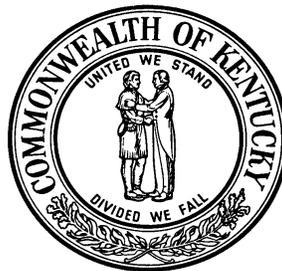


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME I

**For the Year Ended
June 30, 2014**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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**THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2014**

Background

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

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

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

Comprehensive Annual Financial Report

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

The scope of the CAFR audit included:

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

**THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2014**

Schedule of Expenditures of Federal Awards

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

For fiscal year ended June 30, 2014, the total federal dollars expended by the Commonwealth of Kentucky was \$ 8,800,371,132 in cash awards and \$ 1,313,591,363 in noncash awards. For fiscal year 2014, the total federal cash expenditures as reported on the SEFA increased in comparison with the total for fiscal year 2013.

Component Units

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

February 4, 2015

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

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the year ended June 30, 2014. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

We will subsequently report to you the required elements of the Federal government's Office of Management and Budget (OMB) Circular A-133 in Volume II of this report upon completion of our audit of the Commonwealth's major federal programs.

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

Respectfully submitted,

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

Adam H. Edelen
Auditor of Public Accounts



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LIST OF ABBREVIATIONS/ACRONYMS

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2014**

ADA	Adjusted Average Daily Attendance
AASHTO	American Association of State and Highway Transportation Officials
ACA	Affordable Care Act
ACH	Automated Clearing House
AD	Active Directory
ADB	Agriculture Development Board
AFR	Annual Financial Report
AGR	Department of Agriculture
AICPA	American Institute of Certified Public Accountants
AOC	Administrative Office of the Courts
APA	Auditor of Public Accounts
ARRA	American Recovery and Reinvestment Act
AUP	Acceptable Use Policy
BCPS	Bullitt County Public Schools
BPP	Business Process Procedures
CAFR	Comprehensive Annual Financial Report
CAMRA	Complete Asset Management Reporting and Accounting
CDC	Commonwealth Data Center
CED	Cabinet for Economic Development
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHFS	Cabinet for Health and Family Services
CIO	Chief Information Officer
CISO	Chief Information Security Officer
CMA	Commission on Military Affairs
Commonwealth	Commonwealth of Kentucky
CORR	Department of Corrections
COT	Commonwealth Office of Technology
CP	Commonwealth Paid
CPA	Certified Public Accountant
CSD	Commonwealth Service Desk
CT	Contract
CT2	Contract 2-Way Match
CTS	Comprehensive Tax System
CTT1	Contract KYTC
CTT2	Contract 2-Way Match KYTC
CW	Checkwriter
CWC	Checkwriter Cancellation
DAB	Data Analysis Branch
DAMA/DMBOK	The Data Management Association International Book of Knowledge
DAPS	Division of Accounting and Procurement Services
DBA	Database Administrator

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMNS
FOR THE YEAR ENDED JUNE 30,2014
(Continued)**

DBFM	Division of Budget & Financial Management
DBHDID	Department for Behavioral Health and Developmental and Intellectual Disabilities
DBR	Daily Business Report
DCBS	Department of Community Based Services
DCJT	Department of Criminal Justice Training
DCTRL	Document Control
DDS	Division of District Support
DEI	Department of Employee Insurance
DEM	Division of Employee Management
DGA	Division of General Accounting
DJJ	Department of Juvenile Justice
DLA	Department of Libraries and Archives
DLG	Department for Local Government
DMA	Department of Military Affairs
DMS	Department for Medicaid Services
DMZ	Demilitarized Zone
DO	Delivery Order
DOD	Department of Defense
DO2	Delivery Order 2-Way Match
DO4	Delivery Order punchOut without ProCard
DOA	Division of Accounts
DOE	Department of Education
DOC	Department of Corrections
DOP	Department of Parks
DOR	Department of Revenue
DTS	Division of Technology Services
DVA	Department of Veterans Affairs
DVOP	Disabled Veterans' Outreach Program
DWI	Department for Workforce Investment
EASC	Enterprise Architecture and Standards Committee
EBT	Electronic Benefit Transfer
EDD	Enterprise Data Dictionary
EDU	Department of Education
EEC	Energy and Environment Cabinet
EFT	Electronic Funds Transfer
eMARS	enhanced Management Administrative and Reporting System
EO	Executive Order
ePAY	ePayment Gateway
EPA	Environmental Protection Agency
EPPC	Environmental and Public Protection Cabinet
EPSB	Education Professional Standards Board
EPSDT	Early and Periodic Screening, Diagnosis, and Treatment
ERQ	Event Requirements

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMNS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

ES	Employment Services
ETA	Employment and Training Administration
F&W	Department of Fish and Wildlife Resources
FAC	Finance and Administration Cabinet
FAP	Finance and Administration Cabinet Policy
Finance	Finance and Administration Cabinet
FEMA	Federal Emergency Management Agency
FHWA	Federal Highway Administration
FTI	Federal Tax Information
FTP	File Transfer Protocol
FY	Fiscal Year
FYE	Fiscal Year Ending
GAAP	Generally Accepted Accounting Principals
GAIP	General Accounting Intercept Payment
GASB	Governmental Accounting Standards Board
GAX	General Accounting Expense/Expenditure
GOV	Office of the Governor
HB	House Bill
HCBS	Home and Community Based Services
HIPAA	Health Insurance Portability and Accountability Act of 1996
HP	Hewlett-Packard
HR	Human Resource
HRA	Human Resources Administrator
HRC	Kentucky Commission on Human Rights
HRG	Human Resource Generalist
I3/I.3	Information Technology Infrastructure Initiative
ID	Identification
IP	Internet Protocol
IRS	Internal Revenue Service
IT	Information Technology
JCPS	Jefferson County Public Schools
JUST	Justice and Public Safety Cabinet
JUV	Department of Juvenile Justice
JV2P	Parks Receivable
JVSG	Jobs for Veterans State Grant
KAR	Kentucky Administrative Regulations
KAC	Kentucky Arts Council
KBE	Kentucky Board of Elections
KCR	KHRIS Change Request
KDE	Kentucky Department of Education
KDOR	Kentucky Department of Revenue
KEWES	Kentucky Electronic Workplace for Employment Services
KETS	Kentucky Education Technology System

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMNS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

KHBE	Kentucky Health Benefits Exchange
KHC	Kentucky Heritage Council
KHEAA	Kentucky Higher Education Assistance Authority
KHP	Kentucky Horse Park
KHRIS	Kentucky Human Resource Information System
KHS	Kentucky Historical Society
KIDS	Office of Knowledge, Information and Data Services
KIH	Kentucky Information Highway
KOEP	Kentucky Office of Energy Policy
KOHS	Kentucky Office of Homeland Security
KRS	Kentucky Revised Statute
KSIS	Kentucky Student Information System
KSP	Kentucky State Police
KST	Kentucky State Treasury
KTRS	Kentucky Teachers' Retirement System
KVE	Kentucky Vehicle Enforcement
KY	Kentucky
KYMMIS	Kentucky Medicaid Management Information System
KYTC	Kentucky Transportation Cabinet
LABOR	Labor Cabinet
LIB	Life Insurance Branch
LOB	Line of Business
LVER	Local Veterans' Employment Representative
LWOP	Leave Without Pay
MA	Master Agreement
MAC	Media Access Control
MCI	Master Client Index
MCO	Managed Care Organization
MIL	Military Affairs
MUNIS	Municipal Information System
NA	Not Applicable
NCP	Non-Commonwealth Paid
NISP	National Industrial Security Program
NIST	National Institute of Standards and Technology
OAG	Office of Attorney General
OATS	Office of Administrative and Technology Services
OB1	Management Budget
OC	Office of the Controller
OET	Office of Employment and Training
OFM	Office of Financial Management
OHRM	Office of Human Resource Management
OLS	Office of Legal Services
OMB	Office of Management and Budget

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMNS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

