on the site also assists the user in locating documents on specific topics. Training materials and exercises are in place to instruct users on how to accurately reflect holiday pay for processing. Documentation and training also exist to ensure HR Administrators and Timekeepers/Administrators are properly trained on the coding of sick leave time and instructed not to use the "replace" functionality with regards to Quota Corrections. DTS has developed a variant to the ZTMQ0001 query/report for DEM to identify any misuse of this functionality so that it can ensure the appropriate oversight. As it relates to finalizing all system documentation associated with personnel actions and the processing of PAN documents, this is a work in progress. A target date for completion is not available at this time.

We appreciate the APA's recommendation to develop a report that would identify all changes made to state employee's benefit plans more than five months in the past to ensure all changes are reviewed for appropriateness. We are now requiring the Agency User to submit a TFS ticket to request the change. A report can be generated to reflect tickets of this nature. If the change is approved, the request and corresponding data are logged in a spreadsheet for reporting purposes. Additionally, if the requested change initiates rescission benefits, it is tracked in DEI's Rescission Log so that is monitored and managed appropriately.

As it relates to KHRIS System Documentation, functional and technical specs have been reviewed and updated accordingly. Changes in how they are classified were revised this year, in response to the initial finding, to add clarity and eliminate those documents that existed during the project implementation stages that were not utilized. DTS resources make every effort to ensure spec documents are updated as changes are made. These documents are noted appropriately with date and User ID of the individual making changes.

Thank you for your continued efforts to ensure proper system controls are in place in KHRIS.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-REV-38: The Department Of Revenue Did Not Adequately Protect Sensitive And Confidential Data

Our fiscal year (FY) 2013 audit revealed weaknesses in the Department of Revenue's (DOR) internal controls involving the security of confidential and sensitive data. It was revealed that data was not adequately protected from potential intentional or unintentional access or misuse of information, whether internal or external. DOR and the Commonwealth Office of Technology (COT) recently initiated a project to determine the steps necessary to address these significant control weaknesses.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, the Auditor of Public Accounts (APA) office thoroughly discussed this issue with DOR and COT.

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. This significant type of control weakness could potentially be exploited either internally or externally.

Sensitive or confidential data should be protected from unauthorized internal or external users or from exposure to the general public. According to the Internal Revenue Service (IRS) Publication 1075, Federal Tax Information (FTI) must be protected when being stored, accessed, or transmitted electronically due to its sensitive and confidential nature. Further, the National Institute of Standards and Technology (NIST) Publication 800-111 states, "[m]any threats against end user devices could cause information stored on the devices to be accessed by unauthorized parties. To prevent such disclosures of information, particularly of personally identifiable information (PII) and other sensitive data, the information needs to be secured."

Recommendation

We recommend DOR and COT continue to work toward the completion of the project to address these control weaknesses. DOR and COT management should expedite the project to ensure confidential and sensitive data is sufficiently protected and ensure the project remains a top priority. Management should ensure sufficient resources are dedicated to complete this project in a timely manner.

Management's Response and Corrective Action Plan:

The Department of Revenue will continue to work with COT and the IRS to address all identified concerns.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-39: The Transportation Cabinet Did Not Have A Process In Place For Ensuring Accurate And Complete Data Is Reported In The Year-End AFR 70 Forms**

The Transportation Cabinet's (TC) closing package forms AFR-70A *Summary of Contingent Liabilities and Judgments* and AFR-70B *Detail of Contingent Liabilities and Judgments Paid* are prepared by the Division of Accounts (DOA) based on the information that is provided by the Office of Legal Services (OLS). During FY 2012, auditors noted three closed cases for which a total of \$106,000 was paid, but not reported on the AFR 70 forms. Upon further inquiry, auditors were informed OLS reported only the amounts paid by OLS and not amounts paid by other departments in TC. As a result, the AFR 70 forms did not include the contingent liability payments for all departments within the cabinet and the AFR 70 forms were understated by \$106,000. The AFR 70 forms should include all contingent liabilities incurred in prior years and paid during the current year for the entire cabinet, regardless of the funding department.

