

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

VOLUME II

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



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

March 27, 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 the Commonwealth of Kentucky-Volume II for the year ended June 30, 2013. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (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*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133*, federal award findings and questioned costs identified during our audit, and the summary schedule of prior audit findings.

The Auditor of Public Accounts also calculates a dollar threshold, based on OMB Circular A-133 guidance, to determine the federal programs to be audited for internal controls and compliance. For FY 2013, the threshold for auditing federal programs was \$27,927,354.

On behalf of the Office of Financial Audits of the Auditor of Public Accounts' Office, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Libby Carlin, Assistant Auditor of Public Accounts, or me.

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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INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2013**

Single Audit

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 contains elements required under OMB Circular A-133, including the *Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*, and the Schedule of Findings and Questioned Costs.

Schedule of Findings and Questioned Costs

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

Summary Schedule of Prior Audit Findings

Audit findings related to federal awards reported in the Schedule of Findings and Questioned Costs for FY 2012, as well as any previous federal awards findings that have not been resolved in the past three fiscal years, are reported in the Summary Schedule of Prior Audit Findings for FY 2013.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior audit finding was a material weakness, significant deficiency or a noncompliance. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Audit Approach

The scope of the statewide single audit for FY 2013 included:

Financial

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

Federal Awards

- An audit of compliance with the compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each major federal program; and
- Test of internal control over compliance in accordance with OMB Circular A-133.

Component Units

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending federal awards. The Commonwealth has elected to exclude component units from the statewide single audit, except as part of the audit of the basic financial statements. Thus, component units are not included in the report on compliance and internal control and corresponding Schedule of Findings and Questioned Costs. It should be noted, however, that 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.

LIST OF ABBREVIATIONS/ACRONYMS

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

AMLR	Abandoned Mine Land Reclamation Program
APA	Auditor of Public Accounts
ARRA	American Recovery and Reinvestment Act
CAFR	Comprehensive Annual Financial Report
CDBG	Community Development Block Grant
CDE	Chief District Engineer
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHFS	Cabinet for Health and Family Services
CR	Cash Receipt
CSEPP	Chemical Stockpile Emergency Preparedness Program
DCBS	Department of Community Based Services
DLG	Department for Local Government
DMA	Department for Military Affairs
DMS	Department for Medicaid Services
DWI	Department for Workforce Development
ECF	Electronic Case File
EEC	Energy and Environment Cabinet
eMARS	enhanced Management Administrative Reporting System
EMPG	Emergency Management Preparedness Grant
EOC	Emergency Operations Center
ERA	Eligible Recipient Agency
ESEA	Elementary and Secondary Education Act
FEMA	Federal Emergency Management Agency
FFATA	Federal Funding Accountability and Transparency Act
FFR	Federal Financial Report
FHWA	Federal Highway Administration
FSM	Family Support Memorandum
FSR	Financial Status Report
FSRS	FFATA Sub-Award Report System
FSS	Field Services Supervisor
FY	Fiscal Year
GAPS	General Administrative and Program Support
GEMW	Governor's Emergency Management Workshop
HMGP	Hazardous Mitigation Grant Program
IDEA	Individuals with Disabilities Act
IPA	Internal Policy Analyst
JV	Journal Voucher
KAR	Kentucky Administrative Regulations
KAMES	Kentucky Automated Management Eligibility System
KASES	Kentucky Automated Support and Enforcement System
KC	Kinship Care Program
KCHIP	Kentucky Children's Health Insurance Program

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

KDA	Kentucky Department of Agriculture
KDE	Kentucky Department of Education
KHRIS	Kentucky Human Resource Information System
KOHS	Kentucky Office of Homeland Security
KRS	Kentucky Revised Statutes
KY	Kentucky
KYEM	Kentucky Division of Emergency Management
KYTC	Kentucky Transportation Cabinet
MAP	Medical Assistance Program
MMIS	Medicaid Management Information Service
MUNIS	Municipal Uniform Information System
NSP	Neighborhood Stabilization Program
OIG	Office of Inspector General
O&M	Operations and Management
OMB	Office of Management and Budget
PA	Public Assistance
PMS	Payment Management System
PROC	Procurement
PSC	Personal Service Contract
RE	Receivable
RMS	Random Moment Sampling
SAS	Statewide Accounting Services
SEFA	Schedule of Expenditures of Federal Awards
SNAP	Supplemental Nutrition Assistance Program
SSWAK	Statewide Single Audit of Kentucky
TC	Transportation Cabinet
TEBM	Transportation Engineering Branch Manager
TWIST	The Workers Information System
U.S.	United States
USC	U.S. Code

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of Kentucky's (Commonwealth) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2013. The Commonwealth's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commonwealth's compliance.



Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance Required by OMB Circular A-133
(Continued)

Basis for Qualified Opinion on Foster Care Title IV-E and Adoption Assistance

As described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding CFDA 93.658 Foster Care Title IV-E as described in finding numbers 13-CHFS-42 for allowable costs/cost principles, 13-CHFS-43 for reporting, and CFDA 93.659 Adoption Assistance in finding numbers 13-CHFS-45 for eligibility and 13-CHFS-46 for reporting. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

Qualified Opinion on Foster Care Title IV-E and Adoption Assistance

In our opinion, except for the noncompliances described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost for the year end June 30, 2013.

Other Matters

The results of our auditing procedures also disclosed other instances of noncompliance, which are requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 13-CHFS-44, 13-CHFS-48, 13-CHFS-50, 13-CHFS-51, 13-CHFS-53, 13-CHFS-54, 13-DLG-55, 13-DLG-56, 13-DLG-57, 13-DMA-58, 13-DMA-59, 13-DMA-60, 13-DMA-61, 13-DMA-62, 13-DMA-63, 13-DMA-64, 13-DMA-65, 13-DMA-67, 13-DMA-68, 13-DMA-69, 13-EEC-70, 13-KDE-71, 13-KDE-72, 13-KDE-73 and 13-TC-75. Our opinion on each major federal program is not modified with respect to these matters.

The Commonwealth's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commonwealth's internal control over compliance with the types of requirements that could have a direct and material effect on each

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance Required by OMB Circular A-133
(Continued)

major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 13-CHFS-41, 13-CHFS-42, 13-CHFS-43, 13-CHFS-44, 13-CHFS-45, 13-CHFS-46 and 13-CHFS-47 to be material weaknesses.

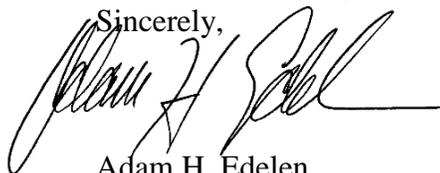
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items, 13-CHFS-48, 13-CHFS-49, 13-CHFS-50, 13-CHFS-51, 13-CHFS-52, 13-CHFS-53, 13-CHFS-54, 13-DLG-55, 13-DLG-56, 13-DLG-57, 13-DMA-59, 13-DMA-60, 13-DMA-61, 13-DMA-62, 13-DMA-63, 13-DMA-64, 13-DMA-65, 13-DMA-66, 13-DMA-67, 13-DMA-68, 13-DMA-69, 13-EEC-70, 13-KDE-71, 13-KDE-72, 13-KDE-73, 13-TC-74, 13-TC-75 and 13-TC-76 to be significant deficiencies.

The Commonwealth's responses to the internal control over compliance findings indentified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance Required by OMB Circular A-133
(Continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

March 7, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Financial Statements: We issued unmodified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2013.

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

Internal Control Over Financial Reporting: Our consideration of the Commonwealth's internal control over financial reporting disclosed 40 significant deficiencies.

Federal Awards

Compliance: We issued a qualified opinion on the Commonwealth's compliance with allowable costs/cost principles, eligibility and reporting requirements for two of its major federal programs. The results of our auditing procedures disclosed 29 instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. We believe four of these instances of noncompliance to be material.

Internal Control Over Compliance: Our consideration of the Commonwealth's internal control over compliance disclosed 35 significant deficiencies and seven material weaknesses.

Identification of Major Programs

The Commonwealth identified clusters by gray shading.

Major Type A programs

CFDA Program Title

Supplemental Nutrition Assistance Program Cluster:

10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Child Nutrition Cluster:

10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)**Identification of Major Programs (Continued)**Major Type A programs (Continued)

CFDA	Program Title
Community Development Block Grants - State-Administered	
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
14.255	ARRA-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
15.252	Abandoned Mine Land Reclamation (AMLR) Program
17.225	Unemployment Insurance
17.225	ARRA-Unemployment Insurance
Highway Planning and Construction Cluster:	
20.205	Highway Planning and Construction
20.205	ARRA-Highway Planning and Construction
20.219	Recreational Trails Program
Title I, Part A Cluster:	
84.010	Title I Grants to Local Educational Agencies
Special Education Cluster:	
84.027	Special Education _Grants to States
84.173	Special Education _Preschool Grants
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.268	Immunization Cooperative Agreements
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchange
Temporary Assistance for Needy Families Cluster:	
93.558	Temporary Assistance for Needy Families
Child Care and Development Block Grant Cluster:	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care_Title IV-E
93.659	Adoption Assistance
93.767	Children's Health Insurance Program

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)**Identification of Major Programs (Continued)**Major Type A programs (Continued)**CFDA Program Title**

Medicaid Cluster:

93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.778	ARRA-Medical Assistance Program

97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Major Type B programs**CFDA Program Title**

15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal
Mining

Emergency Food Assistance Cluster:

10.565	Commodity Supplemental Food Program
10.568	Emergency Food Assistance Program (Administrative Costs)
10.568	ARRA- Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)

97.039 Hazardous Mitigation Grant

97.040 Chemical Stockpile Emergency Preparedness

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

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$27,927,354.

Auditee Risk

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

SECTION 2 - FINANCIAL STATEMENT FINDINGS

See SSWAK Volume I for the FY 2013 Financial Statement Findings one through 40.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-41: The Cabinet For Health And Family Services Department For Community Based Services Lacks Controls Over The Overall Environment Of Its Title IV-E Foster Care And Adoption Assistance Programs**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.658 - Foster Care Title IV – E
CFDA 93.659 - Adoption Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles, Eligibility, and Reporting

Amount of Questioned Costs: \$ 0

Internal control over financial reporting and compliance is based on the overall control environment, which is the responsibility of management. This involves clear definitions of organizational structure, decision-making paths and authority, which are communicated in the form of internal control documents such as policies/procedures, guidelines, manuals and codes. The control environment also includes laws and external regulations.

During our audit of the Cabinet for Health and Family Services (CHFS), Department for Community Based Services (DCBS) for fiscal year ending June 30, 2013, we noted numerous material weaknesses and instances of non-compliance in internal controls related to the administration of Foster Care and Adoption Assistance Programs. The lack of an effective overall control system within CHFS, DCBS suggests that the overall environment of its Title IV-E Foster Care (Foster Care) and Adoption Assistance (Adoption Assistance) programs should be examined and considerations for change be implemented.

Examples of deficiencies noted in our audit include:

- Material correcting entries made in eMARS which lacked sufficient supporting documentation, as discussed in findings 13-CHFS-42 and 13-CHFS-44.
- Auditors were denied access to files necessary for the determination of federal compliance with respect to foster parent eligibility, as discussed in finding 13-CHFS-54.
- Ineligible individuals were claimed for federal reimbursement for Adoption Assistance, as discussed in finding 13-CHFS-45.
- Reports were submitted to the Federal Government that could not be tied to underlying accounting records, as discussed in findings 13-CHFS-43 and 13-CHFS-46.
- Records relating to payments and individuals under Foster Care and Adoption Assistance in The Workers Information System (TWIST) were incomplete and inaccurate, as discussed in finding 13-CHFS-47.

These weaknesses, presented in more detail in separate findings, indicate an overall need to review the control environment related to the management of these federal programs. Based on the overall lack of controls, or lack of effectiveness with the controls currently in place, we cannot determine that programs administered by DCBS comply with federal regulations regarding these programs. We will, therefore, issue a qualified opinion for the affected compliance requirements in each of the programs.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-41: The Cabinet For Health And Family Services Department For Community Based Services Lacks Controls Over The Overall Environment Of Its Title IV-E Foster Care And Adoption Assistance Programs (Continued)**

DCBS lacks internal controls necessary to ensure compliance with federal regulations with respect to the Foster Care and Adoption Assistance programs. The current practices created an environment for material noncompliance as described in detail in separate findings.

OMB Circular A-133 Part 6 states, “The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.”

Recommendation

We recommend DCBS strengthen internal controls over its administration of Foster Care and Adoption Assistance programs, implement the recommendations presented in the separately issued findings related to the Foster Care and Adoption Assistance programs, and incorporate those findings into an overall plan to improve the effectiveness of its grants management of these funds.

Sufficient implementation considerations of the primary objectives of an internal control system should be made to ensure (1) efficient and effective operations, (2) accurate financial reporting, and (3) compliance with laws and regulations.

Management’s Response and Corrective Action Plan

DCBS has addressed some of the deficiencies in this finding in the DCBS responses to items: 13-CHFS-42; 13-CHFS-44; 13-CHFS-54; 13-CHFS-45; 13-CHFS-46; 13-CHFS-43; and 13-CHFS-47; While a recent federal review of Title IV-E found Kentucky to be in substantial compliance, going forward the Department will focus upon areas of opportunities for improvement that were cited during this review.

Specifically, over the next twelve months the following actions will be undertaken in an effort to strengthen internal controls over the administration of the Foster Care and Adoption Assistance programs:

- *All audit findings will be reviewed and used to analyze technology systems to identify areas in which enhancements can be made to improve accuracy in data collection.*
- *A review of the policies and procedures of Foster Care and Adoption Assistance programs of other states will be conducted in an effort to identify best practices to inform and improve program administration and the policies and procedures of DCBS.*
- *Finally, DCBS will review the Foster Care and Adoption Assistance programs to identify gaps in training and understanding by staff to develop and implement policies to strengthen internal controls.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-42: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.658 - Foster Care Title IV - E

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Amount of Questioned Costs: \$ 1,436,331

The Title IV-E Foster Care program (Foster Care) operated by the Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place for expenditures and was not in compliance with federal regulations for allowable costs. During our audit of Foster Care for the fiscal year ending June 30, 2013, we reviewed transactions coded to federal funds, including payments to foster parents and correcting journal entries (JVs). We examined supporting documentation for those transactions that included invoices from foster parents and screenshots from TWIST, Foster Care's main computer system.

To ensure compliance with allowable cost principles for the Foster Care program was sufficiently performed, we reviewed 77 transactions from six regions.

We noted the following exceptions:

- One payment coded to the Foster Care program was an Adoption Assistance subsidy.
- Two payments did not agree to invoices and no documentation was provided to explain the discrepancies.
- Thirty-eight invoices did not have documented proper approvals before payment was made.
- Three JVs moving funds between state and federal funding, totaling a net increase in federal funds of \$1,435,641, did not have adequate supporting documentation.

There were no written policies and procedures for the payment and approval of Foster Care invoices which led to inconsistent practices for processing expenditure transactions. This can lead to incorrect payments and unallowable costs for the program.

Based on the document descriptions in eMARS, the three JVs were to reconcile or clear up the grant. The auditor noted the three journal vouchers did not have adequate documentation supporting the request for the JVs and no reference linking the JVs to the original transactions which would support allowable costs under grant program code. DCBS's significant reliance on information entered into eMARS for JVs for meeting all documentation requirements is the cause of inadequate documentation. Due to a lack of documentation, auditors were unable to determine the appropriateness of moving funds between state and federal funding and the costs being allowable under the grant.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-42: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program (Continued)**

OMB Circular A-133 Part 6 states, “The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.”

Good internal controls require that accounting transactions should be reviewed and approved by appropriate personnel before payment is made.

OMB Circular A-133 Compliance Supplement Part 4 states:

“Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the Title IV-E agency’s Foster Care maintenance payment rate schedule and in accordance with 45 CFR section 1356.21, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies. Such payments may include the cost of (and the cost of providing, including certain associated administrative and operating costs of an institution) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the reasonable travel for the child to remain in the same school he or she was attending prior to placement in foster care (42 USC 672(b)(1) and (2), (c)(2), and 675(4)).

Good internal controls require that accounting transactions should be supported by appropriate documentation. Further, the use of journal vouchers should be limited and should follow the same approval process as other expenditure documents at DCBS.

Recommendation

We recommend DCBS:

- Develop written policies and procedures for receiving, paying, and approving payments for the Foster Care program.
- Ensure that employees are trained in the policies and procedures developed for the payment and approving of expenditures.
- Update procedures for processing eMARS transactions including JVs to ensure transactions are thoroughly reviewed, appropriate supporting documentation is maintained to justify the purpose of a transaction, to document the transaction was coded appropriately in eMARS, and to document proper approvals were granted.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-42: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program (Continued)**

Management's Response and Corrective Action Plan

The 1 payment coded to the foster care program was coded in error as daycare; however, it was the pre-adoption subsidy payment for June 2012. The adoption was not finalized until 7/22/2013. Pre-adoption subsidies are allowable under foster care or adoption assistance. Therefore, notwithstanding the coding error, it was still allowable to be claimed as foster care maintenance. DCBS will reinforce and impress upon staff the importance of properly coding payments.

The discrepancies between the invoiced amounts and payment amounts were due to foster parents invoicing DCBS for incorrect numbers of days. Additional documentation is attached to provide explanation of the discrepancies. DCBS apologizes for the confusion. This information would have been shared with the auditors if it had been brought to the attention of staff earlier. DCBS will instruct all appropriate billing staff to properly document any necessary adjustments in payments on the corresponding invoices and to sign and date these documents.

3rd exception: DCBS will instruct all appropriate billing staff that all invoices must have documentation of proper approval before processing (i.e. all invoices must be signed and dated after review).

DCBS disagrees with the exception regarding JVs. Each quarter when the IV-E report is submitted to the federal government, backup documentation is sent to Atlanta. The Atlanta Office reviews the report and backup documentation and approves the report. The Atlanta Office then adjusts the federal grant award to match the approved federal reports on the next quarterly grant award.

The supporting documentation for the JV's is a spreadsheet that takes the federally approved IV-E claims from the IV-E reports and the expenditures in eMARS and calculates the amounts that need to be moved between state and federal. DCBS did not provide copies of the federal reports with the spreadsheet, because the APA already had copies of them as part of the audit this year and last year. The InfoAdvantage report was included in the supporting documentation.

Recommendation 1: DCBS has written policies and procedures for receiving, paying, and approving payments for the Foster Care program. DCBS will ensure appropriate billing staff has a copy of these policies and procedures.

Recommendation 2: DCBS will ensure appropriate billing staff has or receives training in the policies and procedures.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-42: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program (Continued)**

Management's Response and Corrective Action Plan (Continued)

Recommendation 3: The supporting documentation is embedded into the document in eMARS. DCBS has the authority to initiate JVs. General Accounting reviews the embedded documentation and approves the JVs. eMARS documents the approval by General Accounting through the Workflow - Track Work in Progress.

Auditor's Reply

Management's response indicates that the adoption subsidy payment was a pre-adoption expense and could be paid out of either foster care or adoption funds. The payment in question occurred four months after the adoption subsidy agreement was signed; all other adoption subsidy payments made to the adoptive parents before and after the one listed in the finding were charged to adoption and not to foster care. Further, we were informed by DCBS staff at the time documentation was requested that it had been a mistake and that a prior period adjustment would be included on the next Title IV-E Report submitted to decrease foster care and increase adoption by the amount of the error.

We understand that invoices submitted by foster parents are not always correct and that miscalculations occur. During our audit, we reviewed a number of invoices that had been corrected by DCBS staff at the local office before payment. The two invoices that did not agree to payments in TWIST, however, showed no signs of correction on them and also lacked any indication that they had been approved at the local office prior to the payment being made.

We reviewed the spreadsheets and Title IV-E Reports CHFS provided during the course of our audit and were unable to determine that the JVs were necessary or for the correct amount. The Title IV-E Reports as submitted agree to TWIST payments after significant adjustments are made to the original reports from TWIST during a 275-step manual process that covers over 20,000 transactions each quarter. The JVs in eMARS are later made so that eMARS agrees to the reports submitted to the federal government and to the adjusted TWIST reports. The JVs reviewed during the course of our audit moved \$10,587,612 from federal to state funds and \$12,023,253 from state to federal for a net increase in federal funds of \$1,435,641. We were unable to determine whether the adjustments to the original report were made correctly and cannot, therefore, determine that the JVs were accurate.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-43: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Title IV-E Foster Care Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.658 - Foster Care Title IV - E

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

The Title IV-E Foster Care program (Foster Care) operated by the Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place for reporting and was not in compliance with federal regulations for reporting. During our audit of Foster Care for the fiscal year ending June 30, 2013, we reviewed Title IV-E Reports for the quarters ending 9/30/2012, 12/31/2012, 3/31/2013, and 6/30/2013 submitted to the federal government. We examined supporting documentation for those reports that included random moment sampling (RMS) worksheets, Benefits worksheets, and correcting journal voucher (JV) documentation.

We found the following exceptions during our review:

- The individual line items on the reports cannot be traced back to the state's accounting system, eMARS, or TWIST, Foster Care's main computer system.
- The total of current quarter claims and prior quarter adjustments can only be traced to eMARS after multiple significant JVs are made to move funds between state and federal funding. Three of these JVs moving funds between state and federal funding, totaling a net increase in federal funds of \$1,435,641, were reviewed during the audit and did not have adequate supporting documentation to support their necessity. These JVs and their questioned costs are discussed in finding 13-CHFS-42.
- The DCBS employee in charge of reporting receives a report spreadsheet from the Department for Juvenile Justice (DJJ) documenting the Title IV-E claims to be included on the reports. The Policy Advisor uploads the data without the ability to verify the information is accurate and complete.
- After the auditor requested the reports and their supporting documentation, DCBS discovered a discrepancy of \$68,864 between eMARS and the amount reported on the 9/30/12 report for DJJ. DJJ was informed of the difference and made a correction in eMARS in February 2014 to agree the amount in eMARS to the report filed in October 2012.
- The reports and their supporting documentation are not adequately reviewed by appropriate personnel before submission to the federal government.

The written procedures for preparing the reports each quarter has approximately 275 steps. Many of these steps involve adjusting the reports run in TWIST to add and remove amounts and line items. The column in the TWIST report that details whether or not the individual is eligible and reimbursable for Title IV-E funds also has to be adjusted manually. The large number of manual corrections is due to

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-43: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Title IV-E Foster Care Program (Continued)**

incomplete and inaccurate data in TWIST. Due to the employee having to manually correct the amounts and the eligibility, the risk for errors and omissions increases.

Based on the document descriptions in eMARS, the three JVs were to reconcile or clear up the grant. The auditor noted the three journal vouchers did not have adequate documentation supporting the request for the JVs and no reference linking the JVs to the original transactions which would support allowable costs under grant program code. DCBS's significant reliance on information entered into eMARS for JVs for meeting all documentation requirements is the cause of inadequate documentation. Due to a lack of documentation, auditors were unable to determine the appropriateness of moving funds between state and federal funding and the costs being allowable under the grant.

The DCBS employee in charge of reporting relies solely on the information provided from another state agency without sufficient supporting documentation as a means of verification. The lack of supporting documentation creates the possibility of under-reporting or over-reporting.

The CHFS personnel who enter and approve the reports for submission to the Federal Government do not receive the supporting documentation showing adjustments made. The lack of review increases the risks for errors and omissions, especially when numerous manual adjustments are made to the underlying accounting data.

OMB Circular A-133 Part 6 states, "The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements."

Good internal controls dictate that the underlying accounting records are the basis for amounts reported to the Federal Government. Reliable and accurate accounting data also promotes operational efficiency. The foundation for a good internal control system begins with a minimum of reconciling amounts reported in financial reports to the accounting system.

Good internal controls also require accounting transactions to be supported by appropriate documentation. Further, the use of journal vouchers should be limited and should follow the same approval process as other expenditure documents at DCBS.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-43: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Title IV-E Foster Care Program (Continued)**

Recommendation

We recommend DCBS:

- Develop internal control procedures to ensure accurate and reliable information is reported on the Title IV-E Reports including having appropriate personnel review the reports and supporting documentation before submission.
- Ensure cases are being put into TWIST accurately and completely to decrease amount of manual corrections by staff.
- Update procedures for processing JVs to ensure transactions are thoroughly reviewed, appropriate supporting documentation is maintained to justify the purpose of a transaction, to document the transaction was coded appropriately in eMARS, and to document proper approvals were granted.

Management's Response and Corrective Action Plan

The IV-E claiming and reimbursement system is quite complex. States are required to claim maintenance based on each individual payment made to each individual child based on the child's IV-E eligibility status for that month of service and if the payment type is allowable. Every individual payment that has been claimed as IV-E can be traced to the TWIST payment report. The TWIST payment reports tie to the checkwriter documents that post in eMARS. A child's eligibility status can change from month to month due to numerous reasons. The percentage cost that is allowable changes every day. For example, if a child comes into foster care, a child leaves foster care, a child's eligibility status changes, or a child changes placement type, the percentage changes. Due to changing nature of the way the federal government has set up the Title IV-E Foster Care grant, DCBS uses an estimated federal percentage when paying foster care providers. After IV-E claim for the quarter has been submitted, a JV is done to correct federal expenditures from the estimated federal percentage to the actual IV-E federal maintenance claim amount.