OMS	Operations Management System
OS	Operating System
OSBD	Office of State Budget Director
PA	Prior Authorizations
PAN	Personnel Action Notification
PARKS	Department of Parks
PC	Personnel Cabinet
Personnel	Personnel Cabinet
PII	Personally Identifiable Information
PO	Purchase Order
PO2	Purchase Order 2-Way Match
PON2	Proof of Necessity Agreement
Pontis	Pontis Bridge Management System
PPC	Public Protection Cabinet
PRC	Commodity Based Payment Requisition
PRCI	Commodity Based Internal Payment Requisition
PUBAD	Department of Public Advocacy
R&D	Research and Development
RACF	Resource Access Control Facility
REV	Department of Revenue
RFC	Request for Change
SAS	Statewide Accounting Services
SEEK	Support Education Excellence in Kentucky
SEFA	Schedule of Expenditures of Federal Awards
SFY	State Fiscal Year
SIRC	Security Incident Response Coordinator
SIRT	Security Incident Response Team
SLA	Service Level Agreement
SOC	Service Organization Control
SOS	Secretary of State
SOW	Statement of Work
SR	Solicitation Response
SRP	State Resort Park
SRW	Solicitation Response Wizard
SSAE 16	Statement on Standards for Attestation Engagements 16
SSPM	Security Standard Procedures Manual
SSWAK	Statewide Single Audit of Kentucky
TA	Time and Attendance
TAH	Tourism, Arts, and Heritage Cabinet
TC	Transportation Cabinet
TCISO	Treasury Computer Information Security Officer
TFS	Team Foundation Server
TITIO	Treasury IT Information Officer

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMNS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

TP	Travel Payment
Treasury	Kentucky State Treasury
UI	Unemployment Insurance
UPS	Unified Prosecutorial System
UPPS	Uniform Payroll and Personnel System
US	United States
USDA	United States Department Of Agriculture
USDOL	United States Department of Labor
VA	Department of Veterans' Affairs
VPN	Virtual Private Network
WBSCM	Web Based Supply Chain Management
WIA	Workforce Investment Act



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated December 15, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Emphasis of Matter

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

Opinion

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

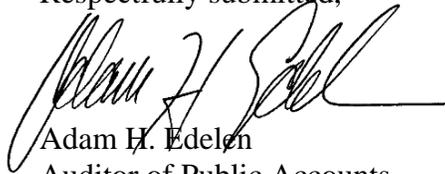


Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

Other Information

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

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

December 15, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	AGR	\$ 551,670	\$	\$
		F&W			
10.072	Wetlands Reserve Program (Note 14)	EEC			
10.093	Voluntary Public Access and Habitat Incentive Program (Note 14)	F&W			
10.102	Emergency Forest Restoration Program	EEC	19,904		
10.103	2009 Aquaculture Grant Program (Note 14)	ADB			
10.153	Market News	AGR	848		
10.156	Federal State Marketing Improvement Program	AGR	750		
10.162	Inspection Grading and Standardization (Note 14)	AGR			
10.163	Market Protection and Promotion	AGR	23,400		
10.170	Specialty Crop Block Grant Program-Farm Bill	AGR	196,369		
Supplemental Nutrition Assistance Program Cluster:					
10.551	Supplemental Nutrition Assistance Program (Note 2) (Note 10)	CHFS		1,223,249,232	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2)	CHFS	45,823,099		3,880,503
Child Nutrition Cluster:					
10.553	School Breakfast Program (Note 2)	EDU	71,280,786		71,277,926
		JUV	69,262		
10.555	National School Lunch Program (Note 2) (Note 10)	EDU	186,517,018		186,517,018
		AGR		22,619,051	
		JUV	121,484		
10.556	Special Milk Program for Children (Note 2)	EDU	32,230		32,230
10.559	Summer Food Service Program for Children (Note 2)	EDU	5,921,159		5,765,250
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	CHFS	128,849,999		27,277,786
10.558	Child and Adult Care Food Program (Note 2)	EDU	33,920,456		33,406,077
10.560	State Administrative Expenses for Child Nutrition	EDU	2,992,251		33,707
		AGR	621,948		
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program (Note 10)(Note 11)	AGR	1,683,423	6,015,521	
10.568	Emergency Food Assistance Program (Administrative Costs)	AGR	1,139,392		
10.569	Emergency Food Assistance Program (Food Commodities) (Note 10)	AGR		7,466,042	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	CHFS	125,420		
10.576	Senior Farmers Market Nutrition Program	AGR	309,640		
10.579	Child Nutrition Discretionary Grants Limited Availability (Note 14)	EDU			
10.582	Fresh Fruit and Vegetable Program	EDU	2,551,493		2,551,493
10.589	Child Nutrition Direct Certification Performance Awards	EDU	2,662		
10.652	Forestry Research	EEC	332,132		
10.664	Cooperative Forestry Assistance	EEC	2,197,214		804,239
10.676	Forest Legacy Program	EEC	50,654		
10.678	Forest Stewardship Program	EEC	1,610		
10.769	Rural Business Enterprise Grants (Note 14)	AGR			
10.771	Rural Cooperative Development Grants (Note 14)	AGR			
10.902	Soil and Water Conservation	F&W	382,611		
10.912	Environmental Quality Incentives Program	EEC	39,323		
10.913	Farm Land Protection Program	AGR	338,547		
		F&W			
10.922	Healthily Forests Reserve Program (HFRP)	EEC	26,250		
10.923	Emergency Watershed Protection Program	TC	155,250		
		EEC	12,186		
10.NA(1)	Rural Rehabilitation Student Loan Program (Note1) (Note 3) (Note 14)	AGR			
Total U.S. Department of Agriculture			\$ 486,290,440	\$ 1,259,349,846	\$ 331,546,228

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Commerce					
Direct Programs:					
Economic Development Cluster:					
11.307	Economic Adjustment Assistance	DLG MIL	\$ 18,995 278	\$	\$ 16,158
11.469	Congressionally Identified Awards and Projects (Note 14)	PARKS			
11.549	State and Local Implementation Grant Program	COT KSP	232,795 22,193		
11.555	Public Safety Interoperable Communications Grant Program (Note 14)	KSP			
11.557	ARRA-Broadband Technology Opportunities Program (BTOP) (Note 13) (Note 14)	DLA			
11.558	ARRA-State Broadband Data and Development Grant Program (Note 13)	COT	846,151		
Total U.S. Department of Commerce			\$ 1,120,412	\$	\$ 16,158
U.S. Department of Defense					
Direct Programs:					
12.106	Flood Control Projects	F&W	\$ 28,976	\$	\$
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	EEC	90,428		
12.217	Electronic Absentee Systems for Elections	SOS	6,476		
12.400	Military Construction, National Guard	MIL	11,769,768		
12.401	National Guard Military Operations and Maintenance (O & M) Projects	MIL	24,395,951		
12.404	National Guard ChalleNGe Program	MIL	4,651,061		
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	CMA	82,982		
12.700	Donations/Loans of Obsolete DOD Property (Note 10)	KSP		7,044,837	
12.NA(1)	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities (Note 1)	EEC	709,008		60,936
12.NA(4)	Teacher and Teacher's Aide Placement Assistance Program (Note 1)	EPSB	82,243		
Total U.S. Department of Defense			\$ 41,816,893	\$ 7,044,837	\$ 60,936
U.S. Department of Housing and Urban Development					
Direct Programs:					
Community Development Block Grants-State-Administered Small Cities Program					
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Note 8)	DLG MIL	\$ 28,565,592 7,661	\$	\$ 27,722,378
14.255	ARRA-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (Note 8) (Note 13) (Note 14)	DLG			
14.251	Economic Development Initiative -Special Project, Neighborhood Initiative and Miscellaneous Grants	PARKS	9,918		
14.262	ARRA-Homeless Prevention and Rapid Re-Housing Program Technical Assistance (Note 13)	DLG	3,369,235		3,319,597
14.401	Fair Housing Assistance Program_State and Local	HRC	230,963		
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	CHFS	492,369		479,612
Total U.S. Department of Housing and Urban Development			\$ 32,675,738	\$	\$ 31,521,587
U.S. Department of the Interior					
Direct Programs:					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	EEC	\$ 11,222,488	\$	\$ 133,091
15.252	Abandoned Mine Land Reclamation (AMLR) Program (Note 2)	EEC	32,872,751		11,775,505
15.255	Science and Technology Projects Related to Coal Mining and Reclamation	EEC	58,313		
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration Program (Note 7)	F&W	4,396,407		
15.611	Wildlife Restoration and Basic Hunter Education (Note 9)	F&W	6,910,493		
15.614	Coastal Wetlands Planning, Protection and Restoration Program (Note 14)	F&W			
15.615	Cooperative Endangered Species Conservation Fund	F&W EEC	145,683 48,001		
15.616	Clean Vessel Act Program	F&W	31,241		
15.622	Sportfishing and Boating Safety Act (Note 14)	F&W			