For the FY 2013 audit, OLS did not provide a detailed schedule of what was incurred and paid during the year. A detailed report was not provided to DOA to assist in the preparation of the AFR 70 forms. To ensure accurate and complete information is reported on the AFR 70 forms, OLS should submit a quarterly report to DOA to report on the status of all judgments and contingent liabilities regularly even when no payments are made. OLS should provide a detailed report showing the status of each case reported on the AFR 70 forms.

Without detailed case information, we cannot determine if the amounts reported on the AFR 70 forms and in the attorney letter are accurate and complete. DOA personnel who prepare the AFR 70 forms cannot ensure accurate and complete financial information is reported to the Finance and Administration Cabinet.

Good internal controls dictate that accurate and complete financial reports are provided to DOA personnel who are responsible for preparing the year-end closing package and ensuring correct information is reported in the financial statements.

The instructions for completing the AFR 70 forms state,

Enter all amounts paid during the year. This includes payments for contingent liabilities/judgments recorded at June 30, 2012 (part of beginning balance) and for contingent liabilities/judgments incurred during the year (FY 2013). The total paid amounts should match the total of all paid amounts shown on AFR 70B.

Contingent liabilities should be broken down into those amounts which are (a) payable within one year, (b) payable in future periods, and (c) a combination of the two, which should be broken down between the two periods. Any payments made for either judgments or contingencies should be shown on form AFR 70B.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-39: The Transportation Cabinet Did Not Have A Process In Place For Ensuring Accurate And Complete Data Is Reported In The Year-End AFR 70 Forms (Continued)**

Recommendation

We recommend TC develop a process for ensuring accurate and complete data is reported in the year-end AFR 70 forms. We recommend OLS provide quarterly reports regularly and in sufficient detail to show the status of all judgments and contingencies.

Management's Response and Corrective Action Plan

Division of Accounts management met in May 2013 with representatives from the Office of Legal Services (OLS), Office of Human Resource Management (OHRM), and the Division of Right of Way (ROW) and established a quarterly reporting process to identify contingent liabilities. The Division of Construction will be sending quarterly reports as needed as well. OLS, OHRM, ROW and Construction have appointed a member of their staff to send the quarterly report to the Division of Accounts Assistant Director on the following dates: September 30; December 31; March 30; June 30. Those individuals will add a reminder to their outlook calendar to do so.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-40: The Commonwealth Office Of Technology Did Not Consistently Comply With The Adopted Password Policy In Relation To Machines Owned By The Transportation Cabinet**

While performing the Fiscal Year (FY) 2013 security vulnerability assessment of machines owned and/or managed by the Kentucky Transportation Cabinet (KYTC) and the Commonwealth Office of Technology (COT), we discovered instances where no authentication was required to allow an outside user to gain access either to information about the machine or to the service running on a designated port, which does not comply with the CIO-072 User ID and Password Policy adopted by KYTC. We determined 4 of the 158 machines scanned, or approximately 2.5 percent of the population, did not have sufficient authentication enabled on one or more ports. Each of these machines is managed by COT. All four machines allowed file uploading through anonymous access. One of these machines was reported on since the FY 2011 audit.

For security purposes, detailed information that would identify the specific machines contributing to these findings are being intentionally omitted from this comment. However, these issues were thoroughly documented and communicated to the appropriate agency personnel.

If a machine is allowed to provide excessive information associated with the machine to an anonymous user, then an intruder could potentially use this information to attempt to gain access to the machine or network; thereby allowing an authorized or unauthorized user to obtain and misuse critical agency data.

According to the CIO-072 User ID and Password Policy, “[a]ll users must have their identity verified with a Use ID and password (or by other means which provide equal or greater security) prior to being permitted to use hardware/software connected to the Kentucky Information Highway (KIH).”

Recommendation

We recommend KYTC, in coordination with COT, consistently comply with the CIO-072 User ID and Password Policy by ensuring all services available on infrastructure devices are secured through the use of a user ID and password. If a service cannot be secured, either due to software or business process limitations, these variations from the normal process should be documented.

