



Auditor of Public Accounts  
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**Edelen releases volume one of the annual statewide audit of the Commonwealth**

**FRANKFORT, Ky. (February 4, 2015)** – Auditor Adam Edelen on Wednesday released the first part of the annual statewide audit of the Commonwealth of Kentucky for fiscal year ending June 30, 2014, expressing an unmodified or clean opinion on the state’s financial statements.

Federal law requires an audit of the state’s financial statements, which expresses an opinion on \$25.5 billion in expenditures. The second part of the audit, to be released in March, focuses on the state’s compliance with federal grant requirements.

The audit, known as the Statewide Single Audit of Kentucky (SSWAK), contains a total of 49 findings with recommendations related to deficiencies in internal controls over financial reporting. Last year’s audit contained 40 findings with recommendations.

The audit contains three material weaknesses, which are deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Commonwealth’s financial statements may not be prevented, or detected and corrected on a timely basis.

Both the Cabinet for Health and Family Services and the Department for Workforce Investment submitted closing packages to the Finance Administration Cabinet that contained misstatements. CHFS errors identified overstatements for accounts payable and related expenditures of nearly \$95 million related to the General Fund and \$427 million related to the Federal Fund, and overstatements of accounts receivable and related revenue in the amount of \$424 million for the federal fund. The magnitude of the errors and the agency’s failure to detect the errors in the normal course of preparing its year-end financial information suggests that material misstatements could occur without detection.

DWI’s failure to formally document policies and procedures for preparing and reviewing the closing package resulted in an overstatement of accounts receivable by \$717,954 and an understatement of accounts payable by nearly \$21 million. The lack of oversight and review by DWI could result in a material misstatement to the financial statements for the Unemployed

Compensation Fund reported in the Commonwealth's Comprehensive Annual Financial Report if undetected.

"These are serious accounting errors that are frankly unacceptable," Auditor Edelen said. "Both agencies need to take steps to ensure these closing packages are submitted accurately in the future."

The audit contains five findings related to the Department of Juvenile Justice that are similar to findings at DJJ in the two previous SSWAK reports. Auditors found that some state vehicles that were not approved as take home vehicles were being used inappropriately for commuting to work. Testing noted that mileage logs for four vehicles were missing or destroyed for all or portions of the time period requested.

Auditors also found that a DJJ employee was assigned a Warren County workstation even though the majority of their work time was in Fayette, Franklin and Jefferson counties, allowing the person to receive significant mileage reimbursement and be paid for the commute. Other findings identified weaknesses related to controls over cash accounts, the use of procurement cards and approval for overtime and leave time.

"Deficiencies turn up from time to time in the most well-run, well-intentioned agencies," Auditor Edelen said. "What concerns me is when an agency has repeat findings that indicate a lack of controls over cash, pro cards and travel. That's often a red flag that there are systemic problems and a lax culture. I strongly recommend DJJ management take our recommendations seriously."

Auditor Edelen noted that the Kentucky Horse Park also has had repeat findings related to cash flow and management.

"It is my hope that the new Horse Park administration will take steps to implement our recommendations and strengthen operations at one of Kentucky's finest assets," Auditor Edelen said.

Cyber security continues to be of concern in the SSWAK. The report contains 17 comments associated with IT audits conducted as part of the SSWAK process. In eight agencies, management had not identified data they own or house on their networks that would be considered sensitive or confidential, or taken the steps to protect the data. In one agency, auditors were able to view potentially sensitive files on 4 machines.

A total of 42 auditors, 29 financial auditors and 13 IT auditors, reviewed the Commonwealth's financial statements and technology systems. The audit took nearly 24,000 hours to complete.

The full report can be found on the [Auditor's website](#).

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