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of the Interior (Continued)</u>					
Direct Programs (Continued):					
15.632	Conservation Grants Private Stewardship for Imperiled Species	F&W EEC	64,897		
15.633	Landowner Incentive Program (Note 14)	F&W			
15.634	State Wildlife Grants (Note 7)	F&W	789,875		
15.656	ARRA-Recovery Act Funds-Habitat Enhancement, Restoration and Improvement (Note 13) (Note 14)	F&W			
15.657	Endangered Species Conservation - Recovery Implementation Funds	F&W EEC	51,927		
15.809	National Spatial Data Infrastructure Cooperative Agreements Program (Note 14)	COT			
15.904	Historic Preservation Fund Grants-In-Aid	KHC	768,345		81,410
15.916	Outdoor Recreation_Acquisition, Development and Planning (Note 6)	DLG	443,000		443,000
15.945	Cooperative Research and Training Programs-Resources of the National Park System	EEC	4,071		
Total U.S. Department of the Interior			\$ 57,807,492	\$	\$ 12,433,006
<u>U.S. Department of Justice</u>					
Direct Programs:					
16.013	Violence Against Women Act Court Training and Improvement Grants	AOC	\$ 9,346	\$	\$
16.017	Sexual Assault Services Formula Program	JUST	274,024		274,024
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	CORR	712,509		
16.203	Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program (Note 14)	JUV CORR			
16.523	Juvenile Accountability Block Grants	JUV UPS	438,096 44,998		51,849
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	JUV	589,879		562,018
16.543	Missing Children's Assistance	KSP	323,214		
16.548	Title V_Delinquency Prevention Program	JUV	68,372		68,372
16.550	State Justice Statistics Program for Statistical Analysis Centers	JUST	61,398		
16.554	National Criminal History Improvement Program (NCHIP)	KSP AOC JUST KOHS	208,719 26,353		
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	JUST KSP	69,915 60,566		
16.575	Crime Victim Assistance	JUST UPS	5,749,686 363,360		5,136,118
16.576	Crime Victim Compensation	PPC CORR KSP JUV PUBAD	510,198		
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	CHFS CORR	242,112 167,842		
16.582	Crime Victim Assistance/Discretionary Grants	JUST	55,926		37,563
16.585	Drug Court Discretionary Grant Program (Note 7)	AOC CHFS	707,153 41,962		41,961
16.588	Violence Against Women Formula Grants (Note 7)	JUST UPS AOC OAG DCJT KSP CHFS	2,066,657 216,610 77,897 72,330 41,371		1,206,043
16.588	ARRA-Violence Against Women Formula Grants (Note 13)	KSP JUST	85,984		
16.593	Residential Substance Abuse Treatment for State Prisoners	CORR JUV JUST	296,246 5,984		
16.606	State Criminal Alien Assistance Program	CORR	33,570		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.607	Bulletproof Vest Partnership Program	CORR	15,560		
		JUST	8,301		
		KSP			
16.609	Project Safe Neighborhoods	KSP	2,964		
		UPS			
16.610	Regional Information Sharing Systems (Note 14)	COT			
16.710	Public Safety Partnership and Community Policing Grants	KSP	93,338		
16.727	Enforcing Underage Drinking Laws Program	KSP	16,787		2,427
16.728	Drug Prevention Program (Note 14)	TC			
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	CORR	358,266		
		JUV	110,987		
JAG Program Cluster:					
16.738	Edward Byrne Memorial Justice Assistance Grant Program	JUST	1,952,844		1,539,476
		KSP	505,354		
		CORR	180,150		
		AOC	50,000		
		PUBAD	8,917		
		DCJT			
		JUV			
16.803	ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories (Note 13)	JUST	114,989		
		KSP			
		F&W			
		PUBAD			
		JUV			
16.804	ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government (Note 13)(Note 14)	DCJT			
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	CORR	251,693		
16.741	DNA Backlog Reduction Program	KSP	714,749		
16.743	Forensic Casework DNA Backlog Reduction Program	PUBAD	59,233		
		JUST			
16.744	Anti-Gang Initiative (Note 14)	KSP			
16.746	Capital Case Litigation Initiative	JUST	149,247		
		PUBAD	66,936		
		OAG	54,115		
16.750	Support for Adam Walsh Act Implementation Grant Program (Note 14)	KSP			
16.751	Edward Byrne Memorial Competitive Grant Program	CORR	23,661		
		AOC			
		KSP			
16.800	ARRA-Recovery Act-Internet Crimes Against Children Task Force Program (ICAC) (Note 13) (Note 14)	JUST			
16.801	ARRA-Recovery Act-State Victim Assistance Formula Grant Program (Note 13) (Note 14)	JUST			
16.808	ARRA-Recovery Act-Edward Byrne Memorial Competitive Grant Program (Note 13) (Note 14)	KSP			
16.810	ARRA-Recovery Act-Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program (Note 13) (Note 14)	OAG			
16.812	Second Chance Act Reentry Initiative	CORR	270,696		
16.813	NICS Act Record Improvement Program	KSP	452,184		
16.NA(1)	Drug Enforcement Administration (Note 1)	KSP	1,544,386		
16.NA(2)	Federal Bureau of Investigation (Note 1)	KSP	150,659		
16.NA(4)	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program (Note 1)	KSP	26,781		
16.NA(6)	District Fugitive Task Force (Note 1)	KSP	17,304		
16.NA(7)	Equitable Sharing-Asset Forfeiture (Note 1)	KSP	2,739,654		
Total U.S. Department of Justice			\$ 23,562,032	\$	\$ 8,919,851