For the administration and training claims, the federal government requires that DCBS perform a random moment sampling (RMS) to claim personnel and operating costs. This is part of the Department's federally approved cost allocation plan. The RMS cost pool ties to the expenditures in eMARS. The RMS applies the RMS percentages and Title IV-E penetration rates and calculates the amounts for the RMS administration and training claims. The other allowable expenditures that do not go through the RMS are added after applying the IV-E penetration rates. These expenditures come from either eMARS or the TWIST payment report. After the IV-E claim for the quarter has been submitted, a JV is done to correct federal expenditures from the estimated federal percentage to the actual IV-E federal administration and training claim amounts.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-43: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Title IV-E Foster Care Program (Continued)**

Management's Response and Corrective Action Plan (Continued)

Every state must follow a similar process such as JVs to match their accounting systems to their final claims. DCBS has undergone many IV-E reviews and has also undergone a Federal OIG audit, and none has indicated any problem with the reconciling JVs. If the JVs were never done, then eMARS would always be incorrect. If the grant would be overspent, federal revenue would never be drawn down for the amount overspent or the eMARS expenditures would be less than the federally approved claims and Kentucky would never be able to draw down the federal funds for the full amount of the final approved claims.

Every quarter when the IV-E report is submitted to the federal government, backup documentation is sent to Atlanta. The Atlanta Office reviews the report and backup and approves the report. The Atlanta office then adjusts the federal grant award to match the approved federal reports on the next quarterly grant award.

The supporting documentation for the JV's is a spreadsheet that takes the federally approved IV-E claims from the IV-E reports and the expenditures in eMARS and calculates the amounts that need to be moved between state and federal. DCBS did not provide copies of the federal reports with the spreadsheet, because the APA already had copies of them as part of the audit this year and last year. The InfoAdvantage report was included in the supporting documentation.

The reason why the instructions have so many steps is because these specific steps provide sufficient detail to complete the report from start to finish. The instruction could simply state: "adjust the rate payments for any unallowable bed holds" but that would not help anyone know how to make the necessary revisions. The instructions spell out the process step by step, so that one activity has 13 steps to it.

When a child comes into foster care, DCBS must determine the child's IV-E status. This involves securing personal information (Name, DOB, SSN, etc.), family income information, court documents, placement information, etc. Sometimes it takes a significant amount of time to obtain all the required information. Meanwhile DCBS must pay the foster parents or private child care agency that is taking care of the child. So for the children that still have documentation outstanding, payments show up as "pending". Between the time that the TWIST payment report is run on the day after the quarter ends and the IV-E report is filed, DCBS children's benefit workers are busy determining the IV-E status. In one month, about 500 status determinations will be made or redeterminations made for prior months. Additionally, the federal government requires that annual redeterminations be done on Title IV-E children to determine if there have been any changes to their status during the 12 month period. All of these factors require that manual changes be made to the payment records in order to accurately report allowable IV-E claims and to make prior quarter adjustments.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-43: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Title IV-E Foster Care Program (Continued)**

Management's Response and Corrective Action Plan (Continued)

DJJ had not completed its final reconciliation JV due to having to wait for the final adjusting grant award and also due to DJJ staff turnover. The QE 9/30/2012 report put Kentucky's total claims over the estimated grant award. Since the state cannot spend more the current grant award amount, DJJ was not able to JV the entire amount necessary to reconcile eMARS to their share of the final claim amount. By the time the federal government made the final reconciling grant award, the DJJ accountant had left the agency.

DCBS will begin sending the backup documentation that the federal government requires to the CHFS Division of General Accounting so that they can review it before entering, validating, and submitting the report.

Because of the manner in which the federal government has set up the claiming process for Title IV-E, there will always be manual changes to the eligibility status that must be made by staff.

The supporting documentation is embedded into the document in eMARS. DCBS has the authority to initiate JVs. General Accounting reviews the embedded documentation and approves the JVs. eMARS documents the approval by General Accounting through the Workflow - Track Work in Progress.

Auditor's Reply

We understand that some adjustments to original reports from the accounting systems may be necessary in certain cases. The Title IV-E Reports as submitted agree to TWIST payments after significant adjustments are made to the original reports from TWIST during a 275-step manual process that covers over 20,000 transactions each quarter. The JVs in eMARS are later made so that eMARS agrees to the reports submitted to the federal government and to the adjusted TWIST reports. The JVs reviewed during the course of our audit moved \$10,587,612 from federal to state funds and \$12,023,253 from state to federal for a net increase in federal funds of \$1,435,641. We reviewed the spreadsheets and Title IV-E Reports during the course of our audit and were unable to determine that the JVs were necessary or for the correct amount. We were unable to determine whether the adjustments to the original report were made correctly and cannot, therefore, determine that the JVs were made correctly. Since we cannot determine that the adjustments to the original report and the JVs were necessary and reasonable to accurately reflect the federal funds eligible to be reimbursed from the federal government, we cannot determine that the reports submitted to the federal government were accurate.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-44: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Did Not Comply With Federal Regulations For Allowable Costs For The Adoption Assistance Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.659 - Adoption Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles and Eligibility

Amount of Questioned Costs: \$ 1,961,695

The Title IV-E Adoption Assistance program (Adoption Assistance) operated by The Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place and was not in compliance with federal regulations for allowable costs. During our audit to ensure compliance for Adoption Assistance for the fiscal year ending June 30, 2013, we reviewed 65 expenditure transactions from 6 regions, including payments to adoptive parents and correcting journal entries (JVs). We examined supporting documentation for those transactions that included adoption assistance agreements and reports and screenshots from TWIST, Adoption Assistance's main computer system.

We noted the following exceptions:

- One state funded adoption payment of \$690 incorrectly reimbursed using federal Adoption Assistance funds.
- One payment to adoptive parents that did not match the contracted amount in the adoption agreement. Further investigation determined that the adoptive parents were paid the incorrect amount for all twelve months of the year, leading to an underpayment by DCBS of \$804. The document provided to support the payments was altered by whiting out the typed amount of \$757 and writing \$690 in pen.
- Five JVs totaling \$1,961,695 did not have adequate supporting documentation.

The monthly adoption subsidy payment was entered incorrectly in TWIST. The error was not caught or corrected, leading to the underpayment to the adoptive parents for the entire fiscal year.

A state funded adoption was incorrectly included on the report submitted to the federal government, leading to the adoption being incorrectly reimbursed by the federal government with Title IV-E funds.

Based on the document descriptions in eMARS, the five JVS were to reconcile or clear up the grant. The auditor noted the five journal vouchers did not have adequate documentation supporting the request for the JVs, no reference linking the JVs to the original transactions which would support allowable costs under grant program code. DCBS's significant reliance on information entered into eMARS for JVs for meeting all documentation requirements is the cause of inadequate documentation. Due to a lack of documentation, auditors were unable to determine the appropriateness of moving funds between state and federal funding and the costs being allowable under the grant.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-44: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Did Not Comply With Federal Regulations For Allowable Costs For The Adoption Assistance Program (Continued)

OMB Circular A-133 Part 6 states, “The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.”

42 USC §673 (a)(3) states:

The amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances...

Good internal control requires that accounting transactions should be supported by appropriate documentation. Further, the use of JVs should be limited and should follow the same approval process as other expenditure documents at DCBS.

Recommendation

We recommend DCBS:

- Develop written policies and procedures for receiving, paying, and approving payments for the Adoption Assistance program.
- Ensure that employees are trained in the policies and procedures developed for the payment and approving of expenditures.
- Update procedures for processing eMARS transactions including journal vouchers to ensure transactions are thoroughly reviewed, appropriate supporting documentation is maintained to justify the purpose of a transaction, to document the transaction was coded appropriately in eMARS, and to document proper approvals were granted.

Management’s Response and Corrective Action Plan

DCBS will correct and prepare a prior quarter adjustment to return the federal share of the incorrect Adoption Assistance payment, \$487 of the total cost of \$690.

There was no underpayment by DCBS to the adoptive parents. The agreement was incorrect. Staff will be instructed to not alter agreements when they are incorrect, but to obtain the adoptive parents’ signature on any new/corrected agreement.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-44: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Did Not Comply With Federal Regulations For Allowable Costs For The Adoption Assistance Program (Continued)**

Management's Response and Corrective Action Plan (Continued)

DCBS disagrees with the exception regarding JVs. Each quarter when the IV-E report is submitted to the federal government, backup documentation is sent to Atlanta. The Atlanta Office reviews the report and backup documentation and approves the report. The Atlanta Office then adjusts the federal grant award to match the approved federal reports on the next quarterly grant award.

The supporting documentation for the JV's is a spreadsheet that takes the federally approved IV-E claims from the IV-E reports and the expenditures in eMARS and calculates the amounts that need to be moved between state and federal. DCBS did not provide copies of the federal reports with the spreadsheet, because the APA already had copies of them as part of the audit this year and last year. The InfoAdvantage report was included in the supporting documentation.

Recommendation 1: DCBS has written policies and procedures for receiving, paying, and approving payments for the Adoption Assistance program. DCBS will ensure appropriate billing staff has a copy of these policies and procedures by June 2014.

Recommendation 2: DCBS will ensure appropriate billing staff has or receives training in the policies and procedures by June 2014.

Recommendation 3: The supporting documentation is embedded into the document in eMARS. DCBS has the authority to initiate JVs. General Accounting reviews the embedded documentation and approves the JVs. eMARS documents the approval by General Accounting through the Workflow - Track Work in Progress.

Auditor's Reply

Management's response indicates that the adoptive parents were not underpaid during the year and that the alteration was made to make the amount correct on the contract. We acknowledge that a contract signed after the end of the fiscal year under audit, in August 2013, was for \$690, the amount paid during the fiscal year under audit. We would like to reiterate, however, that the amount of the contract as signed by the adoptive parents was for \$757 per month and that federal law, as quoted in the criteria section, requires that adjustments to the amount must be agreed upon by both the state agency and the adoptive parents. The contract in effect for fiscal year 2013 showed no evidence of approval for the altered rate by the adoptive parents.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-44: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Did Not Comply With Federal Regulations For Allowable Costs For The Adoption Assistance Program (Continued)**

Auditor's Reply (Continued)

We reviewed the spreadsheets and Title IV-E Reports during the course of our audit and were unable to determine that the JVs were necessary or for the correct amount. The Title IV-E Reports as submitted agree to TWIST payments after significant adjustments are made to the original reports from TWIST during a 275-step manual process that covers over 20,000 transactions each quarter. The JVs in eMARS are later made so that eMARS agrees to the reports submitted to the federal government and to the adjusted TWIST reports. We were unable to determine whether the adjustments to the original report were made correctly and cannot, therefore, determine that the JVs were made correctly.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-45: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations And Did Not Comply With Federal Regulations For Eligibility For The Adoption Assistance Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.659 - Adoption Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$ 147,060

The Title IV-E Adoption Assistance program (Adoption Assistance) operated by the Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place for eligibility determinations and was not in compliance with federal regulations for eligibility. During our audit of Adoption Assistance for the fiscal year ending June 30, 2013, we reviewed adoption files and examined supporting documentation for these adoptions that included: Adoption Assistance Agreements, Title IV-E funding determinations, court documents, and evidence of termination of parental rights.

To ensure compliance with eligibility principles for the Adoption Assistance program was sufficiently performed, we reviewed 130 files from six regions. When testing showed that DCBS was not in compliance with federal regulations regarding eligibility, we decided to test an additional 20 files from one region.

We noted the following exceptions:

- Fourteen state funded adoption subsidies were claimed as Title IV-E subsidies for reimbursement from the federal government for a total of \$147,060.
- One adoption assistance application was missing from the file.

Cases are not being input into TWIST completely and accurately, requiring a large number of manual adjustments to be completed before reports can be submitted for federal reimbursement. The manual adjustment increases risk and the probability of errors. State funded adoptions were incorrectly included on the report submitted to the federal government, leading to the adoptions being incorrectly reimbursed by the Federal Government with Title IV-E funds. This led to likely questioned costs of \$1,925,777.

There is not a consistent way of filing the cases for the regions. This leads to the possibility of difficulty finding documents and lost documents.

OMB Circular A-133 Part 6 states, "The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements."

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-45: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations And Did Not Comply With Federal Regulations For Eligibility For The Adoption Assistance Program (Continued)

OMB Circular A-133 Compliance Supplement Part 4 states:

Adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:

- (1) Categorical Eligibility
 - (a) Applicable and Non-Applicable Children An applicable child is a child for whom an adoption assistance agreement was entered into in fiscal year (FY) 2010 or later and who meets the applicable age requirement (differs over a 9 fiscal year phase-in period beginning in FY 2010), or a child who has been in foster care under the responsibility of the Title IV-E agency for at least 60 consecutive months, or a sibling to either such child if both are to have the same adoption placement (42 USC 673(e)(2) and (e)(3)).
 - (b) Adoption agreements entered into prior to the beginning of FY 2010 , or agreements entered into during FY 2010 or thereafter for a “non-applicable child” The child is categorically eligible if:
 - (i) the child was eligible, or would have been eligible, for the former AFDC program
 - (ii) the child is eligible for SSI; or
 - (iii) the child is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent (42 USC 673(a)(2)(A)(i)(I)).
 - (c) Adoption agreements entered into during FY 2010 or thereafter for an “applicable child” the child is categorically eligible if the child:
 - (i) at the time of the initiation of adoption proceedings, was in the care of a public or private child placement agency by way of a voluntary placement, voluntary relinquishment or a court-ordered removal with a judicial determination that remaining at home would be contrary to the child s welfare; or
 - (ii) meets the disability or medical requirements of the SSI program; or
 - (iii) was residing with a minor parent in foster care (who was placed in foster care by way of a voluntary placement, voluntary relinquishment or court-ordered removal); or,

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-45: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations And Did Not Comply With Federal Regulations For Eligibility For The Adoption Assistance Program (Continued)**

- (iv) was eligible for adoption assistance in a previous adoption in which the adoptive parents have died or had their parental rights terminated.

Good internal controls require consistency in filing the cases and accuracy in the electronic TWIST cases, which is relied upon for federal reporting.

Recommendation

We recommend CHFS DCBS:

- Develop written policies and procedures for inputting cases into TWIST that include ensuring all necessary information is complete and accurate.
- Implement a system that ensures all files contain the documentation required.
- Stress the importance to agency personnel of filing and retaining all documents necessary for determining eligibility with Adoption Assistance.

Management's Response and Corrective Action Plan

DCBS agrees with this finding. With respect to the ineligible individuals for which reimbursement was claimed, these cases will be switched to state funding and prior period adjustments will be made to refund the federal share of the claims. The \$147,060 amount noted above is the total cost; \$103,982 is the federal share.

While there are policies and procedures in place to ensure accurate inputting of case information into TWIST and to ensure all files contain the documentation required to meet Title IV-E compliance, DCBS will reinforce with staff the importance of inputting, filing and maintaining accurate and proper documentation. In addition, the Child Welfare Fiscal Services Branch (CWFS) of the DCBS Division of Administration and Financial Management, responsible for determining the eligibility of the Title IV-E adoption cases, will be conducting an internal review by 6/30/14 of all adoption cases in the coming months to ensure all files contain the documentation required and to identify any areas for which DCBS may need to make improvements to ensure compliance with eligibility requirements.

Auditor's Reply

We appreciate DCBS's efforts to resolve the issue of adoptions being incorrectly claimed as federal going forward. We acknowledge that the Cabinet was reimbursed by the federal government for \$103,982 of the \$147,060 in questioned costs; however, the total of \$147,060 reflects the amount reported to the federal government on the Title-IV E Reports.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-46: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Adoption Assistance Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.659 - Adoption Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

The Adoption Assistance program (Adoption Assistance) operated by The Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place for reporting and was not in compliance with federal regulations for reporting. During our audit of Adoption Assistance for the fiscal year ending June 30, 2013, we reviewed Title IV-E Reports for the quarters ending 9/30/2012, 12/31/2012, 3/31/2013, and 6/30/2013 submitted to the federal government. We examined supporting documentation for those reports that included: RMS worksheets, Benefits worksheets, and correcting journal entry (JV) documentation.

We found the following exceptions during our review:

- The individual line items on the reports cannot be traced back to eMARS or TWIST (Adoption Assistance's main computer system).
- The total of current quarter claims and prior quarter adjustments can only be traced to eMARS after multiple significant JVs are made to move funds from state to federal funding. These JVs totaled \$1,961,695 and did not have sufficient documentation to support their necessity. These JVs and their questioned costs are discussed in more detail in the Allowable Cost finding 13-CHFS-44.
- Ineligible individuals were claimed for reimbursement during fiscal year 2013 for a total of \$147,060. These ineligible individuals and their associated questioned costs are discussed in the Eligibility finding 13-CHFS-45.
- The reports and their supporting documentation are not adequately reviewed by appropriate personnel before submission to the federal government.

The written procedures for preparing the reports each quarter has approximately 275 steps. Many of these steps involve adjusting the reports run in TWIST to add and remove amounts and line items. The column in the TWIST report that details whether or not the individual is eligible and reimbursable for Title IV-E funds also has to be adjusted manually. The large number of manual corrections is due to incomplete and inaccurate data in TWIST. Due to the employee having to manually correct the amounts and the eligibility, the risk for errors and omissions increases.

Based on the document descriptions in eMARS, the five JVS were to reconcile or clear up the grant. The auditor noted the five journal vouchers did not have adequate documentation supporting the request for the JVs, no reference linking the JVs to the original transactions which would support allowable costs under grant program code. DCBS's significant reliance on information entered into eMARS for

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-46: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Adoption Assistance Program (Continued)**

JVs for meeting all documentation requirements is the cause of inadequate documentation. Due to a lack of documentation, auditors were unable to determine the appropriateness of moving funds between state and federal funding and the costs being allowable under the grant.

The CHFS personnel who enter and approve the reports for submission to the Federal Government do not receive the supporting documentation showing adjustments made. The lack of review increases the risks for errors and omissions, especially when numerous manual adjustments are made to the underlying accounting data.

OMB Circular A-133 Part 6 states, "The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements."

Good internal controls dictate that the underlying accounting records are the basis for amounts reported to the Federal Government. Reliable and accurate accounting data also promotes operational efficiency. The foundation for a good internal control system begins with a minimum of reconciling amounts reported in financial reports to the accounting system.

Good internal controls also require accounting transactions to be supported by appropriate documentation. Further, the use of journal vouchers should be limited and should follow the same approval process as other expenditure documents at DCBS.

Recommendation

We recommend DCBS:

- Develop internal control procedures to ensure accurate and reliable information is reported on the Title IV-E Reports including having appropriate personnel review the reports and supporting documentation before submission.
- Ensure cases are being put into TWIST accurately and completely to decrease amount of manual corrections by staff.
- Update procedures for processing JVs to ensure transactions are thoroughly reviewed, appropriate supporting documentation is maintained to justify the purpose of a transaction, to document the transaction was coded appropriately in eMARS, and to document proper approvals were granted.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-46: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Adoption Assistance Program (Continued)**

Management's Response and Corrective Action Plan

The IV-E claiming and reimbursement system is quite complex. States are required to claim maintenance based on each individual payment made to each individual child based on the child's IV-E eligibility status for that month of service and if the payment type is allowable. Every individual payment that has been claimed as IV-E can be traced to the TWIST payment report. The TWIST payment reports tie to the checkwriter documents that post in eMARS. The percentage cost that is allowable changes every day. For example, if a child gets adopted, a child's subsidy stops, or a child turns 18, the percentage changes. Due to the changing nature of the way the federal government has set up the Title IV-E Adoption Assistance grant, DCBS uses an estimated federal percentage when paying adoptive parents. After IV-E claim for the quarter has been submitted, a JV is done to correct federal expenditures from the estimated federal percentage to the actual IV-E federal maintenance claim amount.

For the administration and training claims, the federal government requires that DCBS perform a random moment sampling (RMS) to claim personnel and operating costs. This is part of the Department's federally approved cost allocation plan. The RMS cost pool ties to the expenditures in eMARS. The RMS takes the RMS percentages and Title IV-E penetration rates and calculates the amounts for the RMS administration and training claims. The other allowable expenditures that do not go through the RMS are added after applying the IV-E penetration rates. These expenditures come from either eMARS or the TWIST payment report. After the IV-E claim for the quarter has been submitted, a JV is done to correct federal expenditures from the estimated federal percentage to the actual IV-E federal administration and training claim amounts.

Every state must follow a similar process such as JVs to match their accounting systems to their final claims. DCBS has undergone many IV-E reviews and has also undergone a Federal OIG audit, and none has indicated any problem with the reconciling JVs. If the JVs were never done, then eMARS would always be wrong. If the grant would be over spent, federal revenue would never be drawn down for the amount overspent or the eMARS expenditures would be less than the federally approved claims and Kentucky would never be able to draw down the federal funds for the full amount of the approved claims.

Every quarter when the IV-E report is submitted to the federal government, backup documentation is sent to Atlanta. The Atlanta Office reviews the report and backup and approves the report. The Atlanta office then adjusts the federal grant award to match the approved federal reports on the next quarterly grant award.

The supporting documentation for the JV's is a spreadsheet that takes the federally approved IV-E claims from the IV-E reports and the expenditures in eMARS and calculates the amounts that

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-46: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Adoption Assistance Program (Continued)**

Management's Response and Corrective Action Plan (Continued)

need to be moved between state and federal. DCBS did not provide copies of the federal reports with the spreadsheet, because the APA already had copies as part of the audit this year and last year (the InfoAdvantage report was included in the supporting documentation).

DCBS will begin sending the backup documentation that the federal government requires to the CHFS Division of General Accounting so that the Division may review the information before entering, validating, and submitting the report.

The supporting documentation is embedded into the document in eMARS. DCBS has the authority to initiate JVs;. General Accounting reviews the embedded documentation and approves the JVs. eMARS documents the approval by General Accounting through the Workflow - Track Work in Progress.

With respect to the ineligible individuals for which reimbursement was claimed, these cases will be switched to state funding and prior period adjustments will be made to refund the federal share of the claims. The \$147,060 amount noted above is the total cost; \$103,982 is the federal share.

As iterated in another specific finding, while there are policies and procedures in place to ensure accurate inputting of case information into TWIST and to ensure all files contain the documentation required to meet Title IV-E compliance, DCBS will reinforce with staff the importance of inputting, filing and maintaining accurate and proper documentation. In addition, the Child Welfare Fiscal Services Branch (CWFS) of the DCBS Division of Administration and Financial Management, responsible for determining the eligibility of the Title IV-E adoption cases, will be conducting an internal review of all adoption cases in the coming months to ensure all files contain the documentation required and to identify any areas for which DCBS may need to make improvements to ensure compliance with eligibility requirements.

Auditor's Reply

We appreciate DCBS's efforts to resolve the issue of adoptions being incorrectly claimed as federal going forward. We acknowledge that the Cabinet was reimbursed by the federal government for \$103,982 of the \$147,060 in questioned costs; however, the total of \$147,060 reflects the amount reported to the federal government on the Title-IV E Reports.

We understand that some adjustments to original reports from the accounting systems may be necessary in certain cases. The Title IV-E Reports as submitted agree to TWIST payments after

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-46: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Adoption Assistance Program (Continued)**

Auditor's Reply (Continued)

significant adjustments are made to the original reports from TWIST during a 275-step manual process that covers over 20,000 transactions each quarter. The JVs in eMARS are later made so that eMARS agrees to the reports submitted to the federal government and to the adjusted TWIST reports. We reviewed the spreadsheets and Title IV-E Reports during the course of our audit and were unable to determine that the JVs were necessary or for the correct amount. We were unable to determine whether the adjustments to the original report were made correctly and cannot, therefore, determine that the JVs were made correctly. Since we cannot determine that the adjustments to the original report and the JVs were necessary and reasonable to accurately reflect the federal funds eligible to be reimbursed from the federal government, we cannot determine that the reports submitted to the federal government were accurate.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-47: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.658 - Foster Care Title IV – E
CFDA 93.659 - Adoption Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles, Eligibility and Reporting

Amount of Questioned Costs: \$ 0

The Title IV-E Adoption Assistance (Adoption Assistance) and Foster Care programs operated by the Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have adequate internal controls in place for The Workers Information System (TWIST). During our audit of the programs for the fiscal year ending June 30, 2013, we reviewed case files at six local DCBS offices.

We noted the following exceptions during our review of 150 Adoption Assistance case files:

- One hundred fifteen missing Title IV-E statuses in TWIST;
- Five missing Social Security Numbers (SSN) in TWIST;
- Fourteen differences between the name in the files and the name in TWIST;
- Ten region or county locations incorrect in TWIST;
- Five differences between the SSN in the files and the SSN in TWIST; and
- One individual listed in TWIST five times with four of the five accounts blank.

In addition, three Adoption Assistance subsidy funding sources out of six reviewed in TWIST were incorrect.

We noted the following exceptions during our review of 120 Foster Care case files:

- Ten missing Social Security Numbers in TWIST
- Nine differences between the name in the files and the name in TWIST
- Four region or county locations incorrect in TWIST

We also reviewed reports from TWIST showing payments made for the programs throughout the fiscal year. It was observed that numerous spaces in the report columns for Title IV-E status, Social Security Numbers, and Funding Source were blank. It is apparent, therefore, that the issues with blank and incorrect information in TWIST are pervasive and not limited to the items reviewed during our testing of the case files.