Further, we recommend KYTC, in coordination with COT, ensure all services on the machines identified within this comment are secured.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-40: The Commonwealth Office Of Technology Did Not Consistently Comply With The Adopted Password Policy In Relation To Machines Owned By The Transportation Cabinet (Continued)**

Management's Response and Corrective Action Plan

Four of the devices in this finding are managed by COT.

Two of these devices could not be found on the network. Since the time of the audit and during the process of updates on two of the four devices a new IP address was also assigned. One of these devices was updated to configurable machine and was hardened when set up. A task was added to the service desk ticket requesting updated IP information on this device. A task has been requested for the other device as well, requesting both the IP and the device information. Updated information will be used to validate the device is hardened to specification.

One of the four devices is scheduled to be updated as the others and will be hardened during set-up. The configuration in the finding has been set to requested specifications until that time.

One of the findings has had a device changed since the time of the audit. The device was set according to these requested specifications as a response to the audit findings.

APPENDIX

COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2013

This report is available on our website, www.auditor.ky.gov in PDF format. For other requests, please contact Gregory Giesler, APA's Open Records Administrator, at (502) 564-5841 or gregory.giesler@auditor.ky.gov. If copies of the CAFR for FY 13 are required, please contact Lori H. Flanery, Finance and Administration Cabinet Secretary, at (502) 564-4240 or lori.flanery@ky.gov.

The list includes agencies receiving financial statement audits by the Auditor of Public Accounts or Certified Public Accounting firms (CPAs) used for preparing the Commonwealth's CAFR. Audit reports are available upon request to the respective agency.

Bluegrass State Skills Corporation
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Turnpike Authority of Kentucky
Room 78, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Transportation Cabinet
Kentucky Transportation Cabinet Worker's Compensation
200 Mero Street
Frankfort, Kentucky 40622

Kentucky Center for the Arts
5 Riverfront Plaza
Louisville, Kentucky 40202-2989

Kentucky Economic Development Finance Authority
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

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

Western Kentucky University
Vice President for Finance and Administration
1 Big Red Way
Bowling Green, Kentucky 42101-3576

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

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

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

Kentucky State Fair Board
Kentucky Fair and Exposition Center
P.O. Box 37130
Louisville, Kentucky 40233-7130

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority
100 Airport Rd.
Frankfort, Kentucky 40601

Kentucky Higher Education Student Loan Corporation
Financial Services Department
10180 Linn Station Road, Suite C200
Louisville, KY 40223

Kentucky Infrastructure Authority
1024 Capital Center Dr., Suite 340
Frankfort, Kentucky 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

Kentucky Local Correctional Facilities Construction Authority
Suite 261 Capitol Annex
Frankfort, Kentucky 40601

Kentucky Judicial Form Retirement System
P.O. Box 791
Frankfort, Kentucky 40602

University of Kentucky
301 Peterson Service Building
Lexington, Kentucky 40506-0005

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

Morehead State University
Office of Accounting and Budgetary Control
207 Howell-McDowell Administration Building
Morehead, Kentucky 40351-1689

Northern Kentucky University
Office of Business Affairs
Lucas Administration Center
726 Nunn Drive
Highland Heights, Kentucky 41099-8101

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

Kentucky Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, Kentucky 40601

Office of the Petroleum Storage Tank
Environmental Assurance Fund
81 C. Michael Davenport Boulevard
Frankfort, KY 40601

Kentucky Public Employees' Deferred Compensation Authority
101 Sea Hero Road, Suite 110
Frankfort, KY 40601-5404

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

Workers' Compensation Program
State Office Building, 3rd Floor
501 High Street
Frankfort, KY 40601

Kentucky Department of Labor - Special Fund
1047 US Highway 127 S, Suite 4
Frankfort, KY 40601

Kentucky Horse Park Foundation
4089 Iron Works Parkway
Lexington, Kentucky 40511

Kentucky River Authority
627 Wilkinson St.
Frankfort, KY, 40601

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

Kentucky Employees Health Plan
501 High Street
Frankfort, KY 40601

Kentucky Horse Park
4089 Iron Works Pkwy
Lexington, KY 40511