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	DWI	\$ 830,705	\$	\$
17.005	Compensation and Working Conditions	LABOR	178,460		
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	DWI	12,319,000		
17.801	Disabled Veterans' Outreach Program (DVOP)	DWI	840,527		
17.804	Local Veterans' Employment Representative Program	DWI	757,420		
17.225	Unemployment Insurance (Note 2)(Note 4)	DWI	469,919,147		
17.225	ARRA-Unemployment Insurance (Note 2)(Note 4)(Note 13)	DWI	169,211,441		
17.235	Senior Community Service Employment Program	CHFS	1,523,743		1,408,278
17.245	Trade Adjustment Assistance	DWI	6,684,183		4,323,585
Workforce Investment Act Cluster:					
17.258	WIA Adult Program (Note 2)	DWI EDU	11,305,117		10,956,930
17.259	WIA Youth Activities (Note 2)	DWI	10,978,869		10,232,409
17.278	WIA Dislocated Worker Formula Grants (Note 2)	DWI EDU	14,911,777		14,519,536
17.260	WIA Dislocated Workers	DWI EDU	6,900		
17.267	Incentive Grants-WIA Section 503	DWI	1,079,648		50,000
17.271	Worker Opportunity Tax Credit Program (WOTC)	DWI	199,723		
17.273	Temporary Labor Certification For Foreign Workers	DWI	304,531		
17.275	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (Note 13)	DWI	224,289		220,176
17.276	ARRA-Health Coverage Tax Credit (HCTC) (Note 13)	DWI	225,384		
17.277	Workforce Investment Act (WIA) National Emergency Grants	DWI	1,457,976		1,383,819
17.281	Workforce Investment Act (WIA) Dislocated Worker National Reserve Technical Assistance and Training (Note 14)	DWI			
17.503	Occupational Safety and Health_State Program	LABOR	3,245,039		
17.505	OSHA Data Initiative (Note 14)	LABOR			
17.600	Mine Health and Safety Grants (Note 14)	EEC			
Total U.S. Department of Labor			\$ 706,203,879	\$	\$ 43,094,733
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program	TC	\$ 1,101,883	\$	\$
20.200	Highway Research and Development Program (Note 14)	TC			
Highway Planning and Construction Cluster:					
20.205	Highway Planning and Construction (Note 2)(Note 5)	TC PARKS KHS KSP DWI	669,950,550 726,791 249,729 231,136 137,564		39,026,572
20.205	ARRA-Highway Planning and Construction (Note 2) (Note 5) (Note 13)	TC	3,079,266		
20.219	Recreational Trails Program, Revised (Note 2) (Note 6)	KHP DLG PARKS	940,658		903,957
20.218	National Motor Carrier Safety	KSP TC	3,140,834 322,215		174,287
20.231	Performance and Registration Information Systems Management	TC	453,223		
20.232	Commercial Driver's License Programs Improvement Grant	TC	577,356		
20.237	Commercial Vehicle Information Systems and Networks	TC	915,721		
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant (Note 14)	TC			
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	KSP TC	205,945 8,911		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Transportation (Continued)					
Direct Programs (Continued):					
Federal Transit Cluster:					
20.500	Federal Transit_Capital Investment Grants	TC	4,461,192		4,461,192
20.507	Federal Transit_Formula Grants	TC	701,477		701,477
20.526	Bus and Bus Facilities Formula Program	TC	892,850		892,850
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	TC	537,227		537,227
20.509	Formula Grants for Rural Areas	TC	17,152,005		16,267,774
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	TC	1,656,761		1,606,761
20.516	Job Access And Reverse Commute Program	TC	953,638		953,638
20.521	New Freedom Program	TC	334,194		334,194
20.514	Public Transportation Research (Note 14)	TC			
Highway Safety Cluster:					
20.600	State and Community Highway Safety	TC	2,864,996		1,987,771
		KSP	520,835		
		OAG	181,103		
		AOC			
		DCJT			
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	TC	1,293,962		164,223
		KSP	890,191		
		DCJT	62,915		
20.602	Occupant Protection Incentive Grants	TC	212,083		40,422
		KSP	61,636		
20.609	Safety Belt Performance Grants	TC	9,730		
20.610	State Traffic Safety Information System Improvement Grants	TC	498,714		498,714
		KSP	71,800		
20.612	Incentive Grant Program to Increase Motorcyclist Safety	TC	234,947		
20.604	Safety Incentive Grants for Use of Seatbelts (Note 14)	KSP			
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	KSP	114,619		
20.616	National Priority Safety Programs	TC	3,035		2,286
20.700	Pipeline Safety Program State Base Grants	EEC	300,505		
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	MIL	240,825		13,634
20.932	ARRA-Surface Transportation_Discretionary Grants for Capital Investment (Note 13)	TC	1,268,075		1,176,412
20.933	National Infrastructure Investments	TC	3,668,688		3,668,688
Total U.S. Department of Transportation			\$ 721,229,785	\$	\$ 73,412,079
U.S. Department of Treasury					
Direct Programs:					
21.NA(1)	Internal Revenue Service (Note 1)(Note 14)	KSP	\$	\$	\$
21.NA(2)	Equitable Sharing-Asset Forfeiture (Note 1)	KSP	429		
21.NA(3)	State Small Business Credit Initiative (Note 1)	CED	5,140,016		
Total U.S. Department of Treasury			\$ 5,140,445	\$	\$
U.S. Appalachian Regional Commission					
Direct Programs:					
23.002	Appalachian Area Development	DLG	\$ 966,845	\$	\$ 966,845
		TAH	156,609		
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	DLG	1,047,039		909,500
Total U.S. Appalachian Regional Commission			\$ 2,170,493	\$	\$ 1,876,345

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Programs:					
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	HRC	\$ 105,171	\$	\$
30.NA(1)	Other Federal Assistance (Note 1)	HRC	129,250		
Total U.S. Equal Employment Opportunity Commission			\$ 234,421	\$	\$
<u>U.S. General Services Administration</u>					
Direct Programs:					
39.003	Donation of Federal Surplus Personal Property (Note 10)	FAC	\$	\$ 593,764	\$
		EEC		421,270	
39.011	Election Reform Payments (Note 7) (Note 12)	KBE	578,861		
Total U.S. General Services Administration			\$ 578,861	\$ 1,015,034	\$
<u>National Aeronautics and Space Administration</u>					
Direct Programs:					
43.002	Aeronautics (Note 14)	COT	\$	\$	\$
Total National Aeronautics and Space Administration			\$	\$	\$
<u>U.S. National Foundation on the Arts and the Humanities</u>					
Direct Programs:					
45.024	Promotion of the Arts_Grants to Organizations and Individuals	KAC	\$ 6,000	\$	\$ 6,000
45.025	Promotion of the Arts_Partnership Agreements	KAC	688,065		688,065
		KHS	8,757		
45.129	Promotion of the Humanities_Federal/State Partnership	PUBAD	1,500		
45.301	Museums for America	KHS	32,517		
45.310	Grants to States	DLA	2,126,221		451,985
Total U.S. National Foundation on the Arts and Humanities			\$ 2,863,060	\$	\$ 1,146,050
<u>U.S. Small Business Administration</u>					
Direct Programs:					
59.061	State Trade and Export Promotion Pilot Grant Program	CED	\$ 147,449	\$	\$
Total U.S. Small Business Administration			\$ 147,449	\$	\$
<u>U.S. Department of Veterans Affairs</u>					
Direct Programs:					
64.005	Grants to States for Construction of State Home Facilities	VA	\$ 4,058,522	\$	\$
64.015	Veterans State Nursing Home Care	VA	23,796,818		
64.101	Burial Expenses Allowance for Veterans	VA	948,928		
Total U.S. Department of Veterans Affairs			\$ 28,804,268	\$	\$
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
66.032	State Indoor Radon Grants	CHFS	\$ 169,990	\$	\$ 49,107
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act (Note 10)	EEC	580,845	167,023	
66.040	State Clean Diesel Grant Program	EEC	117,721		117,721
66.419	Water Pollution Control State, Interstate, and Tribal Program Support (Note 10)	EEC	274,026	80,000	42,397
66.454	Water Quality Management Planning	EEC	180,000		
Clean Water State Revolving Fund Cluster:					
66.458	Capitalization Grants for Clean Water State Revolving Funds	EEC PARKS	608,953		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Environmental Protection Agency (Continued)</u>					
Direct Programs (Continued):					
66.460	Nonpoint Source Implementation Grants	EEC	3,771,788		2,574,173
66.461	Regional Wetland Program Development Grants	EEC	159,638		118,331
Drinking Water State Revolving Fund Cluster:					
66.468	Capitalization Grants for Drinking Water State Revolving Funds	EEC	4,061,331		
66.474	Water Protection Grants to the States (Note 14)	COT			
66.605	Performance Partnership Grants (Note 10)	EEC	7,204,249	349,125	33,857
		AGR	547,672		
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	EEC	192,549		
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	EEC	3,213		
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	CHFS	274,197		34,999
66.708	Pollution Prevention Grants Program	EEC	10,420		
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	EEC	94,381		
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	EEC	644,001		
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	EEC	1,347,640		
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	EEC	86,755		
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	EEC	2,337		
Total U.S. Environmental Protection Agency			\$ 20,331,706	\$ 596,148	\$ 2,970,585
<u>U.S. Department of Energy</u>					
Direct Programs:					
81.041	State Energy Program	EEC	\$ 658,663	\$	\$ 183,812
81.041	ARRA-State Energy Program (Note 13) (Note 14)	EDU CED			
81.042	Weatherization Assistance for Low-Income Persons (Note 14)	FAC			
81.042	ARRA-Weatherization Assistance for Low-Income Persons (Note 13)(Note 14)	FAC			
81.086	ARRA-Conservation Research and Development (Note 13)	EDU	14,374		
81.104	Environmental Remediation and Waste Processing and Disposal	EEC	756,393		
		CHFS	478,315		155,541
81.119	State Energy Program Special Projects	EEC	223,215		144,720
		DLG	89,670		
81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13) (Note 14)	DLG PPC			
81.138	State Heating Oil and Propane Program	EEC	9,361		
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight (Note 14)	CHFS			
Total U.S. Department of Energy			\$ 2,229,991	\$	\$ 484,073
<u>U.S. Department of Education</u>					
Direct Programs:					
84.010	Title I Grants to Local Educational Agencies (Note 2)	EDU	\$ 212,982,304	\$	\$ 211,265,548
84.011	Migrant Education_State Grant Program	EDU	7,277,676		7,143,994
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	JUV	817,231		657,850
		EDU	4,985		
		CORR	3,679		
Special Education Cluster:					
84.027	Special Education_Grants to States (Note 2)	EDU	152,172,277		150,305,997
84.173	Special Education_Preschool Grants (Note 2)	EDU	9,594,759		9,266,150
84.048	Career and Technical Education -- Basic Grants to States	EDU	17,576,437		15,573,336
		EPSB	71,241		
		CORR	60,632		
		DWI			
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States (Note 2)	DWI	48,446,727		1,655,213
84.128	Rehabilitation Services_Service Projects (Note 14)	DWI			