Cases are not being inputted into TWIST accurately and completely. Also, cases are not being updated when there are changes to the case file. DCBS relies on TWIST for information on individuals in the Foster Care and Adoption Assistance programs, making payments, and reporting to the Federal

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-47: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System (Continued)

Government. This creates difficulty in finding physical files as well as cases in TWIST, possibility of file mix-ups, and inaccurate information. A large number of manual corrections are made to reports generated in TWIST before reports are submitted to the Federal Government because of the inaccuracies in the system. Due to personnel having to manually correct the amounts and the eligibility, the risk for errors and omissions increases.

OMB Circular A-133 Part 6 states, “The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.”

Recommendation

We recommend CHFS DCBS:

- Develop internal control procedures to ensure accurate and reliable information is imputed into TWIST.
- Ensure cases are being put into TWIST correctly and completely.
- Ensure that cases are being updated in TWIST when there are changes, which would significantly decrease the need for so many manual corrections/changes.

Management’s Response and Corrective Action Plan

DCBS respectfully disagrees with this finding and believes adequate internal controls are in place for The Workers Information System (TWIST) and that case information is inputted and updated appropriately in TWIST. The following are explanations for the exceptions noted.

Adoption Assistance

Exception 1: The Title IV-E Status column is utilized and displays foster care eligibility. Adoption Assistance eligibility is not performed in these TWIST screens. The only time that an adoption payment displays a IV-E status in that column on the TWIST report is when the TWIST Adoption case is using the same Child ID number that the TWIST Foster Care case was using. The majority of the time, after an adoption is finalized, the TWIST Adoption case will use a new Child ID number. Since the new Child ID number was not used in the foster care case, the Title IV-E Status is blank.

Exception 2: Due to the nature of the work, there could be lag times between the time in a case is opened and information being gathered and entered in TWIST. Therefore, this comparison of information from TWIST reports that were 6 to 18 months old to case files that are current may be attributable to the missing information the auditor noted, as updates to the case have

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-47: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System (Continued)**

Management's Response and Corrective Action Plan (Continued)

occurred. For example, 2 of the children that had a missing SSN on the quarterly report from which their sample was taken now have SSNs in TWIST.

Exception 3: The majority of the children have their birth surname (and even first name) changed when adopted. Pre-adoption subsidies begin being paid under the child's birth name, with payments being made under the new adopted name after the adoption is finalized. The passing of time from the date a case is opened and all relevant information being gathered and entered in TWIST could account for the discrepancies noted in this exception, as updates to the case have subsequently been made. The audit sample included data from reports that is 6 to 18 months old, meaning a payment may have been pulled under the birth name and subsequent to this (since this quarterly report was completed), TWIST and the case file may have been updated with the new adopted name.

Exception 4: The county field on the TWIST report is reflective of the county of the Case Manager (and not necessarily the county in which the child lives). To elaborate, the child comes into foster care through an investigation and that is where the case management is assigned. Once the child enters placement, that placement will likely be in a different county. The county data entered informs the region data input in the region field on the TWIST report and is utilized to provide regional data that can be given to management for information and tracking purposes. (DCBS would note that neither the county nor region fields affect the Title IV-E reports. All amounts and child counts are done at the statewide level.)

Again, the passing of time from a case being opened and information being gathered and entered in TWIST could account for the discrepancies noted in this exception, as updates to the case may have been made. As the data sampled may have been from reports 6 to 18 months old, this could have included a payment issued under a certain county. Subsequent to this time (since this quarterly report was completed), the case may have been transferred to a different county and TWIST updated accordingly.

Exception 5: While not as common as name changes, some adoptive parents obtain new SSNs for their adopted children. Also, the passing of time from a case being opened and information being gathered and entered in TWIST may account for the discrepancies noted in this exception, as updates to the case may have been made. As the data sampled may have been from reports 6 to 18 months old, this could have included a payment issued under one SSN and subsequent to this time (since this quarterly report was completed), the TWIST and case may have been updated with the new SSN.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-47: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System (Continued)**

Management's Response and Corrective Action Plan (Continued)*Foster Care*

Exception 1: Almost all of cases with missing social security numbers in TWIST were cases involving children who were infants. Often times DCBS takes custody of infants immediately after birth prior to these children having been issued SSNs. In addition, if a child is in foster care for an extremely abbreviated period- of time (i.e. one week or less), the case will be closed before a worker has had an opportunity to obtain a SSN. It is not uncommon, due to the nature and dynamics of children coming into care in urgent situations, for the first few payments to be issued prior to a SSN being received and entered into TWIST. Hence, lag times may account for the discrepancies found in the comparison of information from TWIST reports that were 6 to 18 months old to case files that are current, as updates to the case have been made.

Exception 2: The majority of the discrepancies between the name in the file and the name in TWIST in foster care cases could be reflective of a child going by a nickname rather than a given name or the name that is on their birth certificate.

Exception 3: The county field on the TWIST report is reflective of the county of the Case Manager and not necessarily the county in which the child lives.

Auditor's Reply

The Title IV-E status column is the only column in the TWIST Report that relates to federal funding. Since the TWIST Report is the main source of information for the federal reports, it is important that information be complete and accurate. As noted in another Adoption Assistance finding relating to eligibility, 13-CHFS-45, we noted 14 state adoptions that were reimbursed by the federal government. We believe the incomplete Title IV-E status fields in TWIST contributed greatly to these adoptions being incorrectly claimed as federal.

We acknowledge that some of the differences in names and SSNs may be due to a lag between the time that the report was run and the time when the files were requested for the audit. We feel, however, that the number of exceptions is greater than would be expected under this theory, especially as the adoptive cases were chosen based on payments made during the year and not on new adoptions completed during the year, meaning that many adoptions reviewed were years old.

Of the 10 foster children with missing SSNs, four were born during the fiscal year under audit and may not have had an SSN at the time the data was pulled. The other six, however, were born before the beginning of the fiscal year, one in 1994, and would have had enough time to be given a SSN.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-47: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System (Continued)**

Auditor's Reply (Continued)

Management's response that the name differences may be due to nicknames is unlikely as all nine of the incorrect names had last name discrepancies.

The incorrect regions or counties are based on replies sent to the auditors when requesting the samples for testing. All of the exceptions are due to local offices informing the auditors that the file in question was located in a different region. The sample was chosen by selecting foster children whose region in TWIST agreed to the regions chosen for testing by the auditors. The sample was not chosen based on foster parent address.

We would like to reiterate that the exceptions listed in the condition are only reflective of exceptions found during the testing of our audit sample. Reports from TWIST showing payments made for the programs throughout the fiscal year and covering all regions had numerous spaces in the report columns for Title IV-E status, Social Security Numbers, and Funding Source that were blank. It is apparent, therefore, that the issues with blank and incorrect information in TWIST are pervasive and not limited to the items reviewed during our testing of the case files.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-48: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 10.551 – Supplemental Nutrition Assistance Program

CFDA 10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

The Cabinet for Health and Family Services (CHFS) did not maintain adequate security over Electronic Benefit Transfer (EBT) cards utilized by Supplemental Nutrition Assistance Program (SNAP). The EBT cards are used to purchase food at authorized retail stores for eligible SNAP members. The EBT cards that are not mailed to the eligible member are maintained at the local Department of Community Based Service (DCBS) offices. It is the responsibility of CHFS and DCBS to maintain adequate security over, and documentation/records for these EBT cards to prevent theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation or improper use.

In fiscal year 2013 we tested compliance with the EBT card security in 15 locations within 13 counties to ensure proper security was maintained, proper issuance was performed, periodic balancing of EBT cards was completed, and proper destruction was performed. Each location tested had inadequate EBT security and were not following proper procedures implemented by DCBS. We noted the following exceptions:

- Two out of 15 locations failed to properly secure EBT cards by not completing proper documentation.
- Ten out of 15 locations failed to follow proper issuance procedures.
- Fifteen out of 15 locations failed to perform all required control procedures monthly to confirm the count of cards remaining in the office.
- Eight out of 15 locations failed to properly destroy EBT cards by ensuring the cards were destroyed timely and/or proper documentation was completed and maintained.
- Three out of 15 locations could not present for testing ten months, six months, and six months, respectively, of EBT card logs from the audit period.

This has been an ongoing problem since 2006.

Improper procedures are being followed in handling EBT cards. Management and staff members are not aware of correct procedures or the policies are not being enforced by DCBS. The documented policies at DCBS may be written appropriately, but without training or enforcement then the policy is ineffective. Without proper procedures being performed there is a risk the EBT cards could be stolen, misplaced, and improperly used.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-48: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)

7 CFR section 274.5(c) states:

EBT cards shall be considered accountable documents. The State agency shall provide the following minimum security and control procedures for these documents:

- (i) Secure storage;
- (ii) Access limited to authorized personnel;
- (iii) Bulk inventory control records;
- (iv) Subsequent control records maintained through the point of issuance or use; and
- (v) Periodic review and validation of inventory controls and records by parties not otherwise involved in maintaining control records.

The DCBS Operation Manual MS 0290 states:

The recipient has 30 days to pick up their EBT card in the local office. If they fail to pick up their EBT card within 30 days, the card must be destroyed.

To maintain the security of EBT cards in the local office:

A. The Field Services Supervisor (FSS):

- 1. Maintains overall responsibility for secure storage of EBT cards and logs;
- 2. Designates two individuals (Employee A and Employee B mentioned below) to handle, secure, issue, destroy and complete logs for EBT cards;
- 3. Ensures EBT cards are NEVER left unsecured;
- 4. Routinely inspects the secure storage area;
- 5. Destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged, or not picked up within 30 days;
- 6. Signs form EBT-5 at the time of destruction; and
- 7. Reviews and signs forms EBT-2, County EBT Card Log, and EBT-5 monthly to confirm the EBT cards remaining in the local office at the end of each month.

B. Employee A:

- 1. Has responsibility for receiving and securing EBT cards;
- 2. Ensures that the EBT cards are logged on form EBT-2 as received;
- 3. Obtains a card from the secure location and releases the card to Employee B at the time a recipient comes in to pick up the EBT card;
- 4. Records the release of each EBT card to Employee B on form EBT-2 daily; and

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-48: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

5. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.
- C. Employee B:
1. Has responsibility for releasing EBT cards to recipients;
 2. Obtains the appropriate EBT card from Employee A as recipients come in to the local office to pick up their card;
 3. Views one form of identification from the recipient picking up the card and documents the verification on form EBT-2;
 4. Requires the recipient to sign, not initial, form EBT-2 to confirm receipt of the EBT card in a manner which preserves the confidentiality of others listed on form EBT-2;
 5. Signs form EBT-2 to indicate that the recipient's EBT card was released; and
 6. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.
 7. Must be a staff member other than an eligibility worker or Supervisor (For example, a clerical staff member. In offices where there is no clerical staff, as long as there is a clear separation of duties from the worker who approved the case or the Supervisor who signed off on the case, it will be acceptable).
- D. Either Employee A or B and the FSS destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged or not picked up within 30 days, and signs form EBT-5 at the time of destruction.
- F. Ensure that the following action is taken at the end of each month:
1. Both Employees A and B sign forms EBT-2 and EBT-5;
 2. The FSS reviews and signs form EBT-2, comparing the list of outstanding cards to the cards remaining in the secure location; and
 3. Retain forms EBT-2 and EBT-5 in a county file.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-48: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

Recommendation

We recommend DCBS:

- Provide continuous training to county office personnel to effectively communicate all DCBS policies and procedures regarding EBT card security to ensure proper handling, issuances, and destruction of EBT cards - including the segregation of duties with receiving and issuing cards, timely destruction of cards, and the utilization of most current revisions of forms EBT-2 and EBT-5.
- Enforce the application of policies.

Management's Response and Corrective Action Plan

The Division of Family Support (DFS) has reviewed current EBT security policy and has determined that policy is clear and concise and no changes are needed at this time. DCBS has taken steps to address the issues identified, although some of the revised policies were only in effect for two months of the audit review period.

On March 22, 2013 a Family Support Memorandum (FSM) was issued to field staff regarding additional monitoring of the EBT security process. This process went into effect in May 2013 beginning with April's EBT-2 and EBT-5 logs. A report is currently system generated to identify cards sent to the local office. Each month, every local office submits the completed EBT-2 and EBT-5 logs to the Regional Office. Each of the nine Regional Offices submits these logs to the Nutrition Assistance Branch within DFS. As an additional level of review, the logs are cross checked with the report to ensure policy and procedures have been followed and that correct action is taken with the card. When discrepancies are identified during the review, contact is made to the regional office to inform them of the discrepancy so future discrepancies will be minimal. As mentioned above, this policy was only in effect for two months of the review period.

DCBS takes the findings of the APA very seriously. To reemphasize to field staff the importance of enforcing EBT security, DFS will issue a FSM restating policy and reinforcing the importance of staff following proper policies and procedures. This FSM will be issued no later than April 15, 2014. The Division of Service Regions, which has the responsibility of overseeing regional and field staff, will request that all Field Service Supervisors review EBT security policy at staff meetings to bring the seriousness of the issue to the attention of field staff.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-49: The Cabinet For Health And Family Services Did Not Properly Classify Expenditures For The Kentucky Health Benefit Exchange

State Agency: Office of the Kentucky Health Benefits Exchange

Federal Program: CFDA 93.525 - State Planning and Establishment Grants for the Affordable Care Act Exchanges

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$ 0

During the FY 2013 audit of the Cabinet for Health and Family Services (CHFS), Kentucky Health Benefit Exchange (KHBE) expenditures were tested to ensure they were coded to the correct fund and object code in eMARS (the statewide accounting system). KHBE is a new grant awarded to states to establish a website to serve as a marketplace for individuals and small businesses for obtaining insurance as required by the Affordable Care Act.

During our review, we found CHFS did not consistently charge like items in the same manner:

- Deloitte Consulting, LLP had 31 expenditures with the same commodity code: twenty five were capitalized, while the other six were not. Three different object codes were used: fifteen expenditures were coded to consulting services, seven to other professional services, and nine to miscellaneous expenditures.
- Frankfort Electric and Water Plant Board had 13 expenditures for monthly utility payments. Three of the payments were fully capitalized and three were not capitalized, while the remaining seven were partially capitalized.
- NTT Data Inc. had 162 expenditures with the same commodity code. Ninety Two of these were capitalized and 70 were not.
- Pomeroy IT Solutions Support had 181 expenditures with the same commodity code. One hundred twenty-one of these were capitalized and 60 were not. One payment was charged to miscellaneous expenditures, while the other 180 were charged to consulting services.
- Accenture, LLP had nine expenditures with the same commodity code, eight of the nine of which were capitalized. Two payments were coded in eMARS to consulting services, three to other professional services, and three to miscellaneous expenditures.

The KHBE was under the Office of Health Policy for part of the fiscal year until the Office of the Kentucky Health Benefit Exchange was established. The Office of Health Policy charged all expenditures to the federal fund to the specific object code for that expenditure. For example, the Frankfort Electric and Water Plant Board invoices were charged to the electricity object code. When the Office of the Kentucky Health Benefit Exchange took over operations, expenditures were charged to the capital projects fund with only four object codes available for use.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-49: The Cabinet For Health And Family Services Did Not Properly Classify Expenditures For The Kentucky Health Benefit Exchange (Continued)**

The Office of the Kentucky Health Benefit Exchange received invoices for approval. After approval they were sent to the Department of General Accounting (DGA) for further processing. DGA then entered the invoices into eMARS and the object code was left to the judgment of the DGA staff member who processed the payments.

KHBE is a new program. KHBE did not have appropriate written procedures in place to ensure expenditures were consistently coded to the accurate fund and object code. The lack of written procedures in place to determine how expenditures are coded could result in material misstatements and payments that should be capitalized not being capitalized.

Good internal controls dictate accounting policy manuals are in place to ensure proper accounting principles are applied and transactions are treated consistently. Written policies and procedures help prevent mistakes, ensure consistent treatment of transactions, and assist staff in training.

Recommendation

We recommend CHFS develop and adhere to written procedures for processing of invoices that ensures expenditures are being treated consistently.

Management's Response and Corrective Action Plan***Office of the Kentucky Health Benefit Exchange Response:***

The Office of the Kentucky Health Benefit Exchange (OKHBE) agrees with the APA's recommendation that OKHBE establish procedures and would like to note that this activity is already underway. OKHBE contracted with Accenture in March 2013 to develop operational policies and procedures and has also been utilizing existing state financial procedures for OKHBE financial operations incorporated into existing state processes. OKHBE will integrate additional procedures into the policies and procedures developed by Accenture to ensure proper transaction coding requirements are observed.

Although the auditor notated inconsistency in coding to the capital project versus non-capital expenses, it should be noted that the capital project was not approved until August 2012. Therefore, any expenditure prior to the beginning of the capital project was not coded as such. In addition, the OKHBE grant identified by major program 0530 was a continuation of Kentucky's planning grant and associated activities continued to be charged to the planning grant with fund 1200 instead of the capital project until those activities transitioned to development/implementation.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-49: The Cabinet For Health And Family Services Did Not Properly Classify Expenditures For The Kentucky Health Benefit Exchange (Continued)****Management's Response and Corrective Action Plan (Continued)**

In regards to the object code funding, OKHBE staff discussed with the auditor how the object code was originally assigned by the Division of General Accounting (DGA) when the payment was processed and Journal Vouchers (JVs) were requested for items coded incorrectly. Due to DGA's unfamiliarity with the program, OKHBE and Office of Administrative Technology Services (OATS) staff began labeling the object code on the invoice prior to submitting to DGA for payment beginning in August 2013.

OKHBE and OATS staff have been monitoring transactions processed for accuracy and requesting JVs be processed to correct any coding mistakes. After further review of the auditor's sample, staff have confirmed corrections were made to the object code inconsistencies notated for Deloitte Consulting, Pomeroy IT Solutions Support and Accenture expenditures. A workbook has been submitted to the auditor to show the transactions corrected and the associated JVs.

- Object code corrections were made for Deloitte Consulting and Accenture to change to professional services and for Pomeroy IT, the one miscellaneous transaction was changed to consulting services.*
- The Deloitte Consulting expenditures coded as non-capital are accurate. Two of the expenditures are for hosting environment and software licensing costs which were not included in the capital project. A workbook with the Deloitte Consulting system deliverables and an explanation of how the capital/non-capital costs are determined was forwarded to the auditor as requested on 1/24/14 which additional clarification sent on 1/24/14. The other four items are for services that were procured after the original contract was awarded and are not related to the eligibility and enrollment system build. Therefore these costs would not be charged as capital project expenditures.*
- The non-capitalized expenditures for NTT Data are correct in that these occurred prior to the establishment of the capital project and/or were a continuation of the planning grant activities.*
- The non-capitalized expenditures for Pomeroy IT Solutions Support are correct in that these occurred prior to the establishment of the capital project and/or were a continuation of the planning grant activities.*
- The non-capitalized expenditure for Accenture is correct in that this was a continuation of the planning grant activities.*

On February 20, 2014, the OKHBE received feedback from CCIIO regarding an onsite federal financial review that was conducted on December 13, 2013. The email from CCIIO stated in part "We would like to thank the kynect team for participating in the Financial Consult on December 13, 2013. We would also like to commend kynect on its operational progress to date. CCIIO applauds kynect for its achievements, including the development of a comprehensive financial plan for Exchange development, implementation and operations."

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-49: The Cabinet For Health And Family Services Did Not Properly Classify Expenditures For The Kentucky Health Benefit Exchange (Continued)**

Management's Response and Corrective Action Plan (Continued)

The OKHBE has been moving aggressively to meet federal timelines for development and operation of the health benefit exchange. As a result, OKHBE has been unable to focus its full attention on internal processes development and documentation until recently. The OKHBE will continue to improve upon existing policies and procedures and will incorporate additional information to strengthen financial transaction coding. The OKHBE will write and implement these new procedures within 60 days of the completion of the final audit report.

CHFS' Division of General Accounting Response:

CHFS does not agree with the findings concerning the Frankfort Electric and Water Plant Board expenditures. HBE portion of the utility expenditures were coded consistently. All HBE portions of the invoices for 100 Mill Creek #21 and #23 were coded to C6KA, E725. These invoices consist of multiple agencies and locations; therefore, not all of the expenditures pertain to HBE.

Auditor's Reply

We appreciate OKHBE's efforts to correct the coding in eMARS and acknowledge that the coding issue did improve in the last months of the fiscal year, although there were still inconsistencies throughout the entire fiscal year. We reviewed documentation for some JVs during the course of our audit, but were unable to determine that all necessary changes had been made. We would like to reiterate that the main issue discussed in the finding is that it was difficult to determine that charges were coded correctly as charges against the same contract with the same commodity codes were coded to different funds and different object codes without sufficient documentation to support the variations in coding.

The report of expenditures for the Frankfort Electric and Water Plant Board was generated by CFDA. We acknowledge that all expenditures to OKHBE were capitalized, however, the non-capitalized expenditures were all charged under the grant to the Office of Health Policy (OHP). These expenditures continued through April of 2013, after the capital project was approved and after OKHBE had been created. Further, the explanation provided by DGA adds confusion by calling into question whether or not the utilities for OHP should have been charged to the grant.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-50: The Cabinet For Health And Family Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.775- State Medicaid Fraud Control Units

CFDA 93.777- State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA 93.778- Medical Assistance Program

CFDA 93.778- ARRA - Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

The Department for Medicaid Services (DMS) is required to enter into agreements with providers of Medicaid services in accordance with state and federal regulations. Provider eligibility case files are imaged and stored in the OnBase application located within the Medicaid Management Information System (MMIS).

Providers must also be recredentialed at least every three years. Recredentiaing includes verification of professional license, submission of a disclosure of ownership, and sanction monitoring to determine if any sanctions have been levied against the provider.

For the FY 2013 Medicaid audit, we tested a sample of 60 provider case files in the OnBase application for compliance with Medicaid Provider Eligibility requirements and noted the following:

- Two providers did not have a provider agreement on file;
- One provider did not have a current professional license on file;
- One provider did not have verification of a National Provider Identifier (NPI) on file.

We recognize that, upon inquiry of the aforementioned exceptions, the agency was either able to obtain or is in the process of obtaining the missing documentation.

Proper procedures for provider eligibility determination and/or recredentiaing were not followed during the determination/recredentiaing process, including the imaging and retention of required documentation.

Proper documentation supporting provider eligibility was not available in the MMIS; therefore, we cannot verify that this information was available for use in the eligibility determination and/or recredentiaing process. Consequently, the risk that payment for Medicaid services could be made to providers which are ineligible to participate in the Medicaid program exists.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-50: The Cabinet For Health And Family Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program (Continued)

The Kentucky Medicaid State Plan states:

4.13 Required Provider Agreement

With respect to agreements between the Medicaid agency and each provider furnishing services under the plan:

- (a) For all providers, the requirements of 42 CFR 431.107 and 42 CFR Part 442, Subparts A and B (if applicable) are met.

Additionally, 42 CFR 431.107 requires:

- (b) *Agreements.* A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to:
 - (1) Keep any records necessary to disclose the extent of services the provider furnishes to beneficiaries;
 - (2) On request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit (if such a unit has been approved by the Secretary under § 455.300 of this chapter), any information maintained under paragraph (b)(1) of this section and any information regarding payments claimed by the provider for furnishing services under the plan;
 - (3) Comply with the disclosure requirements specified in part 455, subpart B of this chapter; and
 - (4) Comply with the advance directives requirements for hospitals, nursing facilities, providers of home health care and personal care services, hospices, and HMOs specified in part 489, subpart I, and § 417.436(d) of this chapter.
 - (5)(i) Furnish to the State agency its National Provider Identifier (NPI) (if eligible for an NPI); and
 - (ii) Include its NPI on all claims submitted under the Medicaid program.

Finally, 907 KAR 1:672 requires:

- (9) *Recredentialing.* A credentialed provider currently enrolled in the Medicaid Program shall submit to the department's recredentialing process three (3) years from the date of the provider's initial evaluation or last reevaluation.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-50: The Cabinet For Health And Family Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program (Continued)**

Recommendation

We recommend CHFS ensure all documentation required to support provider eligibility determination and recredentialing is obtained, imaged, and maintained on file with the DMS.

Management's Response and Corrective Action Plan

At the time the audit commenced, the APA was unable to locate required documentation in the On-Base system for four records out of the 60-record random sample. This reflects that DMS had a 93.33% success rate for accurate documentation. A Quality Assurance (QA) Imaging Plan was initiated in March 2012 and is performed monthly. This plan consists of performing quality reviews in a given month on a random sample of approximately 1% of providers whose applications were received, were enrolled or who had maintenance performed, such as a license update. This process determines if the required documentation for enrollment or the required documentation for performance of maintenance updates are imaged accurately in the On-Base system. At the same time, a quality review is also performed to ensure the reviewer properly enrolled the provider or performed the maintenance update. While DMS believes that the current QA Imaging Plan is sufficient, the agency is creating an Application Review Checklist for reviewers to utilize to confirm all documentation is present before an application is approved. The checklist will be implemented effective March 15, 2014.

The APA found two of the four records were missing a copy of the provider agreement. These providers enrolled in 1997 and 1998 which was well before the QA Imaging Plan. A copy of one provider's agreement was subsequently obtained and imaged into the system. The other provider was requested to send a copy of the current agreement, or to enter into a new one if the old one could not be found. DMS is following up with that provider. The APA also found one record was missing NPI verification; however, the verification was available and imaged. Lastly, at the time of the review one record was missing a current license. Due to the timeframe involved with renewing a license, DMS has a 60-day grace period for providers to update their license. If the license is not updated within the grace period, the provider is terminated. The APA's review occurred during the 60-day grace period. However, the current license was subsequently obtained and imaged.