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.144	Migrant Education_Coordination Program	EDU	39,172		36,651
84.161	Rehabilitation Services_Client Assistance Program	DWI	158,608		
84.169	Independent Living_State Grants	DWI	315,770		230,054
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	DWI	239,661		
84.181	Special Education-Grants for Infants and Families	CHFS	5,573,994		
84.186	Safe and Drug-Free Schools and Communities_State Grants (Note 14)	EDU			
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	DWI	249,099		
84.196	Education for Homeless Children and Youth	EDU	930,784		929,253
84.213	Even Start_State Educational Agencies (Note 14)	EDU			
84.215	Fund for the Improvement of Education (Note 14)	KHS			
84.224	Assistive Technology	DWI	546,995		444,174
84.235	Rehabilitation Services Demonstration and Training Programs	DWI	1,777		
84.240	Program of Protection and Advocacy of Individual Rights	PUBAD	220,771		
84.243	Tech-Prep Education (Note 14)	EDU			
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	DWI	250,843		
84.287	Twenty-First Century Community Learning Centers	EDU	17,427,602		17,303,819
84.298	State Grants for Innovative Programs (Note 14)	EDU			
Educational Technology State Grants Cluster:					
84.318	Educational Technology State Grants (Note 14)	EDU			
84.323	Special Education-State Personnel Development	EDU	862,290		809,950
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	EDU	143,629		143,628
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	EDU	453,886		
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals (Note 14)	CORR			
Teacher Quality Partnership Grants Cluster:					
84.336	Teacher Quality Partnership Grants (Note 14)	EPSB			
84.343	Assistive Technology_State Grants for Protection and Advocacy	PUBAD	52,614		
84.357	Reading First State Grants (Note 14)	EDU			
84.358	Rural Education	EDU	4,886,697		4,871,431
84.365	English Language Acquisition State Grants	EDU	3,874,866		3,785,504
84.366	Mathematics and Science Partnerships	EDU	2,202,371		2,116,280
84.367	Improving Teacher Quality State Grants (Note 2)	EDU	35,840,261		35,351,677
84.369	Grants for State Assessments and Related Activities	EDU	6,109,267		
84.371	Striving Readers (Note 14)	EDU			
Statewide Data Systems Cluster:					
84.372	Statewide Longitudinal Data Systems	DWI EDU	1,132,017		
School Improvement Grants Cluster:					
84.377	School Improvement Grants	EDU	10,740,667		10,568,877
84.388	ARRA-School Improvement Grants, Recovery Act (Note 13)	EDU	5,892,409		5,892,409
84.389	ARRA-Title I Grants to Local Educational Agencies, Recover Act (Note 13)	EDU			
84.391	ARRA-Special Educaiton Grants to States, Recovery Act (Note 13)	EDU			
84.394	ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Note 13)	EDU			
84.397	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act (Note 13)(Note 14)	CORR KSP FAC			
84.410	Education Jobs Fund (Note 14)	EDU			
84.412	Race to the Top-Early Learning Challenge	GOV	54,418		
84.413	Race to the Top	EDU	3,876,097		3,638,129
Total U.S. Department of Education			\$ 551,084,513	\$	\$ 481,989,923

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. National Archives and Records Administration</u>					
Direct Programs:					
89.003	National Historical Publications and Records Grants	DLA	\$ 16,198	\$	\$
Total U.S. National Archives and Records Administration			\$ 16,198	\$	\$
<u>U.S. Election Assistance Commission</u>					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments	KBE	\$ 407	\$	\$
Total U.S. Election Assistance Commission			\$ 407	\$	\$
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
93.003	Public Health and Social Services Emergency Fund (Note 14)	CHFS	\$	\$	\$
93.041	Special Programs for the Aging_ Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	CHFS	64,445		64,358
93.042	Special Programs for the Aging_ Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	CHFS	177,336		118,454
93.043	Special Programs for the Aging_ Title III, Part D_Disease Prevention and Health Promotion Services	CHFS	317,882		249,677
Aging Cluster:					
93.044	Special Programs for the Aging_ Title III, Part B_Grants for Supportive Services and Senior Centers	CHFS	4,983,406		4,599,531
93.045	Special Programs for the Aging_ Title III, Part C_Nutrition Services	CHFS	8,237,692		7,483,474
93.053	Nutrition Services Incentive Program	CHFS	1,466,279		1,466,279
93.048	Special Programs for the Aging_ Title IV_ and Title II_Discretionary Projects	CHFS	63,796		48,644
93.051	Alzheimer's Disease Demonstration Grants to States	CHFS	24,602		16,904
93.052	National Family Caregiver Support, Title III, Part E	CHFS	1,840,719		1,685,842
93.069	Public Health Emergency Preparedness (Note 10)	CHFS	8,829,303	48,583	4,973,067
93.070	Environmental Public Health and Emergency Response	CHFS	399,697		342,534
		EEC	18,904		17,951
93.071	Medicare Enrollment Assistance Program (Note 14)	CHFS			
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	EDU	3,422		
93.087	Enhance Safety of Children Affected by Substance Abuse	CHFS	492,326		265,195
93.089	Emergency System for Advance Registration of Volunteer Health Professionals	CHFS	161,910		60,525
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	CHFS	706,374		653,231
93.103	Food and Drug Administration_Research	CHFS	552,028		
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	CHFS	1,040,917		429,049
93.110	Maternal and Child Health Federal Consolidated Programs	CHFS	580,440		234,957
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 10)	CHFS	598,985	83,361	306,086
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	CHFS	126,551		
93.136	Injury Prevention and Control Research and State and Community Based Programs	CHFS	342,197		342,197
93.138	Protection and Advocacy for Individuals with Mental Illness	PUBAD	425,274		
93.150	Projects for Assistance In Transition from Homelessness (PATH)	CHFS	439,018		420,981
93.197	Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children (Note 14)	CHFS			
93.217	Family Planning_Services	CHFS	5,494,902		4,845,529
93.230	Consolidated Knowledge Development and Application (KD&A) Program (Note 14)	CHFS			
93.234	Traumatic Brain Injury State Demonstration Grant Program (Note 14)	CHFS			
93.235	Affordable Care Act (ACA) Abstinence Education Program	CHFS	641,434		539,002
93.236	Grants to States to Support Oral Health Workforce Activities	CHFS	800		
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance (Note 7)	CHFS	3,027,602		1,668,993
		AOC	1,775,153		
		CORR	446,489		
93.251	Universal Newborn Hearing Screening	CHFS	265,730		
93.267	State Grants for Protection and Advocacy Services	PUBAD	115,120		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.268	Immunization Cooperative Agreements (Note 2) (Note 10)	CHFS	3,744,551	44,825,109	1,617,674
93.270	Adult Viral Hepatitis Prevention and Control	CHFS	130,797		
93.283	Centers for Disease Control and Prevention_ Investigations and Technical Assistance	CHFS	4,481,415		3,161,261
93.292	National Public Health Improvement Initiative	CHFS	166,616		
93.296	State Partnership Grant Program to Improve Minority Health	CHFS	118,305		19,288
93.414	ARRA-State Primary Care Offices (Note 13)	CHFS	94,846		
93.504	Family to Family Health Information Centers	CHFS	93,392		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	CHFS	8,539,090		7,294,614
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	CHFS	156,615		
93.507	PPHF National Public Health Improvement Initiative	CHFS	131,403		68,972
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	PPC	494,093		
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	CHFS	232,295		232,295
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	CHFS	862,663		266,039
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (Note 2)	CHFS PPC	79,067,204 21,068		1,008,839
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Diseases Prevention and Health Promotion Program (Note 14)	CHFS			
93.556	Promoting Safe and Stable Families	CHFS	5,781,378		5,448,537
Temporary Assistance for Needy Families Cluster:					
93.558	Temporary Assistance for Needy Families (Note 2)	CHFS	176,282,114		26,631,167
93.563	Child Support Enforcement (Note 2)	CHFS AOC	35,337,117 58,162		17,002,040
93.564	Child Support Enforcement Research (Note 14)	CHFS			
93.568	Low-Income Home Energy Assistance (Note 2)	CHFS	45,003,911		44,894,139
93.569	Community Services Block Grant	CHFS	10,839,230		10,752,303
93.571	Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs (Note 14)	CHFS			
Child Care and Development Block Grant Cluster:					
93.575	Child Care and Development Block Grant (Note 2)	CHFS	38,568,559		7,673,286
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	CHFS	41,006,775		3,018,625
93.586	State Court Improvement Program	AOC	476,666		
93.590	Community-Based Child Abuse Prevention Grants	CHFS	2,584,122		2,360,545
93.597	Grants to States for Access and Visitation Programs	CHFS	62,364		62,364
93.599	Chafee Education and Training Vouchers Program (ETV)	CHFS	578,202		
93.600	Head Start	GOV EDU	197,181		
93.603	Adoption Incentive Payments	CHFS	820,000		820,000
93.617	Voting Access for Individuals with Disabilities_Grants To States	KBE	8,562		
93.618	Voting Access for Individuals with Disabilities_Grants for Protection and Advocacy Systems	PUBAD	90,961		
93.627	Affordable Care Act: Testing Experience and Functional Assessment Tools	CHFS	5,946		
93.630	Developmental Disabilities Basic Support and Advocacy Grants	CHFS	1,127,189		
93.643	Children's Justice Grants to States	PUBAD CHFS OAG	616,276 148,087		14,606
93.645	Stephanie Tubbs Jones Child Welfare Services Program	CHFS	4,266,031		
93.647	Social Services Research and Demonstration (Note 14)	CHFS			
93.652	Adoption Opportunities	CHFS	95,503		90,364
93.658	Foster Care_Title IV-E (Note 2)	CHFS JUV AOC	40,166,837 3,593,054 331,717		3,127,517
93.658	ARRA-Foster Care_Title IV-E (Note 13)	CHFS	2,844		
93.659	Adoption Assistance (Note 2)	CHFS	45,339,976		
93.659	ARRA-Adoption Assistance (Note 13)	CHFS	1,550		
93.667	Social Services Block Grant	CHFS JUV FAC	13,124,651 6,609,852		29,080