DMS is currently undergoing a revalidation of all providers enrolled prior to March 2011. The revalidation process started in January 2014 and will be completed by March 2016. All providers will be revalidated every five years. It is the position of DMS that through the revalidation process, the QA Imaging Plan and the Application Review Checklist, DMS will ensure all required documentation appropriately reviewed and properly imaged in the system for all Medicaid providers.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-50: The Cabinet For Health And Family Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program (Continued)

Auditor's Reply

We appreciate DMS's efforts to improve the documentation available electronically and acknowledge some improvement in this area compared to last year's finding. We would like to repeat, however, that the documents listed as missing in the finding have not been provided to the APA and that DMS was given ample time to do so before the finding was issued.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-51: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.767- Children's Health Insurance Program

CFDA 93.775- State Medicaid Fraud Control Units

CFDA 93.777- State Survey and Certification of Health Care Providers and Suppliers

(Title XVIII) Medicare

CFDA 93.778- Medical Assistance Program

CFDA 93.778- ARRA - Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$ 0

During the FY 2013 audit of the Cabinet for Health and Family Services (CHFS) we tested member eligibility for the Kentucky Children's Health Insurance Program (KCHIP) and the Medical Assistance Program (MAP). The Department for Community Based Services (DCBS) determines eligibility for these programs per agreement with the Department for Medicaid Services (DMS).

To ensure compliance was achieved with respect to member eligibility guidelines, we reviewed case files for KCHIP and MAP. During testing it was determined that CHFS was not in compliance with federal regulations for member eligibility. Case files were not available for review in the Electronic Case File System (ECF) or local DCBS office and/or did not contain sufficient documentation supporting member eligibility determinations performed by DCBS personnel. The following exceptions were noted:

KCHIP

Sixty case files were selected for testing and 15 case files were noted as containing exceptions – two case files were not available for review and 13 case files did not contain sufficient documentation to support the member's eligibility.

MAP

Sixty case files were selected for testing and nine case files were noted as containing exceptions – each case file noted as containing exceptions did not contain sufficient documentation to support the member's eligibility.

Procedures for the retention of documentation supporting eligibility determinations were not properly followed.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-51: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations (Continued)**

Documentation supporting member eligibility determinations was not maintained and available for review; thus no assurance can be achieved as to the adherence to proper eligibility determination guidelines by DCBS personnel. Failure to follow proper eligibility determination and case documentation procedures leads to an increased risk that benefits are being issued to ineligible recipients.

42 CFR § 435.913 Case documentation states:

- (a) The agency must include in each applicant's case record facts to support the agency's decision on his application.

Recommendation

We recommend CHFS DCBS ensure that eligibility determinations for the Medical Assistance Program and Kentucky Children's Health Insurance Program be verified by adequate supporting documentation and this supporting documentation be properly maintained in the member's case file.

Management's Response and Corrective Action Plan

DCBS continues to identify and implement solutions to assure and improve quality management of cases, including case documentation. Electronic Case Files (ECF) has been in place statewide since June 2012, providing workers a paperless system where workers can scan documents at their desks and attach the scanned documents to an electronic case file. Once the ECF is originated and documents are attached, the possibility of a total loss of files is virtually eliminated. As the state is moving forward with the rollout of a new eligibility system for health programs, the ECF system is being modified to allow for a better workflow and better integrate with the new eligibility system. Effective July 2014, ECF will be fully integrated into the new health program eligibility. Additionally, the health program eligibility system will have enhancements made to better manage workloads and documents received in the local offices. By December 2015, all programs will become part of the new eligibility system. One benefit of the new ECF is that scanning and attaching a document is accomplished in one step rather than separate steps. This will both streamline the process for workers and reduce the possibility for human error.

DCBS completed its rollout of business process redesign statewide effective September, 2013. As part of DCBS' continuing efforts to improve business process, a workgroup comprised of both field and central office staff is convening to closely examine workflows specific to Adult Medicaid applications and case maintenance. Ensuring documentation is accurately filed and processed timely is one of the points of emphasis of this workgroup.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-51: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations (Continued)**

Management's Response and Corrective Action Plan (Continued)

In addition to the informal review process created through the business process redesign, DCBS has a formal Quality Control (QC) process, performed by the DCBS Division of Program Performance, to review Medicaid cases with Long Term Care and other vendor payments. Using a random sample, cases are reviewed to ensure eligibility was appropriately determined and all documentation is contained in the case record. This includes proper documentation for eligibility determinations. Field staff is required to follow-up and correct any cases found in error. As of state fiscal year 2014, the number of cases reviewed by QC was increased from 25 cases to 50 cases a month. The Division of Family Support (DFS) will follow up by April 15, 2014 to ensure regions have corrected the cases cited in this review, requesting any documentation not found in the ECF.

To reinforce the importance of maintaining proper case files, the Division of Service Regions is addressing this issue in the next Service Region Administrators' meeting scheduled for March, 2014. Additionally, the Division of Family Support (DFS) will place a news message on the Kentucky Automated Management Eligibility System (KAMES) regarding the importance of maintaining proper case files. KAMES is the automated system field staff uses to conduct eligibility determination for benefits. Placing news messages on KAMES is a tool used to communicate reminders and important information to field staff as the messages must be reviewed the first time a user logs on each day. This will be completed by April 1, 2014. As recommended, DFS will continue to meet with staff in the Training Branch to strategize ways in which the importance of maintaining proper case files can be emphasized when conducting program training.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-52: The Cabinet For Health And Family Services Did Not Comply With Cost Report Submission Guidelines For Inpatient Hospital And Long-Term Care Facility Cost Reports

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.775- State Medicaid Fraud Control Units

CFDA 93.777- State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA 93.778- Medical Assistance Program

CFDA 93.778- ARRA - Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

The Cabinet for Health and Family Services (CHFS) Department for Medicaid Services (DMS) is not in compliance with regulations governing the submission of cost reports for Inpatient Hospitals and Long-Term Care Facilities. These regulations, set forth by Kentucky Administrative Regulations, require applicable Medicaid providers to submit a cost report within five (5) months after the close the facility's fiscal year.

In a sample of 30 cost reports from hospitals and long-term care facilities, 14 cost reports were submitted after the statutory deadline of 5 months from facility year-end. It was noted that each of the 14 late cost reports were submitted within one week of the statutory deadline; while not significantly late, these reports did exceed the statutory deadline.

Providers did not adhere to and CHFS did not enforce guidelines outlined in the Kentucky Administrative Regulations for cost report submission.

Cost reports are not being submitted within 5 months of hospital year end as required by statute. Audits/desk reviews conducted on cost reports may be delayed when cost reports are not submitted timely. This could potentially lead to a delay in receiving accurate rate setting and analytical information.

Criteria setting forth the submission of cost reports stipulate the following:

907 KAR 10:815 Section 10 In-State Hospital Cost Reporting Requirements. (1)(a) A cost report shall be submitted: 1. For the fiscal year used by the hospital; 2. Within five (5) months after the close of the hospital's fiscal year.

907 KAR 1:065 Section 11 Cost Report. (1) A Medicare cost report and the Supplemental Medicaid Schedules shall be submitted pursuant to time frames established in the HCFA Provider Reimbursement Manual - Part 2 (Pub. 15-11) Section 102, 102.1, 102.3, and 104, incorporated by reference into this administrative regulation.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-52: The Cabinet For Health And Family Services Did Not Comply With Cost Report Submission Guidelines For Inpatient Hospital And Long-Term Care Facility Cost Reports (Continued)**

HCFA Provider Reimbursement Manual - Part 2 Section 104 (A)(1) Cost reports are due on or before the last day of the fifth month following the close of the cost reporting period.

Recommendation

We recommend CHFS emphasize the importance of timely cost report submission to providers and if necessary enforce all applicable penalties for the late submission of cost reports.

Management's Response and Corrective Action Plan

The Department for Medicaid Services (DMS) agrees with the findings of the auditor that show that 14 providers submitted cost reports up to one week late. DMS's resolution to these finding are as follows:

- 1. DMS will send out a letter to each provider at the end of the provider's fiscal year outlining the requirement for submitting a cost report including timely filing.*
- 2. Within this letter DMS will emphasize the penalties for not submitting cost reports timely.*
- 3. DMS will follow up with a reminder letter to each facility within two week of the facility's deadline for submitting the cost report.*
- 4. If the facility still fails to meet its filing deadline DMS will implement the penalties as outlined in regulation.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-53: The Cabinet for Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting

State Agency: Office of Policy and Budget

Federal Program: CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infant, and Children
CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.575 - Child Care and Development Block Grant
CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund
CFDA 93.658 - Foster Care Title IV – E
CFDA 93.767- Children’s Health Insurance Program
CFDA 93.775- State Medicaid Fraud Control Units
CFDA 93.777- State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
CFDA 93.778- Medical Assistance Program
CFDA 93.778- ARRA - Medical Assistance Program

Federal Agency: U.S. Department of Agriculture and U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

During the FY 2013 audit of the Cabinet for Health and Family Services (CHFS), the reporting of subawards for the Federal Funding Accountability and Transparency Act (FFATA) was reviewed to determine compliance with federal regulations. CHFS is required to report any subaward granted greater than \$25,000. The list of subawards granted by CHFS as of June 2013 was reviewed to ensure applicable subawards were accurately and timely reported to the FFATA Subaward Reporting System (FSRS). FSRS is the reporting tool used to capture and report subaward and executive compensation data regarding their first tier subawards to meet the FFATA reporting requirements. The subaward information is entered into FSRS and will then be displayed on www.USASpending.gov (USA Spending), which is then available to the public. We found the following during our review:

- The CHFS Policy Advisor in charge of FFATA reporting receives a spreadsheet from each department documenting the subawards that should be reported. The Policy Advisor uploads the data into FSRS without the ability to verify the information is accurate and complete.
- Three Medicaid/KCHIP awards were not submitted timely in FSRS.
- Fourteen WIC awards were not submitted timely in FSRS.

Although for FY13, the method of collecting and tracking data was not sufficient, we would like to note that beginning in FY 2014, a new method of collecting information used in reporting was implemented to include extraction from the contract universe of eMARS (the statewide accounting system) and all reports are tracked and available on the OPB SharePoint site.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-53: The Cabinet for Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting (Continued)**

CHFS did not have a proper tracking system in place to verify subawards that should be reported for FFATA. The CHFS Policy Advisor in charge of FFATA reporting relied solely on the information provided from each department without supporting documentation as a means of verification.

The lack of a tracking system makes it difficult to determine the accuracy and completeness of the subawards reported in FSRS and creates the possibility of either under-reporting or over-reporting and late reporting.

Good internal controls dictate that underlying accounting records are the basis for FFATA reporting.

2 CFR Part 170 – Reporting Subawards and Executive Compensation Information**Appendix A to Part 170 – Award term****I. Reporting Subawards and Executive Compensation.**

1. *Applicability.* Unless you are exempt as provided in paragraph d of this award term, you must report each action that obligated \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. *Where and when to report.*

- i. You must report each obligating action described in paragraph a.1. of this award term to <http://fsrs.gov>.
- ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

OMB Circular A-133 Compliance Supplement Part 3 states “the reporting must be accomplished by the end of the month following the month in which the reportable action occurred.”

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-CHFS-53: The Cabinet for Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting (Continued)**

Recommendation

We recommend CHFS:

- Develop internal control procedures to ensure accurate and reliable information is reported into the FSRS;
- Implement a tracking system to verify grant subaward information that is subject to FFATA Reporting; and
- Ensure FFATA reporting is completed on a monthly basis to comply with reporting requirements.

Management's Response and Corrective Action Plan

CHFS agrees with the recommendations and has developed internal control procedures to verify that accurate, reliable and complete subaward information is reported on a timely basis, to include monthly analysis and reporting to FSRS as required. As mentioned by the APA in its finding, beginning in FY 2014, CHFS employed a new method of collecting information used in reporting. This method includes extraction from the contract universe of eMARs (the statewide accounting system) and all reports are being tracked and available on the OPB SharePoint site. These revised procedures were fully implemented in July 2013 and are expected to significantly reduce the potential for reporting error. A tracking system for CHFS FFATA reporting is in place. CHFS staff members continue to work to identify revisions to improve effectiveness and efficiency in the FFATA reporting process, including the implementation of sub-recipient identification within the eMARS contract universe, which is expected to be fully effective with contracts beginning July 1, 2014.

Of the CFDA's listed in this Record of Control Weakness/Record of Noncompliance, 93.775 and 93.777 are not applicable for FFATA reporting purposes since sub-recipient relationships do not exist related to these CHFS funds.

Auditor's Reply

We acknowledge that CFDA numbers 93.775 and 93.777 had no sub-recipients during the fiscal year under audit; however, OMB Circular A-133 Part V requires that all CFDA numbers in a cluster be listed on findings in the Schedule of Findings and Questioned Costs

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-54: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Foster Parent Eligibility And Did Not Comply With Federal Regulations For Parent Eligibility For The Title IV-E Foster Care Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.658 - Foster Care Title IV – E

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$ 55,743

The Title IV-E Foster Care program (Foster Care) operated by The Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place for foster parent eligibility and was not in compliance with federal regulations for parent eligibility. During our audit of Foster Care for the fiscal year ending June 30, 2013, we examined supporting documentation for foster parent eligibility that included: Annual strength & needs assessments (ASNA), annual training, criminal background checks with fingerprinting, and criminal abuse & neglect checks (CAN).

We requested documentation for 78 foster parents from six regions. During our testing, after some documentation had already been provided, CHFS denied us access to the remaining documentation citing legal reasons. All of the documents requested had been provided in previous years to auditors with no issue occurring and the auditor requesting the documents had a signed Confidentiality Agreement on file with CHFS. Upon being provided a draft of the audit finding, CHFS provided additional documentation and explained the misunderstanding in its management's response presented below.

After taking into consideration all information provided by CHFS, including those items presented during the finding response period, we were unable to view the following documents:

- Twelve criminal background checks with fingerprinting
- Two CANs
- Four ASNA with approval letters

The documents needed for the foster parent eligibility review had been available in the Title IV-E files in previous years. A change during fiscal year 2013 caused copies of the documents to no longer be included in the Title IV-E files. After initially agreeing to provide the documents and providing some of the documents needed, DCBS later cited legal reasons in denying access to the rest of the documents. Without being able to view documentation, it is impossible to ensure federal compliance with Foster Care Parent eligibility requirements.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-54: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Foster Parent Eligibility And Did Not Comply With Federal Regulations For Parent Eligibility For The Title IV-E Foster Care Program (Continued)

922 KAR 1:490. Background checks for foster and adoptive parents, caretaker relatives, kinship caregivers, and reporting requirements states:

Section 7. Reevaluation.

- (1) An approved foster or adoptive parent and each adult member of the household shall submit annually, prior to or during the anniversary month of initial approval, to:
 - (a) A criminal records check as described in Section 2(1)(a) of this administrative regulation;
 - (b) A child abuse or neglect check conducted by the cabinet; and
 - (c) An address check of the Sex Offender Registry.

922 KAR 1:350. Family preparation states:

Section 9. Preparation and Selection of a Resource Home Parent.

- (1) The cabinet shall recruit a resource home and approve the resource home prior to the placement of a child.
- (2) A resource home applicant shall complete a:
 - (a) Minimum of thirty (30) hours of initial family preparation;

Section 15. Annual Resource Home Training Requirement.

- (1) Before the anniversary date of the original approval as a resource home, A resource home parent shall be required to complete:
 - (a) at least six (6) hours of annual cabinet-sponsored training or training approved in advance by the cabinet

OMB Circular A-133 Part 4 states:

The foster family home provider must satisfactorily have met a criminal records check, including a fingerprint-based check, with respect to prospective foster and adoptive parents 42 USC 671(a)(20)(A). This involves a determination that such individual(s) have not committed any prohibited felonies in accordance with 42 USC 671(a)(20)(A)(i) and (ii).

A Title IV-E agency must check, or request a check of, a state-maintained child abuse and neglect registry in each state the prospective foster and adoptive parents and any other adult(s) living in the home have resided in the preceding 5 years before the state can license or approve a prospective foster or adoptive parent.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-CHFS-54: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Foster Parent Eligibility And Did Not Comply With Federal Regulations For Parent Eligibility For The Title IV-E Foster Care Program (Continued)

KRS 43.080 Access to books and records -- Power to obtain testimony states:

- (1) The Auditor and his authorized agents shall have access to and may examine all books, accounts, reports, vouchers, correspondence files, records, money and property of any state agency. Every officer or employee of any such agency having such records or property in his possession or under his control shall permit access to and examination of them upon the request of the Auditor or any agent authorized by him to make such request.

Recommendation

We recommend DCBS allow auditors to view documentation necessary to determine compliance with state and federal regulations.

Management's Response and Corrective Action Plan

It is the policy of DCBS to cooperate fully with the auditor of public accounts. During this year's audit DCBS had new staff's functioning in new roles, which resulted in some confusion.

DCBS management incorrectly presumed that all documentation that had been requested related to foster parent eligibility had been provided and did not realize that the request had been only partially fulfilled. During the response period the outstanding documentation was provided to APA staff (The Department apologizes for this oversight on its part. We believe that with this submission, DCBS has provided the foster parent eligibility documentation requested by the APA.

DCBS would note that of the \$55,743 amount noted above, \$39,405 represents the federal share.

Kentucky recently underwent a federal Title IV-E review and was found to be in substantial compliance. "The purpose of the Title IV-E foster care review were (1) to determine whether Kentucky was in compliance with the eligibility requirements as outlined in statute and regulation at 472 of the Social Security Act and 45 CFR 1356.71 and (2) to validate the basis of Kentucky financial claims to ensure that appropriate payments were made on behalf of eligible children." The federal review consisted of review of 150 cases.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-CHFS-54: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Foster Parent Eligibility And Did Not Comply With Federal Regulations For Parent Eligibility For The Title IV-E Foster Care Program (Continued)**

Auditor's Reply

We appreciate the Cabinet's clarification of its policy and also its efforts to cooperate with the auditors' requests and to provide the missing documentation in a timely manner. Although the Cabinet indicated in its response that all missing information has been provided with the exception of one item, our review indicates exceptions still exist related to our testing. Upon our receipt of the additional information submitted by the Cabinet during the finding response period, we reviewed the documents and changed the number of exceptions originally reported as follows:

- Missing criminal back ground checks changed from 15 to 12,
- Missing CANs changed from eight to two,
- Missing ASNAs changed from eight to four,
- Removed the missing training logs exception entirely, and
- Changed the known and likely questioned costs from \$100,840 to \$55,743.

Further, once the fieldwork deadline for reporting management's responses ended, the agency attempted to provide further missing documents in an attempt to resolve the findings as noted above. We were unable to review those documents as they were received after the audit fieldwork date.

Finally, we acknowledge that the Cabinet was reimbursed by the federal government for \$39,405 of the \$55,743 in questioned costs; however, the total of \$55,743 reflects the amount reported to the federal government on the Title-IV E Reports.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DLG-55: The Department For Local Government Did Not Maintain Adequate Documentation To Support Journal Vouchers Involving Federal Funds**

State Agency: Department For Local Government

Federal Program: CFDA 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

CFDA 14.255 - ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Federal Agency: U.S. Department of Housing and Urban Development

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$ 132,347

During testing of Department for Local Government Community Development Block Grant and Neighborhood Stabilization Program allowable cost compliance, the auditor noted five journal vouchers missing supporting documentation. Based on the document descriptions in eMARS, four of the journal vouchers were to make corrections between grant program codes. The fifth journal voucher did not contain a document description. None of the five journal vouchers contained any references to the original document being corrected.

During transaction processing, staff are copying previously entered transaction information to save data entry time and are not completing a review of all items in the accounting lines to ensure correctness for the current transaction. When the error in the accounting lines is found, a journal voucher is required to correct the transaction. DLG's significant reliance on information entered into the journal voucher for meeting all documentation requirements is cause of inadequate documentation.

DLG failed to have adequate documentation supporting the request for the journal vouchers. There was no reference linking the journal vouchers to the original transactions which would support allowable costs under grant program code. Due to a lack of documentation, auditors were unable to determine the appropriateness of moving funds between program codes and costs being allowable under the grant.

Good internal control requires that accounting transactions should be supported by sufficient, appropriate documentation. Further, the use of journal vouchers should be limited and should follow the same approval process as other expenditure documents at DLG.

Recommendation

We recommend DLG update procedures for processing eMARS transactions including journal vouchers to ensure transactions are thoroughly reviewed, appropriate supporting documentation is maintained to justify the purpose of a transaction, to document the transaction was coded appropriately in eMARS, and to document proper approvals were granted.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DLG-55: The Department For Local Government Did Not Maintain Adequate Documentation To Support Journal Vouchers Involving Federal Funds (Continued)**

Management's Response and Corrective Action Plan

Department for Local Government (DLG) acknowledges that when expenditure corrections are needed in eMARS additional detail will be provided in the journal voucher and supporting documentation will be maintained. The original document number will also be referenced and a full description included in the eMARS correction documents.

DLG has updated their CDBG Internal Control Plan and Risk Assessment to include detailed procedures for processing eMARS transactions including journal vouchers to ensure transactions are thoroughly reviewed, appropriate supporting documentation is maintained to justify the purpose of a transaction,, to document the transaction was coded appropriately in eMARS, and to document proper approvals were granted. This responsibility has been assigned to the DLG Fiscal Manager.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DLG-56: The Department For Local Government Did Not Submit An Updated Indirect Cost Proposal To Federal Cognizant Agent As Required By Regulations At 2 CFR Part 225

State Agency: Department For Local Government

Federal Program: CFDA 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

CFDA 14.255 - ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Federal Agency: U.S. Department of Housing and Urban Development

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$ 0

During our audit of Department for Local Government (DLG), auditors found the most recent indirect cost proposal with approval from federal government was dated May 16, 2005 and applied to state fiscal year 2005. The federal cognizant agent has changed since the period approved in fiscal year 2005. The current federal cognizant agency, Department of Housing and Urban Development, is not in receipt of an updated indirect cost proposal from DLG and indirect costs are being charged to federal grants without a current approved indirect cost proposal.

DLG does not have procedures in place to ensure an indirect cost proposal is reviewed and updated regularly with the federal cognizant agent resulting in the risk that the percentage of indirect cost charged to CDBG could be inaccurate.

Regulations at 2 CFR Part 225 Cost Principle for State, Local and Indian Tribal Governments Appendix C (D) specifies each local government that has been designated as a "major local government" by the Office of Management and Budget (OMB) is also required to submit a plan to its cognizant agency annually.

Recommendation

We recommend DLG establish procedures to review and update their indirect cost proposal to ensure accuracy and submit annually to federal cognizant agency. Further, DLG should consider obtaining training for staff regarding the cost principle standards.

Management's Response and Corrective Action Plan

Department for Local Government (DLG) acknowledges that the most recent indirect cost proposal with approval from the federal government is dated May 16, 2005. We have been in contact with the Louisville Office of the Department of Housing and Urban Development to receive guidance on the process for obtaining a new indirect cost proposal. A proposal has been submitted and we are awaiting their approval.

DLG has updated their CDBG Internal Control Plan and Risk Assessment to include an annual update of the indirect cost proposal. This responsibility has been assigned to the Manager of the CDBG Compliance Branch.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DLG-57: The Department For Local Government Did Not Submit Quarterly Performance Reports Timely

State Agency: Department For Local Government

Federal Program: CFDA 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
CFDA 14.255 - ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Federal Agency: U.S. Department of Housing and Urban Development

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

During our audit of the Department for Local Government (DLG), we determined DLG failed to submit two quarterly performance reports (QPR) timely for the Neighborhood Stabilization Program (NSP). One report was submitted thirty days late and one report was submitted three months late. These QPRs contain information on Neighborhood Stabilization project achievements and progress towards national objectives; project activity; and set numeric targets.

DLG did not have documented control procedures in place to ensure reporting compliance for NSP. DLG's lack of controls to ensure proper reporting may result in its inability to access grant funds.

The regulations for NSP3 state at 75 FR 64322 O. Reporting requirements 1. b. NSP1 and NSP3 grantees must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the grant.

Recommendation

We recommend DLG develop and implement formal policies and procedures for the Neighborhood Stabilization Program. These internal controls will help ensure quarterly reports are filed in compliance with federal reporting requirements.

Management's Response and Corrective Action Plan

Department for Local Government (DLG) acknowledges that 2 out of 8 quarterly performance reports (QPR) for FY 13 were not submitted in a timely manner. For one of the reporting periods, the delay was a result of a HUD data "clean-up." HUD changed its performance reporting data entry fields with the Disaster Reporting Grant Reporting (DRGR) system update in mid-2012. Kentucky worked with HUD Headquarters (HQ) in DC to voluntarily have all prior period QPRs re-opened at HQ level so that we could enter the previously not-requested information. Kentucky is one of the few grantees that enter the voluntary information on green/energy efficient measures, and HUD added some fields for that as well. So we were working with both the field office and HUD HQ and were actually helping them identify bugs in

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DLG-57: The Department For Local Government Did Not Submit Quarterly Performance Reports Timely (Continued)**

Management's Response and Corrective Action Plan (Continued)

the system that led to some changes in subsequent reporting formats. These efforts led to the inability of DLG to submit two quarterly performance reports on time. However, there is no documentation to support the above as these discussions all took place by phone conversations. DLG acknowledges that an additional report was submitted over 30 days past the deadline.

DLG agrees to make timely submittal of required quarterly performance reports a priority. In addition, DLG is in the process of finalizing internal and external policies and procedures for the Neighborhood Stabilization Program. These policies and procedures should be complete by April 30 and clearly describe DLG's plan to accomplish timely submittal.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-58: The Department Of Military Affairs Timesheet Format Used In FY 13 Did Not Allow Employees To Document The Amount Of Time Spent On Each Federal Grant

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401 - National Guard Military Operations and Maintenance Projects
CFDA 12.404 - National Guard Challenge Program
CFDA 20.703 - Interagency Hazardous Materials Public Sector Training and Planning Grants
CFDA 93.889 - National Bioterrorism Hospital Preparedness Program
CFDA 97.036 - Disaster Grants-Public Assistance
CFDA 97.039 - Hazard Mitigation Grant Program
CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program
CFDA 97.042 - Emergency Management Performance Grants
CFDA 97.047 - Pre-Disaster Mitigation
CFDA 97.082 - Earthquake Consortium

Federal Agency: U.S. Department of Defense, U.S. Department of Transportation, U.S. Department of Health and Human Services and U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Amount of Questioned Costs: \$ 0

The Auditor of Public Accounts issued an *Examination of the Kentucky Emergency Management* (Examination) on August 6, 2013. During the audit of the Department of Military Affairs, Kentucky Division of Emergency Management (KYEM), we reviewed the examination and supporting documentation to identify any risks impacting the FY13 federal awards audit. We identified the risk timesheets did not distinguish which grant program the employee worked on each day. We observed timesheets used by KYEM employees in the examination and during our payroll testing for the Chemical Stockpile Emergency Preparedness Program. The timesheets did not have a mechanism for employees to document the amount of time spent on each federal grant or other project. Therefore, DMA cannot verify how much time employees worked on each individual grant to properly charge federal programs. The Examination found that no additional documentation was maintained or submitted to the cognizant agency for approval.

An ineffective internal control structure does not ensure federal dollars are spent in accordance with federal law. Without employees identifying which grant is being worked on, DMA is not in compliance with federal grant requirements. Because timesheets did not segregate time worked on various programs, we were unable to determine the dollar amount of costs to question.

2 CFR Part 225 Appendix A states in part:

Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-58: The Department Of Military Affairs Timesheet Format Used In FY 13 Did Not Allow Employees To Document The Amount Of Time Spent On Each Federal Grant (Continued)**

2 CFR Part 225 Appendix B states in part:

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - (a) More than one Federal award,
 - (b) A Federal award and a non-Federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.

- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity, for which each employee is compensated,
 - (c) They must be prepared at least monthly and coincide with one or more pay periods, and
 - (d) They must be signed by the employee.

Recommendation

We recommend DMA ensure compliance with federal grant regulations by implementing policies and procedures to ensure an adequate tracking system of employee work activities is in place to ensure compliance with 2 CFR Part 225 and applicable grant agreements. DMA should also strengthen its level of monitoring of employee work activities to ensure each employee is accurately accounting for the time spent on each federal grant appropriately.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-58: The Department Of Military Affairs Timesheet Format Used In FY 13 Did Not Allow Employees To Document The Amount Of Time Spent On Each Federal Grant (Continued)**

Management's Response and Corrective Action Plan

The electronic KHRIS timesheet used by KYEM does not allow for extemporaneous notations. To capture the necessary information regarding how time was spent, each KYEM employee is required to complete a Time Summary Sheet for each time period. On a daily basis, the employee denotes on the Time Summary Sheet, the various work accomplished for specific amounts of time associated with federal grants and other activities. Time summary sheets are provided to branch managers or program managers for review.

Salary employees are allocated to a specific grant, multiple grants or other funding streams. Should an employee not be spending their time as allotted, adjustment to the time allotment for the grant or grants are made. Per federal guidelines, assessments can occur on a quarterly basis and any adjustments are implemented for the following quarter(s), not the assessed quarter.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-59: The Department Of Military Affairs Expenditures For Hosting Working Lunch Meetings At A Hotel Are Not Reasonable And Necessary For Administering A Federal Grant Program

State Agency: Department of Military Affairs

Federal Program: CFDA 20.703 - Interagency Hazardous Materials Public Sector Training and Planning Grants

CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

CFDA 97.042 - Emergency Management Performance Grants

CFDA 97.047 - Pre-Disaster Mitigation

Federal Agency: U.S. Department of Transportation and U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Cost/Cost Principles

Amount of Questioned Costs: \$ 0

The Auditor of Public Accounts issued an *Examination of the Kentucky Emergency Management* (Examination) on August 6, 2013. During the audit of the Department of Military Affairs, Kentucky Division of Emergency Management (KYEM), we reviewed the examination and supporting documentation to identify any risks impacting the FY13 federal awards audit. We identified the risk KYEM inappropriately charged federal programs for hosting meetings and working lunches at a hotel in FY10, FY11, FY12, and FY13. These meetings were attended by employees and non-employees who receive a catered working lunch during the day. The special examination questioned costs of \$113,497, of which \$41,886 was directly charged to various federal grants, including Interagency Hazardous Materials Public Sector Training and Planning Grants (CFDA 20.703), Chemical Stockpile Emergency Preparedness Program (CFDA 97.040), Emergency Management Performance Grants (CFDA 97.042), and Pre-Disaster Mitigation (CFDA 97.047).

Based on the review of the special examination working papers, these events provided meals for employees, regardless of whether the employee was in travel status, per diem costs were exceeded in several instances, sign in sheets were not consistently maintained, and some KYEM regional managers stayed overnight and direct billed expenses.

KYEM paid more than necessary by choosing to host the meetings in a hotel when low cost state facilities may have been available. Meeting in the hotel did not provide additional benefit to the federal grant programs. KYEM may be required to repay these charges to federal grantors.

OMB Circular A-87, which applies to most federal grant programs, states:

To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):

- (a) Be necessary and reasonable for the performance and administration of Federal awards.
- (b) Be allocable to Federal awards under the provisions of A-87.
- (c) Be authorized or not prohibited under State or local laws or regulations.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-59: The Department Of Military Affairs Expenditures For Hosting Working Lunch Meetings At A Hotel Are Not Reasonable And Necessary For Administering A Federal Grant Program (Continued)

- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- (j) Be adequately documented.

200 KAR 2:006 states:

- (3) Subsistence and incidentals.
 - (a) Breakfast and lunch. A state officer or employee shall be eligible for reimbursement for subsistence for breakfast and lunch expenses while traveling in Kentucky, if authorized work requires an overnight stay and absence during the mealtime hours established by paragraph (d) or (e) of this subsection. An employee shall be in travel status during the entire mealtime. For example, to be eligible for breakfast reimbursement, an employee shall leave at or before 6:30 a.m. and return at or after 9 a.m. This requirement shall apply to all meals.

Recommendation

We recommend KYEM reevaluate the reasonableness and necessity of paid working lunches and using hotel meeting space rather than state facilities.

Management's Response and Corrective Action Plan

Kentucky Emergency Management's Response

KYEM has routinely utilized every shared facility in Frankfort, including parks and religious institutions when warranted. Hotel meeting spaces coupled with working lunches (which always had a work component) were only undertaken when the situation warranted group workspace and an agenda item that required gathering the whole division in one place at one time. The meetings that were held at the hotel were there because either another venue was not available, available venues were not large enough to accommodate the number of attendees, or it was necessary to hold a continuous meeting that would go through the lunch hour.

As for meal allowability, working lunches were preapproved following agency and state and federal requirements. The regulation, 200 KAR 2:006, cited by the auditor are in reference specifically to the reimbursement of meals for employees in travel status. This was not the case with the meals; employees were not seeking, nor receiving reimbursement for meals. The meals provided to attendees were working lunches as evidenced by the agendas provided during the course of the audit.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-59: The Department Of Military Affairs Expenditures For Hosting Working Lunch Meetings At A Hotel Are Not Reasonable And Necessary For Administering A Federal Grant Program (Continued)**

Management's Response and Corrective Action Plan (Continued)*Department of Military Affairs' Response*

On December 19, 2013, DMA issued guidance for food/meals purchases during travel, meetings, training, exercises and activation of the Commonwealth Emergency Operations Center.

Auditor's Reply

KYEM should maintain documentation of the necessity of using hotel facilities rather than state facilities.

The Special Examination auditor replied:

...state expenses should be those necessary to meet an agency's governmental functions and should be reasonable in amount. It has been a long standing, consistent practice in the Commonwealth to pay for meals only in instances when an employee is in travel status in order to meet the necessary and reasonable expenditure objectives. Agencies in the Commonwealth typically go to great lengths to review travel vouchers for timing of an employee's travel to determine whether the employee meets certain reimbursement requirements. As noted in the examination, lunches were not only provided to employees on travel status but also to those with a Frankfort workstation who would not be on official travel status. Also, meals again exceeded per diem limitations even if they were allowable. The APA also welcomes policy clarifications on this matter, although we believe it is highly unlikely policy clarifications will permit agency spending for meals for employees not on travel status during a routine work day. Furthermore, these lunches were funded by federal programs, and do not appear to meet the criteria of allowable charges.

Also, we have noted in this finding, as well as the other findings in this report related to DMA, the agency elected to submit management responses from both KYEM and from DMA. We noted in some instances the two responses are contradictory or inconsistent. Typically, management presents one official response/corrective action plan and although we will continue to include the official management response as it is presented, we caution DMA on using a methodology that may create confusion and lack of clear direction, both internally and externally.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-60: The Department Of Military Affairs Did Not Comply With Subrecipient Monitoring Requirements**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.036 - Disaster Grants-Public Assistance

CFDA 97.039 - Hazard Mitigation Grant Program

CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

During the FY13 audit of the Department for Military Affairs, Division of Emergency Management (KYEM), we reviewed the subrecipient monitoring procedures over the Disaster Grants-Public Assistance (PA) (CFDA 97.036), Hazardous Mitigation Grant (HMGP) (CFDA 97.039), and the Chemical Stockpile Emergency Preparedness Program (CSEPP) (CFDA 97.040). KYEM requires all subrecipients to submit an OMB Circular A-133 certification letter identifying the subrecipients' single audit status. The letters and all audit reports are documented on tracking logs maintained at KYEM. We noted the following:

1. In one instance in the Public Assistance Program (PA) (CFDA 97.036) a subrecipient was not contacted to certify their single audit status.
2. We reviewed ten CSEPP and 21 PA subrecipients and identified two CSEPP and one PA subrecipients which had not completed and submitted the A-133 certification letter. There is no written documentation regarding the course of action KYEM personnel should take if the subrecipient does not submit an A-133 certification letter.
3. The audit report tracking logs document results of the subrecipients' OMB Circular A-133 audit reports; however, improvements could be made. There is no documentation the log was reviewed. Management decisions on audit findings are required to be issued within six months from the date the audit report is received. While this information was not clearly identified on the logs, we located the management decisions in the subrecipient files. One CSEPP subrecipient did not respond to KYEM concerning audit findings and corrective actions regarding a FY11 audit report. KYEM did not document a management decision letter in the subrecipient file or on the tracking logs. KYEM reviewed the FY12 audit and noted no findings.

As a pass through entity KYEM is responsible for the monitoring of subrecipients during the grant award period. KYEM accomplishes this through site-visits, which are documented on both a site-visit form and trip report, and recorded on a tracking log.

4. KYEM only documented site visits of county and city governments identified as subrecipients. We reviewed 21 PA and six HMPG subrecipient folders and found six PA and three HMPG subrecipients did not have documentation of a site visit. We could not determine if other subrecipients, such as utilities, received site visits. There are no written procedures documenting which subrecipients are required to receive site visits.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-60: The Department Of Military Affairs Did Not Comply With Subrecipient Monitoring Requirements (Continued)**

5. The site-visit forms and trip reports do not indicate who prepared the documents. Also, there is no evidence the documents were reviewed.

Without adequate monitoring, tracking, and review of subrecipient A-133 audit reports KYEM may not be in compliance with OMB Circular A-133. Failure to monitor subrecipients can lead to oversight and puts the awarded funds at a greater risk of noncompliance, misappropriation, and fraud.

Lack of adequate written procedures for monitoring subrecipients through audit reports and site visits could result in failure to comply with OMB Circular A-133 requirements.

OMB Circular A-133 Subpart M states, in part:

A pass-through entity is responsible for:

Subrecipient Audits – (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate actions using sanctions.

During the Award Monitoring – Monitoring the subrecipient’s use of Federal award through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Good internal control dictates supporting documentation should be maintained to adequately document the site visits conducted, the conclusions reached, approval of those reports by management, the communication of those reports to the monitored entity, and follow-up of any problems noted during the reviews. Detailed written procedures are an integral part of a good internal control system.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-60: The Department Of Military Affairs Did Not Comply With Subrecipient Monitoring Requirements (Continued)**

Recommendation

We recommend KYEM:

1. Ensure all subrecipients, regardless of type, are properly monitored, including submitting single audits for review as required by OMB Circular A-133.
2. Develop written procedures documenting the required A-133 certification process.
3. Develop written procedures for determining which subrecipients should receive site visits.
4. Update the site visit forms to include the preparer and reviewer names and/or signatures.
5. Consider merging the two tracking logs used for subrecipient monitoring and specifically documenting the management decision letter date, the date the log was reviewed, and the reviewer.

Management's Response and Corrective Action Plan

Kentucky Emergency Management (KYEM) takes its responsibility of subrecipient monitoring very seriously. Over the past five (5) years, KYEM has vastly expanded the monitoring of subrecipients from only requesting OMB A-133 audits to also now reviewing audit reports, issuing management letters, monitoring media reports of malfeasance, and performing site visits. That being said, the agency has more than 2,500 subrecipients and the reality is that KYEM cannot perform the same level of monitoring for every applicant. A risk-based analysis of the types of subrecipients has been performed and a monitoring procedure has been developed and implemented accordingly.

KYEM has taken a proactive approach for the receipt and review of A-133 audit reports for all Kentucky county governments, including the 10 Kentucky counties participating in the CSEPP program. In Kentucky, the Kentucky Auditor of Public Accounts (APA) is statutorily responsible for the audit of all county governments (fiscal courts). The APA conducts, approves auditor selection by a county, or contracts for the audits to be performed. Any audit conducted by a contracted independent auditor must be conducted in accordance with audit programs and procedures developed by APA. Audit program and procedures include testing of the expenditure of federal awards to determine if an A-133 audit is required and if so, the completion of an A-133 audit. As audits are finalized and released, they are posted in their entirety on the APA website located at: <http://auditor.ky.gov/auditreports/Pages/OnlineAuditSearch.aspx>. Each week the KYEM staff responsible for monitoring A-133 audits accesses the APA website and reviews all county audits released in the previous week.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-60: The Department Of Military Affairs Did Not Comply With Subrecipient Monitoring Requirements (Continued)**

Management's Response and Corrective Action Plan (Continued)

Any findings which could impact KYEM grant programs are noted on a tracking spreadsheet. If the subrecipient must present additional supporting documentation or has funding suspended these actions are noted on the spreadsheet. The spreadsheet is distributed electronically to all KYEM staff managing, monitoring, disbursing, and approving disbursements of federal grants. The spreadsheet is also housed on a shared drive for ease of access and use by all staff.

For problem findings - management letters are sent to the county judge executive, requesting a corrective action plan and notifying the county of any additional supporting documentation requirements or restrictions that will be imposed as a result of the audit findings. Additional requirements are in effect until the subrecipient receives a subsequent audit which clears the finding matter. If necessary, additional site visits are conducted to ensure remediation is accomplished. If the county is not cooperative or significant deficiencies are noted, funding may be withheld until issues are resolved.

Other subrecipients are polled annually to determine if an A-133 audit is required and if so, requested. Should findings merit further action, a management letter is sent to the auditee. All audit review actions and findings which impact the safety of funding are tracked in a spreadsheet application. The spreadsheet is distributed weekly to the assistant directors; all grant managers, and those responsible for the review and approval of grant disbursements.

As recommended, the site visit forms have been updated to contain the names of the preparer and reviewer. KYEM has considered merging the two (2) subrecipient monitoring tracking logs and has decided to maintain this information in separate formats.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-61: The Department Of Military Affairs Did Not Comply With Cash Management Requirements**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.036 - Disaster Grants-Public Assistance

CFDA 97.039 - Hazard Mitigation Grant Program

CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Cash Management

Amount of Questioned Costs: \$ 0

During the FY13 audit of the Department for Military Affairs, we reviewed cash management procedures over the Disaster Grants-Public Assistance (PA) (CFDA 97.036), Hazardous Mitigation Grant (HMGP) (CFDA 97.039), and Chemical Stockpile Emergency Preparedness Program (CSEPP) (CFDA 97.040). We noted the following problems:

1. The Accounting Section Administrative Branch Manager requests reimbursement of federal funds through the Payment Management System (PMS) (also known as Smartlink). The Administrative Branch Manager is the only staff member with access and training to process federal reimbursement requests through the PMS system. The branch manager provides this information to an accounting staff member, whom the manager supervises. The staff member enters the information into EMARS (Enhanced Management and Reporting System-the state's accounting system) on a Cash Receipt (CR) document and submits the CR for review and approval to the branch manager. The branch manager then approves the CR. Although there is a procedure manual no other employees have access to PMS or training on how to perform reimbursement request procedures.
2. There is a lack of communication between the accounting section personnel and programmatic personnel regarding the amount of federal funds to be reimbursed. The Program Reimbursement Final Billing Report, generated weekly from EMARS, lists the receivables for each federal grant. The DMA administrative branch manager uses this information to request reimbursement through the federal PMS system.
3. We found errors when agreeing the weekly billing reports to the request for payment documentation from the PMS system. We reviewed 87 of the transactions, 60 for PA and 27 for HMGP. We noted one instance for the PA program where the weekly billing report did not agree to the amount requested from the PMS system. Thus the agency requested funds to which they were not entitled. We also noted one instance for the HMGP program where the weekly billing report major program code, did not match the major program code on the PMS request for payment. Thus the agency requested money from the wrong federal program.
4. There is no written policy on the time allowed between the date of the expenditure date and the reimbursement request. We compared the expenditure date to the date the reimbursement request was submitted to the PMS system for 107 transactions, 60 for PA, 27 for HMGP, and 20 for CSEPP. We noted six instances in which the time between the expenditure and reimbursement request exceeded 30 days for PA, two for HMGP; and one for CSEPP.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-61: The Department Of Military Affairs Did Not Comply With Cash Management Requirements (Continued)**

The branch manager requests reimbursement and approves CR documents in EMARS. The same employee should not be responsible for requesting reimbursement and approving the record of the receipt in the accounting system. The same employee having both responsibilities is a lack of segregation of duties and could result in an opportunity for misuse of state resources, increases the risk of errors, and weakens DMA's monitoring and oversight controls.

The lack of communication between the accounting section and programmatic personnel can result in errors. DMA requested reimbursement before funds were available from the PMS system. However, the PMS system did not process the reimbursement request due to internal controls at the federal level. DMA's internal control system did not prevent this error from occurring. In another instance, a reimbursement request to the PMS system was processed for the wrong federal program. When an EMARS system generated CR did not agree to the request for payment documentation from the PMS system the accounting staff modified the CR incorrectly; causing the reimbursement to be coded to the wrong program. Errors such as these were not detected during the review process.

Without a written policy, the State may not be in compliance with 31 CFR 205.33 which requires the expenditures to be as close as administratively feasible to the request for reimbursement. In addition, by not minimizing the time between the request for reimbursement and the expenditure the State has missed the opportunity to earn interest or expend funds for other immediate needs rather than waiting for the funds to be requested and received.

Good internal controls require certain job duties to remain separate when dealing with the creation, processing, recording, review, authorization and approval of transactions. In addition to protecting the organization, internal controls are intended to protect employees in the course of performing their assigned duties. A good internal control system mitigates the risk for errors, theft, and promotes processing of transactions in a timely and efficient manner.

Good internal controls dictate communication between programmatic personnel and the accounting section personnel. Along with communication, review procedures should ensure data is accurately reflected in the grant activity including the federal PMS system and the state's accounting system EMARS.

31 CFR 205.33 states, "The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs." An effective internal control system should allow less than a 30 day time frame between the expenditure and request for reimbursement.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-61: The Department Of Military Affairs Was Not In Compliance With Cash Management Requirements And Internal Controls Were Not Operating Effectively (Continued)****Recommendation**

We recommend DMA:

1. Evaluate the reimbursement request process in the Accounting Section to resolve the lack of proper segregation of duties.
2. Implement procedures to improve the communication between accounting section personnel and programmatic personnel to ensure both the amount of funds requested and the major program are accurate.
3. Evaluate and revise current procedures in the Accounting Section to ensure the weekly billing reports agree to the request for payment information.
4. Develop a written policy to minimize the time between the expenditure and request for reimbursement. The policy should ensure the federal reimbursements comply with 31 CFR 205.33 and requests are completed as soon as administratively feasible when compared to the State's cash outlay.

Management's Response and Corrective Action Plan

The DMA Accounting Branch Manager has the responsibility of drawing down federal funds for FEMA through the Payment Management System (PMS) as directed according to her Position Description. The Branch Manager is the only staff with access through security of a User ID and a Password to draw funds from the Payment Management System. The Branch Manager has trained other employees within the Accounting Office and the DMA Budget Office to ensure other staff is aware of the process in an emergency. A PMS manual is also available if a New User needs access. These draws can be compared to SF425 reports for discrepancies by the Administrative Branch Manager of KyEM. The draws are reconciled to the quarterly PSC 272 report. Funds are not drawn in advance; they are drawn based on an eMARS DMA Weekly Billing Report. Grants are not established in eMARS until an award letter with a budgeted amount is received from the grantor.

Procedures are in place according to the automatic billing process within eMARS. Weekly billing reports are generated by the eMARS system which creates system generated Receivables(RE) and system generated Cash Receipts (CR). These are based on payments made to vendors from the prior week. The Accounting Branch Manager draws the funds based on the generated weekly billing report which matches the receivable due (RE) and the cash receipt (CR). The funds are requested through the Payment Management System. As a control measure, all supporting documents are given to the Accounting Section IPA I for review for any discrepancies made during the draw. The IPA I initials and dates showing the review has been completed. The CR is then processed for approval and submitted by the IPA I. The Accounting Branch Manager approves at department level so Treasury can apply their final approval when funds are deposited into J. P. Morgan Chase by the Federal Agency through the Payment Management System. Effective immediately, all CRs drawn

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-61: The Department Of Military Affairs Was Not In Compliance With Cash Management Requirements And Internal Controls Were Not Operating Effectively (Continued)****Management's Response and Corrective Action Plan (Continued)**

from PMS will have department approvals applied by the DMA Director of Administrative Services or personnel in the DMA Budget Office.

All DMA eMARS users have access to InfoAdvantage and are familiar with the DMA Program Reimbursement Final Billing Report. Division personnel review the weekly billings and request the amounts to be drawn via email. It is the Division's responsibility to know this process because it is their duty to know what is allowable under their federal programs. Before funds are drawn-down, if there are PMS account/eMARS Weekly Billing discrepancies the Administrative Branch Manager of KyEM is notified by email. In the future, follow-up emails to the KyEM Administrative Branch Manager will be sent until discrepancies are resolved. After drawdown of funds, the Administrative Branch Manager of Emergency Management receives a copy of the draw from PMS to show the net balance of each grant after the draw.

If there are errors in previous draws, they are to be corrected on the next draw after the error is realized. Notes are made to that effect so there is an understanding of the change in the draw. In the future, in addition to the written notes, the correcting accounting line on the CR will contain the information in the Description field.

*On the discrepancy of HMGP, the grant (1746M) (PRC 13*178787 accounting line 1) in question was not drawn-down because it did not create a bill on the weekly report. This is because of the way eMARS is setup. If there is a credit which was created by a JV2E (an expenditure reduction), it will not bill until that grant expends more than the negative balance. On PRC 13*178787 accounting line 2, the other grant (1757M) was for the exact same amount as 1746M; it was billed and drawn correctly.*

Draws are done as soon as possible weekly and if they overlap from one week to another, they are always done according to the individual weekly billing. Time delays were due to short staff, holidays and year-end closeouts. The instances noted in the finding, all fall within this range of dates. Every effort is made to ensure draws are completed within the appropriate week and no later than 30 days.

In order for DMA processes to be effective, communication between agency level staff and division level occur daily via email, phone or in person. The Accounting Branch Manager responds to all emails and telephone calls from Divisions within a timely manner.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-62: The Department Of Military Affairs Procedures Did Not Ensure The Accuracy Of Federal Financial Reports**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.036 - Disaster Grants-Public Assistance

CFDA 97.039 - Hazard Mitigation Grant Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

During our audit of the Kentucky Department of Military Affairs Division of Emergency Management (KYEM), we reviewed eight SF-425 Federal Financial Reports for the Disaster Grant Public Assistance (PA) program and three for the Hazard Mitigation Grant Program (HMGP). We noted the following issues:

1. KYEM incorrectly reported expenditures on the SF-425 Federal Financial Reports for Disaster 1407P and 1818P. We examined the SF-425 reports and eMARS expenditure records from 7/1/2012 through 6/30/2013. The quarterly totals, which are cumulatively reported on the SF-425 reports, did not agree to the expenditure totals reported in eMARS, the state's accounting system. KYEM reported \$10,977,681 on the 6/30/2012 SF-425 report for 1407P, and \$194,394,905 for 1818P. EMARS, for the same period, reported \$10,977,724 and \$193,111,302 causing an understatement of \$43 and an overstatement of \$1,283,603 for disasters 1407P & 1818P on the FY 13 SF-425 reports.
2. We could not reconcile the cash receipts, cash disbursements, and federal expenditure amounts reported on the SF-425 report to eMARS for quarters ended September 2012 and March 2013 for 1818M (HMGP). For the quarter ended September 2012, there was a \$77,600 difference between eMARS and the SF-425 report for cash receipts and a \$29,837 differences for cash disbursements and federal expenditures. For the quarter ended March 2013, there was a \$427,866 difference between eMARS and the SF-425 report for cash receipts and a \$25,964 difference for cash disbursements and federal expenditures.
3. There is no review of the reports prior to submission. The KYEM Administrative Branch Manager prepares and submits the reports to the Federal Government.
4. The KYEM Administrative Branch Manager stated the formula used to calculate the Recipient Share of Expenditures was the expenditures less management costs divided by 75% then subtract (expenditures less management costs); however, the manager could not explain the reason this formula was used. In addition, the September 2012 report for 1818M did not use the formula, resulting in the SF-425 report showing \$1,909,983 instead of \$1,684,388, a difference of \$225,595.