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.667	ARRA-Social Services Block Grant (Note 13)(Note 14)	CHFS			
93.669	Child Abuse and Neglect State Grants	CHFS	375,148		273,605
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	CHFS	1,270,058		1,260,115
93.674	Chafee Foster Care Independence Program	CHFS	1,488,051		1,150,412
93.705	ARRA-Aging Home-Delivered Nutrition Services for States (Note 13) (Note 14)	CHFS			
93.707	ARRA-Aging Congregate Nutrition Services for States (Note 13) (Note 14)	CHFS			
93.708	ARRA-Head Start (Note 13)	GOV	322,672		261,565
		EDU			
93.719	ARRA- State Grants to Promote Health Information Technology (Note 13)	CHFS	2,940,734		
93.723	ARRA-Prevention and Wellness-State, Territories and Pacific Islands(Note 13)	CHFS	40,278		
93.725	ARRA-Communities Putting Prevention to Work: Chronic Disease Self-Management Program (Note 13) (Note 14)	CHFS			
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF)	CHFS	207,447		
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Diseases Self-Management Education Programs-financed by 2012 Prevention and Public Health Funds	CHFS	100,648		78,150
93.735	State Public Health Approaches for Ensuring Quitline Capacity-Funded in part by Prevention and Public Health Funds (PPHF)	CHFS	416,872		99,335
93.744	PPHF: Breast and Cervical Cancer Screening Opportunities for States, Tribes, and Territories solely financed by Prevention and Public Health Funds	CHFS	52,035		52,035
93.767	Children's Health Insurance Program (Note 2)	CHFS	139,544,696		897
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units (Note 2)	OAG	2,182,849		
93.777	State Survey and Certification of Health Care Providers and Suppliers (Note 2)	CHFS	7,408,146		
93.778	Medical Assistance Program (Note 2)	CHFS	5,095,891,069		854,679
93.778	ARRA-Medical Assistance Program (Note 2)(Note 13)	CHFS	49,263,605		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Grants to States for Operation of Qualified High-Risk Pools	CHFS	10,454,668		884,970
93.780		CHFS	983,522		
93.793	Medicaid Transformation Grants (Note 14)	CHFS			
93.889	National Bioterrorism Hospital Preparedness Program	CHFS	4,620,554		3,641,009
		MIL	145,751		
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	DWI	203,275		101,280
93.917	HIV Care Formula Grants	CHFS	4,899,787		3,658,820
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	EDU	116,276		
93.940	HIV Prevention Activities_Health Department Based	CHFS			
93.941	HIV Demonstration, Research, Public and Professional Education Projects (Note 14)	CHFS	1,581,018		1,037,772
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	CHFS	306,960		97,841
93.945	Assistance Programs for Chronic Disease Prevention and Control	CHFS	1,635,886		1,006,604
93.958	Block Grants for Community Mental Health Services	CHFS	5,781,713		4,977,237
		DWI	74,947		
		CORR	47,500		
93.959	Block Grants for Prevention and Treatment of Substance Abuse	CHFS	19,328,751		17,538,552
		KSP			
		JUST			
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants (Note 10)	CHFS	1,180,181	628,445	142,876
93.982	Mental Health Disaster Assistance and Emergency Mental Health	MIL	875		
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems (Note 14)	CHFS			
93.991	Preventive Health and Health Services Block Grant	CHFS	1,107,464		740,059
93.994	Maternal and Child Health Services Block Grant to the States	CHFS	9,123,123		4,799,979
93.NA(1)	Other Federal Assistance (Note 1)	CHFS	226,400		
		KSP	12,555		
93.NA(2)	Medicare Nursing Home Care (Note 1)	VA	44,737		
Total U.S. Department of Health and Human Services			\$ 5,978,500,154	\$ 45,585,498	\$ 209,083,807

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Corporation for National and Community Service</u>					
Direct Programs:					
94.003	State Commissions	CHFS	\$ 190,074	\$	
94.004	Learn and Serve America_School and Community Based Programs (Note 14)	EDU			
94.006	AmeriCorps	CHFS	3,587,993		3,582,793
94.007	Program Development and Innovation Grants	CHFS	3,931		
94.009	Training and Technical Assistance (Note 14)	CHFS			
Foster Grandparent/Senior Companion Cluster:					
94.011	Foster Grandparent Program	CHFS	594,772		19,212
Total U.S. Corporation for National and Community Service			\$ 4,376,770	\$	\$ 3,602,005
<u>U.S. Office of National Drug Control Policy</u>					
Direct Program:					
95.001	High Intensity Drug Trafficking Areas Program	KSP	\$ 891,895	\$	
Total U.S. Office of National Drug Control Policy			\$ 891,895	\$	\$
<u>U.S. Social Security Administration</u>					
Direct Programs:					
Disability Insurance/Supplemental Security Income Cluster:					
96.001	Social Security_Disability Insurance (Note 2)	CHFS OAG	\$ 41,382,198 182,223	\$	\$
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	PUBAD	137,591		
Total U.S. Social Security Administration			\$ 41,702,012	\$	\$
<u>U. S. Department of Homeland Security</u>					
Direct Programs:					
97.012	Boating Safety Financial Assistance	F&W	\$ 1,560,829	\$	\$
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants (Note 14)	MIL			
97.023	Community Assistance Program_State Support Services Element (CAP-SSSE)	EEC	168,514		
97.029	Flood Mitigation Assistance (Note 14)	MIL TC			
97.032	Crisis Counseling (Note 14)	MIL			
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters) (Note 2)	MIL TC	35,736,733 1,043,524		10,034,717
97.039	Hazard Mitigation Grant	PARKS KSP	12,702		
97.040	Chemical Stockpile Emergency Preparedness Program	MIL	13,596,305		12,824,178
97.041	National Dam Safety Program	MIL	20,475,405		15,600,188
97.042	Emergency Management Performance Grants	CHFS			
97.045	Cooperating Technical Partners	EEC	128,398		
97.047	Pre-Disaster Mitigation	MIL	4,568,878		2,260,180
97.052	Emergency Operations Center	EEC	3,679,167		
97.056	Port Security Grant Program	MIL	2,226,669		1,987,648
97.067	Homeland Security Grant Program	KOHS	277,168		277,168
97.077	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection (Note 14)	F&W KSP	11,292 2,335		
97.078	Buffer Zone Protection Program (BZPP)	KOHS F&W	4,869,592 143,840		3,925,743
		CHFS	88,681		
		KSP	79,999		
		TC	4,793		
		PPC			
		KVE			
		COT			
		TC			
		KOHS	7,173		
		F&W			