KYEM had discrepancies in the previous quarterly reports which contributed to the erroneous reporting for FY 13. KYEM did not have an adequate reconciliation in place for reconciling the SF-425 reports to eMARS expenditures in FY 13.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-62: The Department Of Military Affairs Procedures Did Not Ensure The Accuracy Of Federal Financial Reports (Continued)**

The lack of a review and approval process can result in errors in the SF-425 report occurring and remaining undetected, such as the error in the Recipient Share calculation. The Recipient Share amount may not be calculated correctly since KYEM could not explain the reason the Recipient Share formula was used.

Good internal controls dictate that procedures ensure all reports used for federal financial reporting are accurate. The Compliance Supplement Part 3 requires the PMS system to agree with the recipient's records and the reports to be accurate. Good internal controls indicate the personnel responsible for preparing and reviewing reports understand the reason behind calculations appearing on the reports.

Recommendation

We recognize KYEM has implemented changes to the report preparation process in FY14. However, the information on the FY13 SF-425 reports was not accurate and did not reconcile to accounting records. We recommend KYEM:

1. Ensure the new process for preparing the SF-425 Disaster Assistance and HMGP reports documents the reconciliation between eMARS accounting records and the SF-425 reports.
2. Implement a review process so the administrative branch manager is not preparing and submitting the reports without someone else verifying the information is accurate.
3. Verify the method used to calculate the Recipient Share is reasonably accurate and can be explained.

Management's Response and Corrective Action Plan*Kentucky Emergency Management's Response*

KYEM has always prepared all federal reports using data extractions from eMARS. Timing issues associated with the quarter closing date, drawdowns, and the system hard closure for the reporting period apparently resulted in reporting deviations.

On, March 1, 2013, the Department of Military Affairs issued a directive which provides procedures to be followed by KYEM in the preparation of all federal reports. The procedures have been tested and appear to be accurate. KYEM is following the directive and again emphasizes that eMARS is the basis for all data used in quarterly reporting.

Quarterly reports for the Public Assistance and Hazard Mitigation programs will be reviewed by Recovery Branch staff prior to submission. Quarterly reports prepared by CSEPP staff will be reviewed by the Administrative Branch prior to submission. These reports and the remaining

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-62: The Department Of Military Affairs Procedures Did Not Ensure The Accuracy Of Federal Financial Reports (Continued)**

Management's Response and Corrective Action Plan (Continued)

KYEM federal program quarterly reports will continue to be provided to DMA for review and analysis.

The formula is utilized to identify the amount of the recipient share of the awards/expenditures. The federal projects are awarded at 75%/25% and management costs are awarded at 100%. The total federal awards/expenditures are a combination of the management costs, awarded at 100%, and the federal share of the projects, awarded at 75%. Therefore, the total federal award/expenditures minus management costs award/expenditures equal the federal share of project award/expenditures. The federal share of projects is used to derive the recipient share of the award/expenditures. The formula accomplishes this by dividing the federal share of projects by the federal award level, in this case 75%, to calculate the total project amount. The recipient share of the awards/expenditures can then be calculated by subtracting the federal share of project from the calculated total project amount.

Department of Military Affairs' Response

March 1, 2013, DMA issued ICSOP#1400 Procedures for Required Federal Grant Financial Reporting and Statements. These procedures were not distributed until April 1, 2013 due to personnel changes in the Office of Management and Administration.

New guidelines for reporting the Total Recipient Share Required and the Recipient Share of Expenditures will be developed and distributed before March 31, 2014.

Auditor's Reply

We recognize KYEM implemented a corrective action plan for the accuracy of Federal Financial Reports. No evidence of the implemented procedures was found during testing. KYEM should ensure procedures are followed. In addition, the administrative branch manager should understand the reason the formula for calculating the recipient share is used and ensure the formula is accurate and consistently applied. When KYEM develops new guidelines concerning Total Federal Share, Total Recipient Share, Total Remaining Recipient share, and Recipient Share Expenditures, the agency should consider all projects and grants requiring Federal Financial Reporting. Each disaster grant has multiple FEMA approved projects. While management costs are approved for 100% federal funding and most projects are approved for 75/25 Federal/Recipient funding there are occasions when the mentioned KYEM equation is not accurate. FEMA, in the past, has approved projects for 100% funding or even a different matching rate than the average 75/25 split. These instances have caused inaccurate tracking of Federal/State expenditures and required shares. Allowing the state to potentially be unaware of future financial obligations and commitments.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-63: The Department Of Military Affairs Used An Excessive Number Of Journal Vouchers To Transfer Expenditures Between Federal Programs**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.036 - Disaster Grants-Public Assistance

CFDA 97.039 - Hazard Mitigation Grant Program

CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

CFDA 97.042 - Emergency Management Performance Grants

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management and Reporting

Amount of Questioned Costs: \$ 0

The Auditor of Public Accounts office issued an *Examination of the Kentucky Emergency Management* (Examination) on August 6, 2013. During the audit of the Department of Military Affairs, Kentucky Division of Emergency Management (KYEM), we reviewed the examination and supporting documentation to identify any risks impacting the FY13 federal awards audit. We identified a risk of improper transferring of expenditures which should be brought to the attention of the appropriate governing bodies.

The Special Examination auditors noted detailed accounting transactions related to KYEM federal fund identified significant transfers of expenses between various federal funds. EMARS (the state's accounting system) uses journal vouchers (JVs) to process expenditure transfers. Normally, JVs are simply used as correcting entries to make a change in an original accounting record. However, excessive use of JVs, to transfer expenditures between federal programs complicates the audit trail and it difficult to determine whether the original activity was allowable for the federal program. In most instances, JVs did not include sufficient documentation to support the transfer.

It is difficult to determine the JVs purpose and necessity and the allowability of the expenditure for the grant program. Excessive use of JVs makes it difficult for proper reconciliations to be performed by agency personnel. Reconciliations ensure federal funds are only reimbursed for allowable expenditures. If expenditures are initially coded to one program in error, then are included as part of a request for federal reimbursement for that program, these expenditures would be considered questioned costs of the program. Subsequently, if the expenditures are transferred to other programs, there is a risk the expenditure will be included in requests for reimbursement of those programs, as well. Therefore, the State could receive duplicate payment of the expenditure and the risk of noncompliance is heightened.

Regular transfer of expenditures between funding sources would not be necessary if program managers and accountants had a better handle on the accounts they manage so original transactions were not posted to erroneous accounts.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-63: The Department Of Military Affairs Used An Excessive Number Of Journal Vouchers To Transfer Expenditures Between Federal Programs (Continued)**

Recommendation

We recommend KYEM:

- Strengthen policies and procedures to avoid routine use of transfers to correct funding source errors.
- Maintain adequate support justifying all transfers, and implement a procedure to ensure all federal programs are properly monitored and reconciled to avoid the risk of obtaining duplicate reimbursement from two or more federal programs for the same expenditure.

Management's Response and Corrective Action Plan*Kentucky Emergency Management's Response*

The federal programs associated with KYEM and the state's accounting system are highly complex. KYEM Management recognizes that JV transactions are only used as necessary and not as a budget management tool and JVs are processed within allowable expenditures only. For instance, KYEM has self-identified instances where mistakes were made, such as when charges automatically hit one program but are shared expenses for multiple programs and applicable amounts must be moved to the proper accounting lines. It should be noted that the correcting JVs will credit the initial grant account, creating a negative amount within eMARS, thus eliminating any possibility of a double reimbursement.

Regular transfer of expenditures between funding sources do not occur. Program managers and the fiscal branch work together to ensure the accurate coding of expenditures at all times for all grants. It should be noted that other agencies (such as Fleet Management) create KYEM program expenditure transactions. Often times these expenses hit accounts that are closed or have insufficient funds and JVs must be processed to correct the error. In addition, some agencies like Fleet Management require all expenses to be processed to one fund and then KYEM must JV costs to the correct corresponding grants/funds.

KYEM has instituted procedures which require all JVs to have detailed explanations and justification as to why the transfer is occurring. The Administrative Branch also maintains an external tracking mechanism of JV transactions. All federal programs have been and continue to be reconciled and monitored to prevent duplicate reimbursements of expenditures from different grants.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-63: The Department Of Military Affairs Used An Excessive Number Of Journal Vouchers To Transfer Expenditures Between Federal Programs (Continued)

Management's Response and Corrective Action Plan (Continued)

Department of Military Affairs' Response

DMA Internal Audit, Budget, General Accounting and Procurement have become more involved in discussions, decisions and review of financial transactions. DMA has strengthened the internal control process for review of financial transactions by adding additional review levels before final approvals are applied in eMARS.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-64: The Department Of Military Affairs Did Not Obtain Adequate Supporting Documentation From Subrecipients Requesting Expenditures Reimbursement**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.039 - Hazard Mitigation Grant Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles and Cash Management

Amount of Questioned Costs: \$ 5,917

During the FY13 Department of Military Affairs audit, we reviewed 27 expenditure reimbursement transactions for the Hazard Mitigation Grant Program (HMGP) (CFDA 97.039) for supporting documentation. We noted:

- One instance in which no support for the transaction was provided.
- One instance in which inadequate support for the transaction was provided. Specifically, subrecipient timesheets were provided, but not hourly rates of pay so the personnel cost could not be recalculated. Also, supply costs were claimed, but did not trace to the invoice provided.

DMA approved payment for expenditure reimbursement requests without adequate supporting documentation. Therefore, we could not determine if the expenditure was for an allowable activity of the grant. DMA may have reimbursed expenditures for unallowable costs.

The HMGP is on the reimbursement basis, which means the subrecipient must expend funds, then request reimbursement for the expenditure. Without proper supporting documentation, we cannot be certain the funds were expended prior to the reimbursement.

The Compliance Supplement Part 3 includes OMB Circular A-87, which states, "To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1): (J) Be adequately documented." The A-87 attachment repeats the above information.

The Compliance Supplement (Cash Management section) states, "When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government."

Good internal controls dictate that adequate supporting documentation be maintained to verify expenditures were allowable and accurate.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-64: The Department Of Military Affairs Did Not Obtain Adequate Supporting Documentation From Subrecipients Requesting Expenditures Reimbursement (Continued)**

Recommendation

We recommend DMA review the expenditure reimbursement process to ensure supporting documentation is provided and sufficient for all reimbursement requests.

Management's Response and Corrective Action Plan*Kentucky Emergency Management's Response*

In reaction to the FY 2012 audit of KYEM, it was determined that the reimbursement process for all federal grants managed by Kentucky Emergency Management (KYEM) needed assessment and adjustment. KYEM conducted numerous meetings with KYEM program staff, the internal auditor for the Department of Military Affairs, various county treasurers, various county federal program directors, the KYEM Administrative Branch Pre-Audit Section, county judge executives, the KYEM Director and Assistant Director of Administration, and FEMA program coordinators.

The purpose of these meetings was to share audit concerns and findings, solicit input from key stakeholders, and ensure that all KYEM staff had a clear understanding of requirements associated with disbursement of federal funds. After these meetings, KYEM produced grant reimbursement guidelines which were implemented July 1, 2013. Meetings were held with subrecipients, both telephonically and on site, to ensure subrecipients clearly understood what constitutes allowable expenditures and sufficient supporting documentation.

All types of supporting documentation have been clearly defined in agency guidelines, the guidelines were reviewed by internal and external auditors, distributed to subrecipients, and are strictly enforced during the disbursement approval process. Both KYEM staff and subrecipients have received copies of the guidelines, examples of appropriate documentation, and extensive training. Should any matters arise that are not clearly defined by the guidelines, they are presented to the Assistant Director of Administration for resolution.

Department of Military Affairs' Response

DMA Internal Audit, Budget, General Accounting and Procurement have become more involved in discussions, decisions and review of financial transactions. DMA has strengthened the internal control process for review of financial transactions by adding additional review levels before final approvals are applied in eMARS.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-65: The Department Of Military Affairs - Kentucky Division Of Emergency Management Did Not Correctly Report Expenditures On The SF-425 Federal Financial Report For The Chemical Stockpile Emergency Preparedness Program**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

During our audit of the Department of Military Affairs (DMA), we determined the Kentucky Division of Emergency Management (KYEM) had not correctly reported expenditures on the SF-425 Federal Financial Report. KYEM provided the SF-425 reports for five Chemical Stockpile Emergency Preparedness (CSEPP) grant years, CSP09, CSP10, CSP11, CSP12, and CSP13 which were submitted in FY13. Each grant has two reports, one for Operations and Maintenance (O&M) and one for Procurement (PROC). In order to agree eMARS, the State's accounting system, to the grant, both reports are added together. We noted the following:

- The September 30, 2012 SF-425 reports submitted for CSP09, CSP11, and CSP12 grant years each reported more expenditures than were recorded in eMARS. The CSP10 grant year reported less expenditures than were recorded in eMARS.
- The December 31, 2012 SF-425 reports submitted for CSP12 grant year reported more expenditures than were recorded in eMARS. The CSP09, CSP10, and CSP11 grant years reported less expenditures than were recorded in eMARS.
- The March 31, 2013 SF-425 reports submitted for CSP13 (O&M) grant year reported more expenditures than were recorded in eMARS. The CSP09 grant year reported less expenditures than were recorded in eMARS.
- The June 30, 2013 SF-425 reports submitted for CSP11 grant year reported less expenditures than were recorded in eMARS.

For the five grant years combined, eMARS expenditures exceeded the amount on the SF-425 reports by \$821,410.

In addition, KYEM did not submit the March 31, 2013 and June 30, 2013 quarterly SF-425 reports for the CSP13 (PROC) grant.

KYEM does not reconcile the SF-425 report to eMARS, the states accounting system, accurately.

Failure to correctly report all expenditures in eMARS leads to inaccurate reporting of cumulative expenditures on the SF-425 report. Also, this failure has the potential to cause DMA not to be able to draw down federally reimbursable funds appropriately.

By not submitting the quarterly reports for two quarters, KYEM is not in compliance with grant requirements. Funds could be withheld as a result of delinquent reports.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-65: The Department Of Military Affairs - Kentucky Division Of Emergency Management Did Not Correctly Report Expenditures On The SF-425 Federal Financial Report For The Chemical Stockpile Emergency Preparedness Program (Continued)

Good internal controls dictate that procedures ensure all reports used for federal financial reporting are accurate. EMARS, is the basis for all expenditure reporting in the state of Kentucky.

The FY13 Cooperative Agreement Guidance states:

Federal Financial Report {XE “Financial Status Report (FSR)”} (FFR)—required quarterly Obligations and expenditures must be reported on a quarterly basis through the FFR (SF-425), which replaced the SF-269 and SF-272, and is due within 30 days of the end of each calendar quarter (e.g., for the quarter ending March 31, the FFR is due no later than April 30). A report must be submitted for every quarter of the period of performance, unless a waiver is granted. If there is no activity during a calendar quarter, the Grantee must transmit a performance report noting the inactivity. Future awards and fund drawdowns may be withheld if these reports are delinquent. The final FFR is due 90 days after the end date of the performance period.

Recommendation

We recommend KYEM:

- Ensure all amounts reported on SF-425 reports agree to eMARS quarterly expenditure reports.
- Review prior periods and determine if the expenditure amounts in eMARS or on the SF-425 are correct. If there are expenditures not recorded in eMARS, KYEM should contact the Federal Government and determine if a restatement of the prior year SF-425s is required to document the correct amounts.
- Ensure all reports are submitted within the required 30 day timeframe.

Management’s Response and Corrective Action Plan

Kentucky Emergency Management’s Response

On March 1, 2013, the Department of Military Affairs issued a directive which provides procedures to be followed by KYEM in the preparation of all federal quarterly reports. Testing of the procedures indicates that the process is accurate and reliable. Effective July 1, 2013, KYEM is following the directive and emphasizes that eMARS is the basis for all data used in all quarterly reporting.

KYEM CSEPP will review the SF-425s for prior periods to ensure they are correctly reflecting program activity. Should there be discrepancies; KYEM CSEPP will communicate with FEMA CSEPP as to the need for restatement.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-65: The Department Of Military Affairs - Kentucky Division Of Emergency Management Did Not Correctly Report Expenditures On The SF-425 Federal Financial Report For The Chemical Stockpile Emergency Preparedness Program (Continued)

Management's Response and Corrective Action Plan (Continued)

KYEM CSEPP is working closely with KYEM Administrative Branch and Department of Military Affairs Financial Section to ensure the reports are accurate and submitted in a timely manner.

Department of Military Affairs' Response

March 1, 2013, DMA issued ICSOP#1400 Procedures for Required Federal Grant Financial Reporting and Statements. These procedures were not distributed until April 1, 2013 due to personnel changes in the Office of Management and Administration.

New guidelines for reporting the Total Recipient Share Required and the Recipient Share of Expenditures will be developed and distributed before March 31, 2014.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-66: The Department Of Military Affairs Expenditures Reported On The SEFA For The Chemical Stockpile Emergency Preparedness Program Are Understated**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

During our audit of the Department of Military Affairs (DMA), the Schedule of Expenditures of Federal Awards (SEFA) for the Chemical Stockpile Emergency Preparedness Program (CSEPP) grant was obtained. The SEFA reports the amount of federal funds expended for each grant. The CSEPP grant program reported \$9,817,654 in expenditures on the SEFA; however, the federal awards for construction projects were not reported on the SEFA. Upon further inquiry, DMA stated \$15,559,425 was the amount that should have been reported.

DMA records construction expenditures in Fund 0200, Capital Projects Fund. When the SEFA was prepared, only expenditures from Fund 1200, Federal Fund were reported. Consequently, the expenditures on the SEFA are understated by \$5,741,771 for CSEPP.

OMB Circular A-133 Section 310 (b)(3) Schedule of Expenditures of Federal Awards states, the schedule shall “[p]rovide total Federal awards expended for each individual Federal program ...”

The Government Auditing Standards and Circular A-133 Audit Guide 7.04 states:

... auditee should identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received. ... Using this information, the auditee should be able to reconcile amounts presented in the financial statements to related amounts in the schedule of expenditures of federal awards.

Recommendation

We recommend DMA implement procedures to ensure the SEFA incorporates federal expenditures recorded in Fund 0200.

Management’s Response and Corrective Action Plan

DMA agrees that Capital Project Fund for CSEPP was inadvertently left off the SEFA and should be reported correctly under the appropriate CFDA number where the funds are being drawn. The CFDA expenditures were under reported on the SEFA but all funds expended were drawn and accurately accounted for against the program. This program will be reported on the 2014 SEFA Report and in the future until closed.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-66: The Department Of Military Affairs Expenditures Reported On The SEFA For The Chemical Stockpile Emergency Preparedness Program Are Understated (Continued)**

Management's Response and Corrective Action Plan (Continued)

The SEFA preparer will coordinate with the Internal Policy Analyst over the Capital Construction funds and review all projects under 0200 fund to ensure that all Federal share and State share are understood when completing the SEFA report.

As part of the procedures that are already in place, the annual SEFA report is reviewed by other DMA employees before it is sent to SAS and then the Auditor's Office. Staff will set aside a time to meet prior to preparation to review all reports available for completing the SEFA and again at the completion of the SEFA to ensure that they are correct according to totals reported in eMARS.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-67: The Department Of Military Affairs Did Not Use Proper Procurement Procedures For A Contract

State Agency: Department of Military Affairs

Federal Program: CFDA 20.703 - Interagency Hazardous Materials Public Sector Training and Planning Grants

CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

CFDA 97.042 - Emergency Management Performance Grants

Federal Agency: U.S. Department of Transportation and U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Procurement and Suspension and Debarment

Amount of Questioned Costs: \$ 0

The Auditor of Public Accounts office issued an *Examination of the Kentucky Emergency Management* (Examination) on August 6, 2013. During the audit of the Department of Military Affairs, Kentucky Division of Emergency Management (KYEM), we reviewed the examination and supporting documentation to identify any risks impacting the FY13 federal awards audit. We identified a risk of improper procurement procedures used for a software contracts and determined this situation should be brought to the attention of the appropriate governing bodies.

Upon reviewing the contract between the software vendor and KYEM, the examination auditors identified that the contract was procured using a no-bid, sole source provider contract. The special examination auditors found no evidence consideration had been given to other software or software vendors prior to deciding to utilize a sole source determination for the contract procurement. While this contract was procured outside the year under audit, expenditures for the contract occurred in FY13 and are considered questioned costs. Expenditures for the contract were made with funds from the Interagency Hazardous Materials Public Sector Training and Planning Grants (CFDA 20.703), Chemical Stockpile Emergency Preparedness Grant (CFDA 97.040), and Emergency Management Performance Grants (97.042).

The agency avoided proper procurement policies and procedures. Another responsible vendor may have been able to provide comparable software or services for a lower cost. Since procurement procedures were not followed, we are unable to determine if the state received the best value for the money spent. Further KYEM is not in compliance with OMB Circular A-133 procurement requirements. This resulted in likely questioned costs of \$69,875.

2 CFR 215.43 – Competition.

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. ... Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-67: The Department Of Military Affairs Did Not Use Proper Procurement Procedures For A Contract (Continued)**

Compliance Supplement Part 3, I. Procurement, Suspension and Debarment states:

States, and governmental subrecipients of States, will use the same State policies and procedures used for procurements from non-federal funds. They also must ensure that every purchase order or other contract includes any clauses required by federal statutes and executive orders and their implementing regulations.

Recommendation

We recommend KYEM ensure all contracts for goods and services are properly procured in accordance with enacted policies, procedures, and State regulations. KYEM should take adequate measures to ensure sole source determinations are justifiable, accurate, and well supported.

Management's Response and Corrective Action Plan

DMA follows State procurement rules and conducts operations in the best interest of the taxpayers.

DMA Procurement Officer and Executive Director met with Finance procurement officials to review the process that took place on the award of this contract. They reviewed the process and it was determined that the proper procedures were followed with the available information that was on hand at the time the initial contract was placed and if it were presented again in the same manner it would be approved again without question. The proper cited authorities were used and the proper approval authorities were received per the purchasing authority.

The proper internal controls have been strengthened to avoid appearances of potential conflicts of interest by adhering to established internal controls for the evaluation, monitoring and awarding of contracts.

The agency now reviews and investigates all backup justification and requires the requesting division to justify the need of the sole source item.

On average, DMA creates and submits only three (3) to five (5) sole source contracts annually.

Auditor's Reply

We acknowledge that KyEM is in a process of reviewing and improving its policies and procedures; however, we disagree with certain information presented in its response based on evidence gathered during the APA's Examination referenced in this finding.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-67: The Department Of Military Affairs Did Not Use Proper Procurement Procedures For A Contract (Continued)**

Auditor's Reply (Continued)

In the response, KYEM indicates it determined, along with Finance and Administration Cabinet procurement officials, that procurement of the software followed proper procedures. The auditor reply in the Examination stated:

The APA spoke to the KYEM director regarding this procurement, and the KYEM director acknowledged he did not have time to follow the procurement policies requiring COT review of computer services, and that he selected the software and software vendor he wanted. At no time did the director indicate the existence of other procurement documentation outside of that maintained in official procurement records reviewed by auditors. Those records indicate a procurement practice that did not follow state procurement requirements, as detailed in the examination.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-68: The Department Of Military Affairs Charged Expenditures To Federal Grants For The Governor’s Emergency Management Workshops That Were Not Allowable Or Properly Documented

State Agency: Department of Military Affairs

Federal Program: CFDA 20.703 - Interagency Hazardous Materials Public Sector Training and Planning Grants

CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

CFDA 97.042 - Emergency Management Performance Grants

Federal Agency: U.S. Department of Transportation and U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Amount of Questioned Costs: \$ 7,000

The Auditor of Public Accounts issued an *Examination of the Kentucky Emergency Management* (Examination) on August 6, 2013. During the audit of the Department of Military Affairs, Kentucky Division of Emergency Management (KYEM), we reviewed the examination and supporting documentation to identify any risks impacting the FY13 federal awards audit. We noted questioned costs for FY10, FY12, and FY13 due to poor management.

KYEM is responsible for organizing the annual Governor’s Emergency Management Workshop (GEMW) Conference. The 2010 GEMW conference was held June 23-24, 2010; the 2011 conference December 14-16, 2011; and the 2012 conference December 11-13, 2012. The conferences were held at the same hotel in Louisville, Kentucky all three years. The expenditures for all activities, including hotel rooms, meals, parking, and after-hours entertainment were on one bill from the hotel. This made it difficult to determine which fund paid for which activities. The Examination reviewed all expenditures related to the conferences in 2010 (FY10), 2011 (FY12), and 2012 (FY13). The conference expenditures were divided among various federal grant programs including Interagency Hazardous Materials Public Sector Training and Planning Grants (CFDA 20.703), Chemical Stockpile Emergency Preparedness Program (CFDA 97.040), and Emergency Management Performance Grants (CFDA 97.042). Certain specific issues are identified below based on our review of the Examination documentation.

Pre-Conference Planning

The special examination auditors noted KYEM employees spent several nights at the hotel conference center in FY10 to plan the conferences. The costs charged for these meetings included the hotel room cost, parking (including valet parking), and meal costs. These expenses were charged to the Chemical Stockpile Emergency Preparedness Program (CFDA 97.040). The hotel is approximately 50 miles from the KYEM office and planning for the event could have been accomplished without the overnight stays. The meal costs are unallowable because none of the employees should have been in travel status for such a short trip. The entire planning event and all associated costs are unallowable.

Conferences

The contract with the hotel included a waiver of room rental costs. Meal costs, included alcoholic beverages, exceeding the state per diem amount were included in the “Room Rental” line on the invoice.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-68: The Department Of Military Affairs Charged Expenditures To Federal Grants For The Governor's Emergency Management Workshops That Were Not Allowable Or Properly Documented (Continued)**

Altered Invoice

One invoice provided by KYEM as supporting documentation related to the 2010 GEMW conference was altered. The hotel representative stated the invoice was not from their software. The room rental charge was actually related to meal and beverages purchases, including alcohol.

Meals & Attendees

The special examination auditors found records were not sufficient to determine whether the event, amounts, numbers served, etc., were reasonable. There was no check in sheet verifying attendance. Two volunteers had their room costs covered, though neither volunteer was scheduled to work or speak at the conference. Both valet and regular parking charges were covered by KYEM.

After Hours Entertainment

Tickets and transportation to a sporting event and a trip on a steam boat were some of the after hours activities that took place after two of the conferences. We were unable to determine whether these activities were paid for with federal or state funding.

Attendee Gifts

During the FY13 special exam, the auditor noted a payment of \$14,000, was initially charged to fund type 1300. However, journal voucher moved \$7,000 to the Chemical Stockpile Emergency Preparedness Program (CFDA 97.040) in July 2010. The expenditure was for the purchase of novelties, specifically messenger bags and pens, to be given away at the GEMW conference.

Due to lack of supporting documentation and paying for unallowable costs, we question the entire expenditure, including those that were discovered in FY13 for prior fiscal years. Over the three year period beginning in 2010, likely questioned costs totaled \$122,416. This information should be brought to the attention of the appropriate governing bodies.

KYEM management did not follow the required federal and state rules and regulations for properly managing funds. Because of the nature of these expenditures, it is not likely that the costs are allowable federal expenditures. Therefore, KYEM may be required to repay these charges to federal grantors. We are questioning all of the costs associated with the Examination due to the intertwined nature of the transactions and lack of supporting documentation. Expenditures were put in one fund and subsequently transferred to other funds and federal programs. This made it difficult to track the original expenditure and determine allowability.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-68: The Department Of Military Affairs Charged Expenditures To Federal Grants For The Governor's Emergency Management Workshops That Were Not Allowable Or Properly Documented (Continued)**

OMB Circular A-87, which applies to most federal grant programs, states:

To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):

- (a) Be necessary and reasonable for the performance and administration of Federal awards.
- (b) Be allocable to Federal awards under the provisions of A-87.
- (c) Be authorized or not prohibited under State or local laws or regulations.
- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- (j) Be adequately documented.

Recommendation

We recommend KYEM:

- Work with its federal grantor to determine the proper resolution for questionable costs related to conference expenditures.
- Implement procedures to maintain sufficient supporting documentation for all expenditures, related to the conference charges. These include conference records identifying attendees, both paid and unpaid registrants, as well as employees.

Management's Response and Corrective Action Plan**Kentucky Emergency Management's Response**

The pre-conference planning meetings for the 2010 GEMW Workshop/CSEPP Conference were held at the request of the Federal Emergency Management Agency (FEMA) Chemical Stockpile Preparedness Program (CSEPP) in preparation for its national conference of all CSEPP states. FEMA staff and over 20 representatives from seven (7) other CSEPP states attended the planning meetings at the conference center. The conference center is 52 miles from the KYEM office – not less than 40 – thus making it allowable for KYEM staff to be in travel status. FEMA actively participated in the planning of all training, after hour events, and giveaways (messenger bags and pens). All items charged to the KYEM CSEPP are programmatically allowable and known of by FEMA CSEPP staff prior to the conference.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-68: The Department Of Military Affairs Charged Expenditures To Federal Grants For The Governor's Emergency Management Workshops That Were Not Allowable Or Properly Documented (Continued)**

Management's Response and Corrective Action Plan (Continued)

KYEM has no control over the hotel industry's practice of how components are billed and identified. Valet charges were not paid by KYEM as the hotel reversed those charges. Furthermore, this was a massive gathering and all staff and volunteers were fully tasked. No one was provided a room that did not contribute to the successful outcome of the event. The two volunteers in question: one volunteer provided videoing services for the entire conference and the other provided the badge equipment and services at no cost to the agency.

All expenses associated with after hour activities which included a sporting event, steamboat trip, and modest receptions were underwritten by funds received from vendors. All vendor receipts and the costs associated with after hour events were carefully tracked and provided to the auditors.

KYEM has implemented procedures to better document all attendees and their roles and responsibilities.

Department of Military Affairs' Response

The Kentucky Office of Homeland Security (KOHS), the State Authorized Agent for the federal Emergency Management Preparedness Grant (EMPG), has examined all of the conference expenditures which were charged to the EMPG grant by KyEM. KOHS only disallowed approximately \$1,000 of GEMW conference costs charged to EMPG and those costs have subsequently been covered by agency funds instead.

The federal staff responsible for reviewing audit findings associated with CSEPP has yet to identify any disallowed expenses charged to this program. It should be noted that the conference in question was a dual conference of the GEMW and the annual national CSEPP conference, for which KyEM was the host. All planning for this conference included federal CSEPP representatives, who at the time identified what conference expenditures, could be covered by the KyEM CSEPP funding.

In 2012, the GEMW process was reviewed with the Finance Cabinet Office of Procurement Services to identify a more competitive method of obtaining a facility for the conference. The GEMW was competitively bid in 2012 and awarded to the vendor that could best meet the agency's needs for the conference. Building on the 2012 improvements, on October 10, 2013, the current GEMW contract was placed on the competitive bidding process per RFP 758 1400000266 by the Finance Office of Procurement Services. The bidding closed on October 24, 2013 and a contract was awarded to the Capital Plaza Hotel in Frankfort. One solicitation

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-68: The Department Of Military Affairs Charged Expenditures To Federal Grants For The Governor's Emergency Management Workshops That Were Not Allowable Or Properly Documented (Continued)**

Management's Response and Corrective Action Plan (Continued)

criteria was that the hotel had to be located in Frankfort so the Commonwealth would not incur travel expenses for Frankfort employees to conduct and attend the conference.

All conference decisions were made as a team to include KyEM and DMA Procurement, General Accounting, Budget and Internal Audit.

KyEM has changed the procedures associated with the planning and execution of the GEMW. All contractual procurement was spearheaded by the DMA Procurement Officer. During previous workshops, the registration fees and expenditures were oftentimes handled by non-Administrative Branch personnel. During the most recent workshop, all financial matters were the sole responsibility of the KyEM Administrative Branch personnel, thus ensuring that receipts and expenditures were properly supported and managed.

On September 16, 2013 notification to all ProCard holders and approvers was sent to give notice of new ProCards being issued and reiteration of current ProCard guidelines. During the issuing of the new cards, DMA ProCard Administrators made site-visits to distribute new ProCard packets, give new user orientation, have usage agreements signed and reiterated ProCard guidelines. DMA ProCard Administrators will begin to make routine site-visits to ProCard holders annually and if necessary more frequent to ProCard trouble spots.

Auditor's Reply

We acknowledge KYEM plans corrective actions to implement procedures which adequately document attendees and their roles and responsibilities and make joint conference planning decisions. The following are responses to specific comments in the corrective action plan above.

Our correspondence with the Kentucky Office of Homeland Security regarding EMPG, indicated expenditures of \$8,530 from the FY 11 GEMW conference were disallowed.

When implementing the new procedures, KYEM should be aware that participation in conference planning by federal employees or other participants does not relieve state agencies of the requirement to comply with OMB Circular A-87.

In addition, the APA Examination noted the all inclusive methodology described by the hotel representatives was not clear given all charges were not listed under a single line item, but were split among various categories. The Examination further noted discussions with hotel representatives indicated KYEM instructed them to modify cost details on invoices to move meal costs exceeding the state per diem limitations to a "Room Rental" line item in order to be in compliance with state per diem regulations.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-68: The Department Of Military Affairs Charged Expenditures To Federal Grants For The Governor's Emergency Management Workshops That Were Not Allowable Or Properly Documented (Continued)**

Auditor's Reply (Continued)

Federal funds should not be used to pay the hotel costs for "volunteers" who are not attending or presenting at the conference.

The APA disagrees with KyEM's response that all vendor receipts and costs were carefully tracked and provided to the auditors during the Examination. The funds from the vendors were deposited into the state treasury and this comingled with state funds so it was not possible for the examination auditors to determine if attendees or vendors paid for the activities. Also, the evidence gathered during the Examination clearly identifies that entertainment and other unallowed costs exceeded the amount collected from vendors. The auditor reply in the Examination stated:

Once those fees were deposited into state accounts, they become state revenues and must follow all proper procurement requirements when spent. All expenditures from the state treasury should be necessary to carry out the agency's governmental function and be reasonable in amount. Therefore, the APA contends that those fees should have offset the overall cost of the conference to reduce the need for taxpayer funds rather than spent on entertainment and other nonessential items.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-69: The Department Of Military Affairs Cash Management And Reporting Procedures For The Pre-Disaster Mitigation Congressional Grant Were Not Sufficient To Ensure Timely Receipt Of Reimbursements And Accurate Reporting**

State Agency: Department of Military Affairs
Federal Program: CFDA 97.047 - Pre-Disaster Mitigation
Federal Agency: U.S. Department of Homeland Security
Pass-Through Agency: Not Applicable
Compliance Area: Cash Management and Reporting
Amount of Questioned Costs: \$ 0

During the FY13 audit of the Department of Military Affairs (DMA), we reviewed the SF-425 Federal Financial Reports and SF-270 Request for Advance or Reimbursement Reports for CFDA 97.047 Pre-Disaster Mitigation Congressional 09 (PDMC-09) grant. We noted:

- Supporting documentation for a drawdown request should not be the SF-425 quarterly report. The Accounting Section Branch Manager used the expenditure amounts on the SF-425 reports from Kentucky Division of Emergency Management (KYEM) to request reimbursement of funds.
- Only one SF-270 cash drawdown occurred during fiscal year 2013. The FY12 auditor issued a finding documenting a delay in drawing down federally reimbursable funds to the State. DMA's normal process is to request reimbursement weekly. Since reimbursements were requested based on the SF-425 quarterly reports instead of the normal process, there should have been four reimbursements. We noted a SF-270 Request for Reimbursement was completed for \$73,274 with a certification date of November 2, 2012; however, funds were not received until July 2013 according to the State's accounting system.
- We could not verify eMARS and the SF-425 receipt amount agreed to federal records. There was no report from the Federal Government documenting the amount reimbursed for the PDMC-09 grant.
- The September 2012 SF-425 reported cash receipts of \$1,805,752; however, the eMARS 2610 report showed receipts of \$1,612,806. This is an overstatement on the SF-425 report of \$192,947.
- The 2610 eMARS report used by DMA did not include adjustments for "period 13" transactions. These are transactions occurring during the year end close out process. From the beginning of the grant to June 30, 2013, the period 13 transactions totaled \$56,732 for expenditures and \$274,726 for receipts. These amounts were not reflected in the SF-425 reports.
- The eMARS report generated by the auditors did not agree to the eMARS 2610. After adjusting our eMARS report for the period 13 transactions, a \$16,799 understatement in receipts remained. DMA has not been able to explain the reason for this variance.

The grant was not set up to the Federal Government's Payment Management System (PMS) or other federal reimbursement system. DMA cannot follow the normal procedures for reimbursing expenditures and SF-425 reporting. Alternative procedures do not ensure adequate supporting documentation for both SF-425 reporting and timely reimbursement of funds. The SF-425 report should not be used as a basis

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-DMA-69: The Department Of Military Affairs Cash Management And Reporting Procedures For The Pre-Disaster Mitigation Congressional Grant Were Not Sufficient To Ensure Timely Receipt Of Reimbursements And Accurate Reporting (Continued)**

for requesting reimbursement of expenditures because this does not result in accurate and timely reimbursement requests.

There is a lack of communication between the DMA's Accounting Section and the Kentucky Division of Emergency Management (KYEM) Administrative Branch. This resulted in a delay in requesting reimbursement of the funds. The State loses the opportunity to earn interest when funds are not requested for reimbursement from the Federal Government timely. The State is not in compliance with 31 CFR 205.33.

There is no report from the Federal Government verifying the amount received by KY for the PDMC09 grant so we cannot verify the SF-425 report cash receipts are accurate.

The SF-425 September 2012 quarterly report cash receipts did not agree to the eMARS 2610 report, which is the only support for the amounts on the SF-425. The SF-425 report is overstated by \$192,947. This overstatement was corrected on the subsequent quarterly report which agreed to the eMARS 2610 report; however, a problem remains. The period 13 transactions were not included on any of the FY 13 SF-425 reports. This means all of the FY13 SF-425 reports are inaccurate.

Also, we could not arrive at the receipts amounts on the eMARS 2610 when generating our own eMARS report. After adjusting our report for the period 13 receipts a \$16,799 unexplained difference remained.

A good internal control system should provide for adequate communication and supporting documentation, even when the normal procedures cannot be followed. The cash receipts reported on the SF-425 report should be accurate and agreed to eMARS. In addition, DMA should be aware of the criteria used to generate the 2610 report to ensure it provides accurate information for SF-425 reporting.

31 CFR 205.33 states, "The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs." An effective internal control system should allow less than a 30 day time frame between the expenditure and request for reimbursement.

Recommendation

We recommended DMA:

- Ensure the DMA Administrative Branch Manager receives quarterly SF-425 reports and supporting documentation in a timely manner.
- Ensure amounts requested for reimbursement agree to SF-425 reports.
- Draw down all federal funds for reimbursement in a timely manner.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-DMA-69: The Department Of Military Affairs Cash Management And Reporting Procedures For The Pre-Disaster Mitigation Congressional Grant Were Not Sufficient To Ensure Timely Receipt Of Reimbursements And Accurate Reporting (Continued)**

Recommendation (Continued)

- Include the period 13 transactions in the cumulative expenditures and receipts when preparing the SF-425 reports.
- Determine the criteria used to create the 2610 eMARS reports to ensure the 2610 report is providing the correct expenditure and receipt amounts for SF-425 reporting.

Management's Response and Corrective Action Plan*Kentucky Emergency Management's Response*

All SF-425 reports have previously been provided to DMA. KYEM will ensure that the DMA Administrative Branch Manager is included in this distribution.

DMA is responsible for making federal grant drawdowns. Each week, KYEM provides DMA with an email which denotes the amount of Federal drawdowns which need to be made by DMA. The amounts provided are based on the billing reports extracted from eMARS. In an attempt to provide better lines of communication, the KYEM Administrative Branch has been relocated to the same building as the DMA administrative staff. Being in close proximity will provide the opportunity for these entities to work through matters face to face rather than relying on emails and phone calls.

The exclusion of Period 13 transactions on the last quarterly report of the fiscal year will not affect prior or subsequent reports. Use of the Period 13 data for the last quarter period will delay the completion of quarterly reports and endanger the timely submission for that final quarter. KYEM has included the Period 13 activity in the following quarterly reports or, if applicable, on the close out reports as part of the cumulative amounts of the impacted grants.

The cited difference in the September 2012 quarterly cash receipts reported on the SF-425 disagreed as DMA was reporting a drawdown which had not yet posted to eMARS. New procedures ensure that only finalized drawdowns are reported.

On, March 1, 2013, the Department of Military Affairs issued a directive which provides procedures to be followed by KYEM in the preparation of all federal quarterly reports. Testing of the procedures indicates that the process is accurate and reliable. Effective July 1, 2013, KYEM is following the directive. Again emphasizing that eMARS is the basis for all data used in all quarterly reporting.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-DMA-69: The Department Of Military Affairs Cash Management And Reporting Procedures For The Pre-Disaster Mitigation Congressional Grant Were Not Sufficient To Ensure Timely Receipt Of Reimbursements And Accurate Reporting (Continued)

Management's Response and Corrective Action Plan (Continued)

Department of Military Affairs' Response

March 1, 2013, DMA issued ICSOP#1400 Procedures for Required Federal Grant Financial Reporting and Statements. These procedures were not distributed until April 1, 2013 due to personnel changes in the Office of Management and Administration.

New guidelines for reporting the Total Recipient Share Required and the Recipient Share of Expenditures will be developed and distributed before March 31, 2014.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-EEC-70: The Energy And Environment Cabinet Did Not Ensure All Subrecipients Obtained An A-133 Audit When Required**

State Agency: Department of Natural Resources

Federal Program: CFDA 15.252 – Abandoned Mine Lands Reclamation Program

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

The Energy and Environment Cabinet (EEC) did not ensure one subrecipient in the Abandoned Mine Lands Reclamation Program (AMLR) obtained a single audit as required by federal regulations. The Knott County Water and Sewer District received AMLR grant funds through EEC in excess of \$1 million for every calendar year from 2008 through 2012; however, no single audit report for any of those years has been filed with the federal audit clearinghouse.

The Office of General Administration and Program Support Shared Services (GAPS) is responsible for obtaining single audit reports for subrecipients receiving federal funds passed through EEC, the Public Protection Cabinet, and the Labor Cabinet. GAPS did not properly track the submission of these audit reports to ensure all audits were received as required.

As a result, the Knott County Water and Sewer District did not obtain required single audits. Non-compliance material to AMLR may have occurred, and consequently EEC would not have known to take appropriate action. This is a repeat of a fiscal year 2012 finding, which noted similar issues for five subrecipients including the Knott County Water and Sewer District.

The Office of Management and Budget published Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, to implement the Single Audit Act of 1996 (Amended). Single audits cover financial statements and major federal program compliance. At §.400(d)(4) Circular A-133 requires pass-through entities (recipients that make sub-awards such as AMLR water line sub-grants to cities, counties, and water districts) to ensure that subrecipients expending \$500,000 or more in federal awards obtain an audit performed according to A-133. At §.225 it requires pass-through entities to take appropriate action in cases of inability or unwillingness to obtain a required audit, such as withholding a percentage of federal awards, suspending federal awards, or terminating the federal award.

Recommendation

We recommend GAPS strengthen its procedures in relation to tracking and obtaining single audits for its subrecipients in order to ensure federal compliance is achieved.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-EEC-70: The Energy And Environment Cabinet Did Not Ensure All Subrecipients Obtained An A-133 Audit When Required (Continued)**

Management's Response and Corrective Action Plan

The Office of General Administration and Program Support (GAPS) initiated and implemented additional policies and procedures to ensure compliance with The Office of Management and Budget published Circular A-133, Audits of States, Local Governments, and Non-Profit Organization, as a result of the reported findings in the FY2012 audit of the Abandoned Mine Land Program, issued March 22, 2013.

During the past year GAPS has implemented revised policies and procedures for requesting, tracking, reviewing and monitoring subrecipients for compliance of OMB Circular A-133. During the past year our concentration has been on rectifying those findings for FY2012 and ensuring FY2013 audits are requested, received, reviewed, and submitted to the Federal Audit Clearinghouse.

We were notified by the CPA auditing firm for the Knott County Water and Sewer District that the FY2012 Data Collection Form was submitted to the Federal Audit Clearinghouse and the CPA is checking into why that filing has not been published in the system.

As time allows we will make every effort to go back to historical years and verify A-133 compliance. However, due to time constraints we want to ensure that active subrecipients are in A-133 compliance to guarantee that current federal appropriations are managed properly and any required corrective actions are enforced against current subrecipients.

Auditor's Reply

We agree with management that a focus upon subrecipients' recent compliance with A-133 audit requirements is appropriate. However, as an entity operating on a calendar year, the Knott County Water and Sewer District should have submitted a 2011 audit to the federal clearinghouse no later than September 30, 2012. Thus, management's responsibilities during fiscal year 2013 were to ensure completion of the 2011 audit, to obtain and review a copy of it, and to take appropriate action on any findings related to the AMLR program. Information from the Knott County Water and Sewer District's auditor confirms no A-133 audit was performed during 2009, 2010, or 2011.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KDE-71: The Kentucky Department Of Education Failed To Obtain The Required Federal Cash Request Statement Of Assurances From Some School Districts**

State Agency: Department of Education

Federal Program: CFDA 84.010 - Title I Grants to Local Educational Agencies
CFDA 84.367 – Improving Teacher Quality State Grants

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

During our FY 2013 testing of the Title I Grants to Local Educational Agencies (Title I, Part of the ESEA), and Title II, Part A, Improving Teacher Quality State Grants, we noted that the Kentucky Department of Education (KDE) did not uphold its policy requiring all school districts submit a Federal Cash Request Statement of Assurances, signed and dated by authorized district personnel and the District Superintendent, prior to KDE's reimbursement of funds. Accordingly, we identified \$1,758,720 in Title I reimbursements by KDE to nine school districts prior to having received the required signed and dated Federal Cash Request Statement of Assurances. We also noted that a total of \$288,710 of Improving Teacher Quality State Grant program funds was reimbursed to nine other school districts prior to KDE's receipt of the required signed and dated Federal Cash Request Statement of Assurances.

KDE's failure to obtain the required signed and dated Federal Cash Request Statement of Assurances may be attributed to oversight.

The failure to uphold KDE's federal grant program reimbursement policies and procedures constitutes an internal control deficiency which could potentially permit the authorization of expenditures that are not in compliance with state or federal regulations.

Effective internal controls over the Federal Cash Request reimbursement process require KDE's policies and procedures be implemented at all times in order to ensure federal subrecipient monitoring compliance, as well as safeguard state and federal funds.

Recommendation

We recommend KDE strengthen the existing internal controls over the Federal Cash Request Statement of Assurances to ensure that all statements are updated each fiscal year and received timely. The Statement of Assurances should include the required signatures, titles, e-mail addresses, approvals, and proper dates.

Management's Response and Corrective Action Plan

In the last year KDE has made improvements to the federal cash process including stricter controls and checkpoints to ensure that districts are not paid without proper authorization. New staff has been involved in developing the additional control procedures with management and understand the importance of having the statement of assurance on file to prevent this occurrence beyond FY13.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-KDE-72: The Kentucky Department Of Education Failed To Correct A Federal Cash Drawdown Error**

State Agency: Department of Education

Federal Program: CFDA 84.367 - Improving Teacher Quality State Grants

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Cash Management

Amount of Questioned Costs: \$ 6,777

During our testing of the FY 2013 Title II, Part A, Improving Teacher Quality State Grants, we noted that for one of the federal cash reimbursements the Kentucky Department of Education (KDE) inadvertently overdrew program funds by \$6,777 when entering the dollar amount into the United States Department of Education's (USDE) reimbursement system. Although KDE clearly documented the error on the respective Kentucky State Treasury Electronic Deposits Transmittal Form, KDE did not return the overdrawn funds to USDE. Furthermore, KDE was unable to determine whether its subsequent federal cash draws were reduced by the \$6,777.

KDE's failure to correct the \$6,777 federal cash drawdown error may be attributed to the lack of internal controls in place to prevent and/or resolve federal program cash drawdown errors.

Although the \$6,777 excess draw of federal funds was unintentional, KDE's lack of internal controls over the federal program cash draws and activities constitutes a federal Cash Management non-compliance. As such, the failure to perform, or clearly document, the subsequent correction of the drawdown error calls into question the validity of the \$6,777 received by KDE.

Effective internal controls over federal Cash Management requirements dictate that policies and procedures be in place to assure that federal program funds are utilized as stipulated within the specific grant agreement, OMB Circular A-133, Parts 3 & 4 – Cash Management, and within the applicable CFRs. In accordance with the Federal Code of Regulations (CFR) Title 31§205.12(b)(5), "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

Recommendation

We recommend KDE further research and determine whether the \$6,777 in questioned cost has been corrected. Evidence of the measures taken and the corrective action should be clearly documented and maintained. In addition, we recommend KDE implement, as applicable, policies and procedures over the federal Cash drawdown process, sufficient to prevent, detect, and resolve drawdown errors, and assure compliance with Federal Office of Budget and Management's Cash Management requirements. The policies and procedures should include guidance for corrective actions necessary in the event of cash drawdown errors, including instructions for documenting any errors, as well as the resolution of those errors.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-KDE-72: The Kentucky Department Of Education Failed To Correct A Federal Cash Drawdown Error (Continued)**

Management's Response and Corrective Action Plan

KDE has the necessary controls in place to prevent this error in the future. This error was corrected in December 2013 before the close of the program in federal fiscal year 2012. The circumstances surrounding this issue were discussed with the APA who responded that they feel confident KDE's internal controls over cash management were effective throughout the remainder of FY13.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-KDE-73: The Kentucky Department Of Education (KDE) Failed To Verify The Reporting Of Expenditures On A Federal Cash Request Form By One School District Or Obtain Proper Justification Prior To KDE's Reimbursement To The District

State Agency: Department of Education

Federal Program: CFDA 84.010 - Title I Grants to Local Educational Agencies

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$ 0

During our testing of the FY 2013 Title I, Grants to Local Education Agencies, we noted that the Kentucky Department of Education (KDE) provided one school district \$138,473 of funding in excess of KDE's reimbursement policy. Based upon our review of Federal Cash Request Forms and other financial records, KDE had initially provided the school district a total of \$113,022 of funding in excess of supporting expenditures. Although districts are permitted to request funds in advance of supporting expenditure documentation, they are required to expend such budgetary advances within a reasonable time. KDE, however, subsequently provided the requesting school district an additional \$25,451 without obtaining justification from the district or evidence of having expended existing funds.