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U. S. Department of Homeland Security (Continued)</u>					
Direct Programs (Continued):					
97.082	Earthquake Consortium	MIL	23,133		
97.088	Disaster Assistance Projects	CHFS	301,213		258,383
97.089	Driver's License Security Grant Program	TC	1,536,961		
97.107	National Incident Management System (NIMS)	MIL	48,514		
97.110	Severe Loss Repetitive Program (Note 14)	MIL			
97.116	ARRA-Port Security Grant Program (Note 13) (Note 14)	KSP			
Total U.S. Department of Homeland Security			\$ 90,591,818	\$	\$ 47,168,205
<u>Other Federal Assistance</u>					
Direct Programs:					
NA(1)	Tennessee Valley Authority (Note 1)(Note 14)	F&W	\$	\$	\$
Total Other Federal Assistance			\$	\$	\$
Total All State Agencies			\$ 8,800,371,132	\$ 1,313,591,363	\$ 1,249,325,570

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Note 1 - Purpose of the Schedule and Significant Accounting Policies

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

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

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2014. The noncash expenditures presented on this schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

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

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

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

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

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

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal funds may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities and discretely presented component units as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities and discretely presented component units report those amounts as expenditures.

- (b) Federal funds received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$30,000,000 for FY 2014. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 14, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA	Program Title	Expenditures
Supplemental Nutrition Assistance Program Cluster:		
10.551	Supplemental Nutrition Assistance Program	\$ 1,223,249,232
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	45,823,099
Child Nutrition Cluster:		
10.553	School Breakfast Program	71,350,048
10.555	National School Lunch Program	209,257,553
10.556	Special Milk Program for Children	32,230
10.559	Summer Food Service Program for Children	5,921,159
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	128,849,999
10.558	Child and Adult Care Food Program	33,920,456

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
15.252	Abandoned Mine Land Reclamation (AMLR) Program	32,872,751
17.225	Unemployment Insurance	469,919,147
17.225	ARRA-Unemployment Insurance	169,211,441
Workforce Investment Act Cluster:		
17.258	WIA Adult Program	11,305,117
17.259	WIA Youth Activities	10,978,869
17.278	WIA Dislocated Worker Formula Grants	14,911,777
Highway Planning and Construction Cluster:		
20.205	Highway Planning and Construction	671,295,770
20.205	ARRA-Highway Planning and Construction	3,079,266
20.219	Recreational Trails Program, Revised	940,658
84.010	Title 1 Grants to Local Educational Agencies	212,982,304
Special Education Cluster:		
84.027	Special Education_Grants to States	152,172,277
84.173	Special Education_Preschool Grants	9,594,759
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	48,446,727
84.367	Improving Teacher Quality State Grants	35,840,261
93.268	Immunization Cooperative Agreements	48,569,660
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	79,088,272
Temporary Assistance for Needy Families Cluster:		
93.558	Temporary Assistance for Needy Families	176,282,114
93.563	Child Support Enforcement	35,395,279
93.568	Low-Income Home Energy Assistance	45,003,911
Child Care Cluster:		
93.575	Child Care and Development Block Grant	38,568,559
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	41,006,775

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
93.658	Foster Care_Title IV-E	44,091,608
93.659	Adoption Assistance	45,339,976
93.767	Children's Health Insurance Program	139,544,696
Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	2,182,849
93.777	State Survey and Certification of Health Care Providers and Suppliers	7,408,146
93.778	Medical Assistance Program	5,095,891,069
93.778	ARRA-Medical Assistance Program	49,263,605
Disability Insurance/Supplemental Security Income Cluster:		
96.001	Social Security_Disability Insurance	41,564,421
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	36,792,959
Total Type A Programs		\$ 9,487,948,799

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

The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U. S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments administered by the Office of Financial Management. The Department of Agriculture is no longer in the business of making student loans and reassigned all loans in payment compliance to the Kentucky Higher Education Assistance Authority (KHEAA). The Department of Agriculture retained only those loans that had a delinquent payment history. This program is currently in phase-out status, with authorization from the U. S. Department of Agriculture (USDA) to eliminate the principal through issuance of specific grants and scholarships. All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2014 outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY14.

Note 4 - Unemployment Insurance (CFDA 17.225)

The Commonwealth paid out \$599,547,633 in benefits in FY 2014. The amounts shown on the accompanying schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$39,582,955 of federal funds expended for administration of the program, resulting in a combined total of \$639,130,588 in federal expenditures. Included in this amount is \$167,784,954 in benefit payments funded by the American Recovery and Reinvestment ACT (ARRA).

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 5 - Highway Planning and Construction (CFDA 20.205)

The information reported for CFDA 20.205 Highway Planning and Construction program represents the activity of all open projects during FY 2014. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration.

Program Income - The Highway Planning and Construction Program earned program income of \$22,150,683 in FY 2014. This income is comprised of program income (interest) attributable to the GARVEE Bonds.

Refunds - Expenditures for the Highway Planning and Construction Program were shown net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$1,331,536 for FY 2014.

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

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

Note 7 - Research and Development Expenditures

OMB Circular A-133 Section 105 states, "Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity."

The expenditures presented in the SEFA include R&D expenditures. The R&D portion of the expenditures for each program is listed below.

CFDA	Program Title	State Agency	Expenditures
15.605	Sport Fish Restoration Program	F&W	\$ 500,434
15.634	State Wildlife Grants	F&W	761,599
16.585	Drug Court Discretionary Grant Program	AOC	77,187
16.588	Violence Against Women Formula Grants	AOC	47,659
39.011	Election Reform Payments	KBE	437,141
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	AOC	423,278
Total Research and Development Expenditures			\$ 2,247,298

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228 and ARRA 14.255)

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

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

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

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

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

Note 10 - Noncash Expenditure Programs

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

CFDA	Program Title	Amount	Method/Basis of Valuation
10.551	Supplemental Nutrition Assistance Program	\$ 1,223,249,232	EBT Issuance
10.555	National School Lunch Program	22,619,051	Commodities issued for FY14 per WBSCM report
10.565	Commodity Supplemental Food Program	6,015,521	Commodities issued for FY14 per WBSCM report
10.569	Emergency Food Assistance Program (Food Commodities)	7,466,042	Commodities issued for FY14 per WBSCM report

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 10 – Noncash Expenditure Programs (Continued)

CFDA	Program Title	Amount	Method/Basis of Valuation
12.700	Donations/Loans of Obsolete DOD Property	7,044,837	Acquisition Cost determined by the Department of Defense
39.003	Donation of Federal Surplus Personal Property	593,764	23.7% of federal acquisition cost (\$2,505,335)
39.003	Donation of Federal Surplus Personal Property	421,270	Determined by Federal Government
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	167,023	EPA contracts with Eastern Research Group for sample analysis.
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	80,000	In-kind services valued by the donor, the U.S. Environmental Protection Agency, Division of Water
66.605	Performance Partnership Grants	349,125	In-kind services valued by the donor, the U.S. Environmental Protection Agency
93.069	Public Health Emergency Preparedness	48,583	Grant Award Document
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	83,361	Grant Award Document
93.268	Immunization Cooperative Agreements	44,825,109	CDC Report
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	628,445	Grant Award Document
	Total Noncash Expenditures	\$ 1,313,591,363	