KDE's failure to assure that the school district submitted the required expenditure totals with its Federal Cash Request Form prior to reimbursement, or that the school district provided proper justification for the amount requested was likely due to oversight.

The failure to uphold KDE's federal grant program reimbursement policies and procedures constitutes an internal control deficiency, as well as violation of Title 34 of the Code of Federal Regulations (CFR) §80.21(c), which resulted in \$138,473 of overpayments/advances to one school district. In addition, the school district may potentially have earned interest on the excess funds. Interest earned greater than \$100 is prohibited by 34 CFR §80.21(i). While this appears to result in a questionable cost, the school district would still have the opportunity to provide supporting expenditure documentation as evidence of having utilized the advance funding. Therefore, the \$138,473 is not considered to be a questionable cost at this time.

According to KDE's reimbursement policy, school districts are permitted to request reimbursement funds monthly, not to exceed the amount calculated using the following formula: Expenditures to date, less cash previously received, plus 1/9th of the Approved Final Budget. KDE's reimbursement policy does permit school districts to submit requests exceeding the formula amount, however, justification for such a request must be provided; otherwise KDE will adjust the amount or deny the request.

In addition, 34 CFR §80.21(c) Advances, states: "Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee."

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-KDE-73: The Kentucky Department Of Education (KDE) Failed To Verify The Reporting Of Expenditures On A Federal Cash Request Form By One School District Or Obtain Proper Justification Prior To KDE's Reimbursement To The District (Continued)**

Recommendation

We acknowledge that KDE has implemented procedures during FY 2014 requiring districts to properly submit justification for requests that exceed the previously stated formula and that the transaction referenced above occurred before these procedures were in place. We recommend that KDE continue to follow the new policy in place which requires school districts to submit justification for any cash requests when their previous cash received exceeds their expenditures to date.

In addition, we recommend that KDE implement policies and procedures requiring the review of each submitted Federal Cash Request Form to assure that budgetary funding to the school districts, including cash advances, be offset by program expenditures within a reasonable period.

Management's Response and Corrective Action Plan

Division of Budget and Financial Management staff review MUNIS quarterly reports to ensure the budgeted amount is correct and funds are spent in allowable codes. The federal cash process was amended in spring 2012 to request a justification for excess cash on hand and was in effect during fiscal year 2013. Management has implemented the necessary tools and guidelines to prevent similar issues in the future.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 13-TC-74: The Transportation Cabinet's Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely

State Agency: Department of Highways

Federal Program: CFDA 20.205 – Highway Planning and Construction
CFDA 20.219 – Recreational Trails Program

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed

Amount of Questioned Costs: \$ 0

During the FY13 audit of the KYTC, we requested contractor performance reports for 57 contracts from the Division of Construction Procurement. Contractor performance reports are required to be submitted in January for the prior calendar year for multi-year projects. There were 11 contracts out of 57 for which the contractor performance reports were not on file in the Division of Construction Procurement.

This was a finding in the FY10, FY11, and FY12 audits and some corrective action was taken by the applicable highway districts. However, additional action is necessary since the performance reports are still not being completed or submitted as required.

The Division of Construction Procurement uses the contractor performance reports to determine an average performance rating, which is used to calculate the contractor's maximum eligibility amount. By not submitting the reports, the maximum eligibility amount for a contractor may change and this may result in the contractor not being able to bid on desired projects. Contractor's have an incentive to perform quality work if their maximum eligibility amount can increase as a result.

49 CFR 18.40 (a) states:

- (a) *Monitoring by grantees.* Grantees are responsible for managing the day to- day operations of grant and sub grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.

The Instructions and Guidelines for Contractor Performance Report on the Division of Construction's website states:

For "end-of-project" evaluations, the Section Engineer has ten (10) business days to submit the completed Contractor's Performance Report to the CDE [*Chief District Engineer*].

For projects spanning one calendar year, an "annual" evaluation is required, the Section Engineer is responsible for seeing that the "end-of-year" evaluations are completed and submitted to the CDE by December 31st of that year.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-74: The Transportation Cabinet's Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely (Continued)**

The CDE then has ten (10) business days to review the Contractor's Performance Report and have it sent to the Contractor with the appeal application. The TEBM [*Transportation Engineering Branch Manager*] for Project Delivery and Preservation is responsible for forwarding the completed report to all recipients including forwarding a copy to the Division of Construction Procurement after the Appeals Deadline has expired.

Recommendation

We recommend KYTC:

- Develop a system for ensuring performance reports are both completed and submitted timely to the Division of Construction Procurement.
- Consider implementing a threshold amount for which performance reports will be filed by KYTC, which, was part of the agency response and corrective action plan from the FY12 finding for this same finding.

Management's Response and Corrective Action Plan

The Division of Construction Procurement (Division) is working with the Division of Construction and the University of Kentucky to improve and simplify the Contractor Performance Evaluation form. These changes will help the districts to better perform accurate and timely evaluations. This revised form will help to expedite the form submittals in a timely manner to the Division.

The Division of Construction field liaisons will coordinate with the Division to remind their districts to send evaluations on construction projects when they are due at the end of the year and/ or at project completion. Chief District Engineers are no longer required to sign the evaluations, which will increase timeliness as well.

The revised evaluation form and procedure were discussed at the Spring Construction training and the importance of the form was emphasized. Evaluations will not be required for subcontractors who perform less than \$50,000 in an evaluation period, but can be requested by the Contractor or the Division if deemed needed. We will continue to strive to improve our processes in this area.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-75: The Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements**

State Agency: Department of Highways

Federal Program: CFDA 20.205 - Highway Planning and Construction

CFDA 20.219 - Recreational Trails Program

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Davis-Bacon Act

Amount of Questioned Costs: \$ 0

The Kentucky Transportation Cabinet (KYTC) is required to follow the provisions of the Davis Bacon Act and other related acts on construction contracts greater than \$2,000. Contractors and subcontractors must submit payrolls for each work week or pay period. During the FY13 audit, we selected 12 contracts exceeding \$2,000. Each contract had a prime contractor along with varying numbers of subcontractors. We reviewed contracts and payroll records for 12 prime contractors and 51 subcontractors and noted:

- Four contractors and two subcontractors in which no payroll records were submitted during the life of the contracts.
- One contractor and four subcontractors in which various pay period information was missing.

KYTC is not ensuring all contractors and subcontractors required to submit payroll records are submitting them timely. Missing and late payroll records were issues in FY11 and FY12. While corrective action may have been taken, we still noted problems during FY13 testing.

29 CFR 3.3 (b) Weekly Statement With Respect To Payment of Wages in pertinent part states:

Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to wages paid each of its employees engaged on work covered by this Part 3 or Part 5 of this chapter during the preceding weekly payroll period.

Recommendation

We recommend KYTC implement procedures to ensure compliance with Davis-Bacon Act requirements, such as:

- Continuing to randomly select a sample of contractor files and verify all payrolls were received. This review should be documented.
- Follow-up with the appropriate highway district offices that are responsible for submitting the payrolls to the Division of Construction Procurement.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-75: The Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements (Continued)**

Management's Response and Corrective Action Plan

The Division of Construction Procurement (Division) is now working diligently with the Division of Construction and the District section offices to ensure payrolls are being submitted. The section offices are becoming more familiar with the certified payroll documents and the importance of each payroll.

The Division will randomly select a sample of contracts let each year for review. The Division will verify that all payrolls have been received and procedures have been followed. We will document our findings.

The Division now has a direct link to the US Department of Labor certified payroll form posted on their website. The certified payroll form that can be mailed directly to contractors as needed.

The Division is also working to implement a standard form for KYTC staff to use when payrolls are missing. This form may also reference 29 CFR which lists appropriate procedures for submitting certified payrolls.

The Division will send this form to the Division of Construction. The Division of Construction will work with the appropriate District office personnel responsible for receiving payrolls to help ensure they send in required payrolls.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 13-TC-76: The Transportation Cabinet Does Not Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations**

State Agency: Department of Highways

Federal Program: CFDA 20.205 – Highway Planning and Construction

CFDA 20.219 – Recreational Trails Program

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

The Kentucky Transportation Cabinet (KYTC) conducts Value Engineering (VE) analyses on highway construction projects as required by the Federal Highway Administration (FHWA). VE analyses are conducted to pinpoint areas where cost savings can occur.

Although KYTC ensures VE analyses are conducted and recommendations are approved for highway projects, the projects are not monitored after the analyses to ensure approved recommendations are incorporated into the projects' plans, specifications, and estimates, as required by FHWA.

KYTC does not have a system of internal controls in place to monitor the implementation of VE recommendations and has not designated a position or committee responsible for monitoring implementation of the recommendations from VE analyses.

VE recommendations may not be implemented into the project plans, thereby negating the purpose of the VE analysis. The two analyses from FY 2013 reviewed during the audit contained proposed recommendations for design changes totaling savings of \$37,044,779. Failure to monitor the approval/denial and the implementation of the recommendations could result in the Commonwealth of Kentucky overspending by as much as \$37,044,779 for those two projects.

23 CFR § 627.7 states, "(b) STAs [State Transportation Agencies] shall ensure the required VE analysis has been performed on each applicable project including those administered by sub-recipients, and shall ensure approved recommendations are implemented into the project's plans, specifications, and estimate."

Recommendation

KYTC should implement a system and designate a person or committee to be responsible for monitoring VE recommendations. This monitoring should ensure all recommendations are either approved or denied and ensuring approved recommendations are incorporated into project plans, specifications, and estimates.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-TC-76: The Transportation Cabinet Does Not Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations (Continued)****Management's Response and Corrective Action Plan**

KYTC currently has controls in place within the project development process that meet the criteria required by 23 CFR § 627.7 through the interdisciplinary project team meetings and reviews; however, there are additional measures KYTC is considering for the Value Engineering (VE) Program to more thoroughly monitor VE recommendations. The following will explain the VE Program as it currently exists and measures intended to more thoroughly monitor VE recommendations:

Current VE Program

The VE Program is centrally administered by the Quality Assurance Branch within the Division of Highway Design. The VE program coordinator is responsible for recommending projects that may require a value engineering analysis, communicating with each Project Manager (PM), and arranging for the completion of the VE analysis. The products of the VE analysis include a report and the VE Punch list, which is a summary table of the VE recommendations.

The Federal Highway Administration (FHWA) states that "VE studies are performed to add value to and enhance the quality of a project, not simply to reduce costs. VE studies should question project decisions that add cost to a project without improving its overall function." FHWA goes on to say "management must determine what impact the VE suggestion may have on the environmental or public hearing agreement when deciding whether or not to approve the suggestion. Although it may not be practicable to implement each and every recommendation proposed, the project decision makers should take the appropriate action to ensure that a fair and serious consideration of the proposed recommendations occurs."

In KYTC's project development process, the PM, Location Engineer and the Project Development Team (PDT) are "the project decision makers" who deliberate on the proposed VE recommendations. All VE recommendations receive serious consideration; however, it is seldom practical to implement all recommendations.

Once the VE analysis is complete, the KYTC VE program coordinator holds an Implementation Meeting with the PM and designees from the PDT to review the findings and recommendations. Each proposed VE recommendation is discussed and a decision is documented on the VE Punch list. If a VE recommendation needs further investigation before making a final decision to approve or reject, then the recommendation is listed as under consideration on the VE Punch list. All appropriate VE recommendations approved at the Implementation Meeting are subsequently incorporated into the project's design as the design progresses.

As stated before, the PM, Location Engineers and PDT make the recommendation whether or not to approve each of the VE recommendations. At this point the project development process continues with the PM and PDT leading the way. If the PM and PDT change project level

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 13-TC-76: The Transportation Cabinet Does Not Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations (Continued)****Management's Response and Corrective Action Plan (Continued)**

decisions, these decisions should be documented in the project file and in the Project Team meeting minutes. Depending on the stage of project development, these decisions may be documented in the conceptual design meeting minutes, the design executive summary, the final inspection report, or any number of Project Team meetings and inspections that occur over the life of the project's development. If a decision is made to deviate from an approved VE recommendation, documentation of the change and its justification will be found in the Project Team reports and/or meeting minutes.

Additional Measures

For projects that have had a VE analysis and are nearing the end of the design process, the VE Coordinator may request from the PM, verification (email is acceptable) that all the appropriate VE recommendations have been incorporated into the plans. If any approved VE recommendations have not been implemented, then the PM should provide comment as to why those VE recommendations could not be implemented. The VE Coordinator may also request a status update on the VE recommendations that were under consideration. If rejected, the PM should provide the reasons why those VE recommendations were ultimately not implemented. The VE Coordinator and PM will document all the final decisions in the project file.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 12	12-DMA-56	The Department Of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program	97.040	30,192	Resolved During FY 13
FY11	11-DMA-63	The Department Of Military Affairs Should Strengthen Controls Over 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program	97.040	15,403	Resolved During FY 13
FY10	10-DMA-55	The Department Of Military Affairs Should Ensure CSEPP Subrecipient Reimbursement Requests Are Properly Reviewed And Include Valid Supporting Documentation	97.040	7,691	Resolved During FY 13
FY11	11-KDA-64	The Kentucky Department of Agriculture Should Implement And Follow Formal Policies And Procedures For Subrecipient Monitoring	10.568 10.569	0	Resolved During FY 13
FY10	10-KDA-56	The Kentucky Department of Agriculture Should Implement And Follow Formal Policies And Procedures For Subrecipient Monitoring	10.568 10.569	0	Resolved During FY 13

(2) Audit findings not corrected or partially corrected:

There were no findings to report in this category.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

(4) Audit finding no longer valid or does not warrant further action:

There were no findings to report in this category.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 12	12-CHFS-57	The Cabinet For Health And Family Services Does Not Have A Sufficient System In Place For Federal Reporting	93.563	0	Resolved During FY 13
FY 12	12-CHFS-58	The Department For Medicaid Services Does Not Have Proper Tools Or Controls In Place To Monitor Federal Compliance Of Utilization Control And Program Integrity	93.720 93.775 93.777 93.778	0	Resolved During FY 13
FY 12	12-CHFS-61	The Department For Medicaid Services Does Not Have Adequate Controls In Place To Prevent Ineligible Members From Receiving Targeted Case Management Services	93.720 93.775 93.777 93.778	557	Resolved During FY 13
FY 12	12-CHFS-62	The Department For Medicaid Services Is Not Sufficiently Monitoring Drug Rebates	93.720 93.775 93.777 93.778	0	Resolved During FY 13
FY 12	12-CHFS-65	The Cabinet For Health And Family Services Failed To Report Medicaid And KCHIP Sub-awards For Transparency Reporting Purposes	93.767 93.720 93.775 93.777 93.778	0	Resolved During FY 13
FY 12	12-CHFS-67	The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program	93.558 93.714	0	Resolved During FY 13
FY 11	11-CHFS-65	The Cabinet For Health And Family Services Should Update The KASES System	93.563	0	Resolved During FY 13
FY 11	11-CHFS-69	The Department For Medicaid Services Should Properly Account For Drug Rebate Receivables	93.775 93.777 93.778	0	Resolved During FY 13

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected: (Continued)</i>					
FY 11	11-CHFS-73	The Cabinet For Health And Family Services Should Ensure All DCBS Office Maintain Case Files In Accordance With Federal Requirements	93.558 93.714	0	Resolved During FY 13
FY 12	12-DMA-68	The Department Of Military Affairs Division Of Emergency Management Failed To Ensure Only Eligible Payroll Expenses Are Billed For Reimbursement In The Chemical Stockpile Emergency Preparedness Program	97.040	59,986	Resolved During FY 13
FY 12	12-DMA-70	The Department Of Military Affairs - Kentucky Community Crisis Response Board Failed To Reconcile And Submit Required Reports Within Specified Time Frames	97.032	0	Resolved During FY 13
FY11	11-DMA-75	The Department Of Military Affairs Should Ensure Only Eligible Payroll Expenses Are Billed For Reimbursement In The Chemical Stockpile Emergency Preparedness Program	97.040	0	Resolved During FY 13
FY 12	12-DWI-72	The Department For Workforce Investment Did Not Prepare And Submit Federal Reports On Time	17.225	0	Resolved During FY 13
FY 12	12-EEC-73	The Energy And Environment Cabinet Did Not Report Sub-Grants Under The Abandoned Mine Lands Reclamation Program As Required By The Transparency Act Of 2008	15.252	0	Resolved During FY 13
FY12	12-EEC-75	The Energy And Environment Cabinet Did Not Calculate Performance Bonds To Provide Sufficient Funding For Reclamation And Did Not Perform All Required Inspections	15.250	0	Resolved During FY 13

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY 12	12-KDA-76	The Kentucky Department Of Agriculture Did Not Complete Five Percent Of Required Food Pantry On-Site Monitoring Visits	10.568 10.569	0	Resolved During FY 13
FY 12	12-KDA-77	The Kentucky Department Of Agriculture Did Not Agree Federal Reimbursements To Actual Grant Expenditures Per eMARS	10.568 10.569	0	Resolved During FY 13
FY11	11-KDA-79	The Kentucky Department Of Agriculture Should Implement Procedures To Ensure Subrecipient Audit Findings Are Properly Resolved	10.568 10.569	0	Resolved During FY 13
FY11	11-KDA-81	Kentucky Department Of Agriculture Should Implement Internal Controls To Ensure Compliance With Federal Cash management Requirements	10.568 10.569	25,982	Resolved During FY 13
FY 12	12-KDE-78	Maintenance Of Effort Requirements Were Not Met For The Special Education Program (IDEA) Administered By The Kentucky Department Of Education	84.027 84.173 84.391 84.932	0	Resolved During FY 13
FY 12	12-KDE-79	The Kentucky Department Of Education Did Not Comply With The Federal Transparency Act Reporting Requirements	84.010 84.389 84.027 84.173 84.391 84.392 84.367 84.377 84.388 84.287	0	Resolved During FY 13
FY 12	12-KDE-80	The Kentucky Department Of Education Failed To Enforce The Period Of Availability Requirements Related To Title I, Part A ARRA Funding	84.010 84.389	417,611	Resolved During FY 13

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY 12	12-KDE-81	The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests	84.287	0	Resolved During FY 13
FY11	11-KDE-82	The Kentucky Department Of Education Should Strengthen Its Procedures To Ensure Expenditures Are Not Charged To Federal Programs After The End Of The Period Of Availability Of Federal Funds	84.010 84.389 84.027 84.173 84.391 84.392 84.377 84.388	120,611	Resolved During FY 13
FY12	12-KYTC-83	The Kentucky Transportation Cabinet Did Not Complete Desk Reviews For Three Subrecipients	20.205 20.219	0	Resolved During FY 13
FY12	12-KYTC-84	The Kentucky Transportation Cabinet Did Not Perform And/Or Document Site Visits	20.205 20.219	0	Resolved During FY 13
FY11	11-KYTC-88	The Kentucky Transportation Cabinet Should Ensure Desk Reviews Are Completed Timely	20.205	0	Resolved During FY 13

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 12	12-CHFS-59	The Department For Community Based Services Did Not Maintain Supporting Documentation Required To Determine Member Eligibility For Medicaid	93.720 93.767 93.775 93.777 93.778	0	See 13-CHFS-51
FY 12	12-CHFS-60	The Department For Medicaid Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program	93.720 93.775 93.777 93.778	0	See 13-CHFS-50
FY 12	12-CHFS-63	The Cabinet For Health And Family Services, And Relevant Third Parties, Are Not Performing Desk Reviews On Inpatient Hospital And Long-Term Care Cost Reports In A Timely Manner	93.720 93.775 93.777 93.778	0	See 13-CHFS-52
FY 12	12-CHFS-64	The Cabinet For Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting	93.558 93.714 93.563 93.568 93.575 93.596 93.658 93.659	0	See 13-CHFS-53
FY 12	12-CHFS-66	The Cabinet For Health And Family Services Failed To Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program	10.551 10.561	0	See 13-CHFS-48
FY 11	11-CHFS-67	The Cabinet For Health And Family Services' Department of Community Based Services Should Ensure Staff Is Knowledgeable In Ensuring Eligibility For Medicaid Members And Retain Appropriate Documentation To Support Eligibility Determinations	93.775 93.777 93.778	0	See 13-CHFS-51

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected(Continued):</i>					
FY 11	11-CHFS-70	The Department For Medicaid Services Should Require Timely Submission Of Audited Cost Reports From Inpatient Hospitals	93.775 93.777 93.778	0	See 13-CHFS-52
FY 11	11-CHFS-71	The Department For Medicaid Services Should Ensure Documentation Is Maintained To Support Provider Eligibility And Implement Formal Procedures For Re-credentialing Providers	93.775 93.777 93.778	0	See 13-CHFS-50
FY 11	11-CHFS-72	The Cabinet For Health And Family Services Should Improve Electronic Benefits Transfer Card Security In Local Offices	10.551 10.561	0	See 13-CHFS-48
FY 12	12-DMA-69	The Department Of Military Affairs Division Of Emergency Management Failed To Ensure Federal Reports For The Chemical Stockpile Emergency Preparedness Program And Pre-Disaster Mitigation Program Are Based On eMARS, The State's Accounting System	97.040 97.047	0	See 13-DMA-65 and 13-DMA-69
FY 12	12-DMA-71	The Department Of Military Affairs - Kentucky Division Of Emergency Management (KYEM) Did Not Correctly Report Expenditures On The SF-425 Federal Financial Report For Disaster 1818P	97.036	1,391,683	See 13-DMA-62
FY 12	12-EEC-74	The Energy And Environment Cabinet Did Not Ensure All Subrecipients Under The Abandoned Mine Lands Reclamation Program Obtained A-133 Audits When Required	15.252	0	See 13-EEC-70
FY 12	12-KYTC-82	Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely	20.205 20.219	0	See 13-TC-74

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected(Continued):</i>					
FY 12	12-KYTC-85	The Kentucky Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements	20.205 20.219	0	See 13-TC-75
FY11	11-KYTC-86	The Kentucky Transportation Cabinet Should Ensure Contractor Performance Reports Are Completed And Submitted To The Division Of Construction Procurement Timely	20.205	0	See 13-TC-74
FY11	11-KYTC-87	The Kentucky Transportation Cabinet Should Ensure Compliance With Davis Bacon Act Requirements	20.205	0	See 13-TC-75
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings to report in this category.					
<i>(4) Audit finding no longer valid or does not warrant further action:</i>					
FY 10	10-CHFS-58	The Cabinet For Health And Family Services Should Maintain Supporting Documentation In Accordance With The State Plan	93.775 93.777 93.778	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY10	10-CHFS-59	The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan	93.775 93.777 93.778	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(4) Audit finding no longer valid or does not warrant further action (Continued):</i>					
FY10	10-CHFS-60	The Cabinet For Health And Family Services Should Update The KASES System	93.563	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY10	10-CHFS-63	The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices	10.551 10.561	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY10	10-CHFS-64	The Cabinet For Health and Family Services Should Ensure The Jefferson County DCBS Office Maintains Case Files In Accordance With Federal Requirements	93.558 93.714	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY10	11-KDA-70	The Kentucky Department Of Agriculture Should Ensure Subrecipients Are Compliant With Federal Audit Requirements	10.568 10.569	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(4) Audit finding no longer valid or does not warrant further action (Continued):</i>					
FY10	10-TC-72	KYTC Should Ensure Compliance With Davis Bacon Act Requirements	20.205	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY10	10-TC-74	KYTC Should Ensure Subrecipient Desk Reviews Are Completed Timely	20.205	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

APPENDIX

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

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

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

Agency	Contact
Cabinet for Health and Family Services	Kelli Hill, Assistant Director Division of General Accounting Cabinet for Families and Health Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone (502) 564-8890
Department of Local Government	Lynn Littrell, Director Office of Federal Grants Department for Local Government 1024 Capital Center Drive, Suite 340 Frankfort, KY 40601 Phone (502) 573-2382
Department of Military Affairs	Terry L. Moore, Chief Administrative Officer Office of Management and Administration Department of Military Affairs Boone National Guard Center 100 Minuteman Parkway, EOC Building Frankfort, KY 40601 Phone (502) 607-1263
Energy and Environment Cabinet	Steve Hohmann Commissioner, Department of Natural Resources 2 Hudson Hollow Frankfort, KY 40601 (502)564-6940
Kentucky Department of Education	Charles Harman, Director Division of Budget & Financial Management Capital Plaza Tower 500 Mero Street, 16th Floor Frankfort, KY 40601 (502)564-2351 ext. 4326

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

Agency	Contact
Transportation Cabinet	Alice Wilson, Executive Director Office of Audits Transportation Cabinet 200 Mero Street 4E Frankfort, KY 40622 Phone (502) 782-4041