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

Note 11 - Activity Occurring in Programs with Inventoriable Items

The Department of Agriculture operates a state-wide Commodity Supplemental Food Program (CFDA 10.565). The dollar value of the inventory, based on the USDA Commodity File dated June 2014 is as follows:

Commodity Supplemental Food Program CFDA 10.565

Beginning Inventory, July 1, 2013	\$ 1,431,333
Price Adjustment	<u>30,389</u>
Adjusted Inventory, July 1, 2013	1,461,722
Received Commodities	6,509,793
Issued to Recipients	(6,015,521)
Net Value of Inventory Adjustments, June 30, 2014	<u>(38,843)</u>
Ending Inventory, June 30, 2014	<u><u>\$ 1,917,151</u></u>

Note 12 – Election Reform Payments (CFDA 39.011)

Interest earned must be used for additional program expenditures.

Note 13 - Pertaining to ARRA

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

Note 14 - Zero Expenditure Programs

These programs had no expenditures related to the respective state organization during FY 2014. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. For CFDA numbers with multiple state agencies listed, the schedule is presented in descending expenditure amount order.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 15, 2014. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings to be material weaknesses: 2014-001, 2014-002, and 2014-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control, described in the accompanying schedule of financial statement findings that we consider to be significant deficiencies, which are identified as findings 2014-004, 2014-005, 2014-006, 2014-007, 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, 2014-013, 2014-014, 2014-015, 2014-016, 2014-017, 2014-018, 2014-019, 2014-020, 2014-021, 2014-022, 2014-023, 2014-024, 2014-025, 2014-026, 2014-027, 2014-028, 2014-029, 2014-030, 2014-031, 2014-032, 2014-033, 2014-034, 2014-035, 2014-036, 2014-037, 2014-038, 2014-039, 2014-040, 2014-041, 2014-042, 2014-043, 2014-044, 2014-045, 2014-046, 2014-047, 2014-048 and 2014-049.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

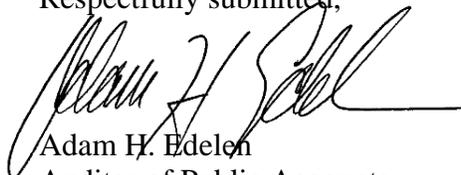
Management's responses to the findings identified in our audit are described in the accompanying schedule of financial statement findings. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.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

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

Purpose of this Report

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

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

December 15, 2014

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2014-001: The Cabinet For Health And Family Services Did Not Adequately Review The Closing Package

During the fiscal year 2014 audit of the Cabinet for Health and Family Services (CHFS), the closing package submitted to FAC was reviewed for accuracy and completeness. The Closing Package is completed each year and submitted to the FAC Reporting team for the purpose of supplying agency financial information used in the preparation of the Commonwealth's Comprehensive Annual Financial Report (CAFR) in compliance with GAAP.

The results of testing the various forms indicated the following issues:

Accounts Payable (AFR -70)

- Federal Funds Accounts Payable was understated by \$143,689,285
- General Funds Accounts Payable was overstated by \$119,930,579
- Agency Funds Accounts Payable was understated by \$5,837,111
- Capital Funds Accounts Payable was understated by \$1,688,091

CHFS submitted amended closing package forms to FAC correcting all the issues noted above. Included in the above numbers is a \$62,640,423 entry that overstated General Fund Accounts Payable and understated Federal Fund Accounts Payable that was discovered by CHFS after FAC had made closing entries for the fiscal year, but prior to the issuance of the draft CAFR.

The closing package also had the following issue noted during analytical procedures and corrected by (FAC) upon review of the closing package:

- Cash – (AFR -10) Cash on hand at the end of the fiscal year was overstated by \$923,813,587

Finally, CHFS, while researching other issues related to its accounts payable/accounts receivable, identified additional errors in its closing package previously undetected even with the additional procedures required in amending the closing packages noted above. These errors identified overstatements for accounts payable and related expenditures of \$94,872,077 related to the General Fund and \$427,211,119 related to the Federal Fund, and overstatements of accounts receivable and related revenue in the amount of \$424,663,470 for the Federal Fund. The net effect of the errors was determined to be within the audit tolerable level for opinion purposes; however, 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.

The closing package was not thoroughly reviewed and thus several errors were made and went unnoticed prior to the audit and prior to the issuance of the CAFR. A hard coding error in the Accounts Payable query caused the amounts to be misreported in the initial closing package information for Accounts Payable. A subsequent error related to a journal entry for June payment to MCOs moving funds from the General Fund to Federal Fund that was not included in the forms sent to FAC. Personnel completing the closing package misinterpreted instructions on the forms, causing an overstatement of cash on hand.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2014-001: The Cabinet For Health And Family Services Did Not Adequately Review The Closing Package (Continued)

The lack of oversight and insufficient review of the closing package resulted in an inaccurate closing package being submitted to FAC for reporting in the Commonwealth's CAFR, which would have resulted in a material misstatement had the errors not been caught before corrections and adjusting entries were made.

Adequate internal controls over the closing package forms and year-end reporting activities dictate that adequate review procedures be created and followed to ensure that the closing package submitted to FAC contains verifiable and accurate data. Financial data includes, but is not limited to, the proper establishment of adequate and consistent methods for reporting, and properly accounting for all transactions for completeness and accuracy assertions. In addition, proper internal controls dictate that all supporting financial data be reconciled and reported in a timely manner.

Recommendation

We recommend the Cabinet for Health and Family Services review its procedures for compiling and reporting the agency financial activity and implement controls to ensure a consistent method for reporting all financial activity, as well as an adequate and thorough review of the closing package information. The goal should be to ensure complete and accurate information is presented in the state's financial statements.

Management's Response and Corrective Action Plan

The Cabinet agrees with the Auditor's findings.

- 1. Misreporting of Accounts Payable – Upon a review of the CHFS closing package two errors were found that misrepresented the Accounts Payable (AFR – 70) amounts. The review was performed jointly by the Auditor of Public Accounts (APA), CHFS, and the Finance Cabinet.*

Issue I

The APA reported to CHFS their review indicated the reported Accounts Payable amount did not match the totals found in their review. A subsequent review by CHFS found a date hardcoded within a report that caused this inaccuracy. The report was modified to enter a date parameter each time the report is run to eliminate this error in the future. The revised report was used to correct the amounts on the AFR-70 which matched totals provided by the APA. In addition, to ensure a complete and thorough review in future years, a basic report will be created by the individual whom will be reviewing the Accounts Payable forms to verify the Accounts Payable amounts for this revised AFR – 70 report.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2014-001: The Cabinet For Health And Family Services Did Not Adequately Review The Closing Package (Continued)**

Management's Response and Corrective Action Plan (Continued)*Issue II*

While reviewing the CHFS closing package, CHFS budget staff identified \$62,640,423 error which overstated General Fund A/P and understated Federal Fund. The CHFS Division of Accounting and Procurement Services (DAPS) notified the APA of this error. MCO payments are paid at the traditional Medicaid Benefit FMAP rate at the time of payment. The ACA expansion is 100% federal reimbursed. Due to the difference in rates, payments to MCOs and reimbursement from the Federal Government for the ACA portion, a JV entry is performed to correct the expenditures before requesting federal reimbursement. Due to the fact that this is the initial year that the ACA expansion program was reported on the closing package the \$62M journal voucher was overlooked by DAPS, APA, and the Finance Cabinet. DAPS is consulting with the Department for Medicaid Services to improve this process. Effective January 2015, the MCO payment will be properly coded on the front end.

2. *Misinterpretation of the Cash Instructions – The AFR -10 forms were completed this year similar to every year in the past. DAPS will have a new procedure in FY15 to report 'Cash on Hand'. DAPS will add an additional reporting code within eMARS (Department Revenue Source field) to aid in the tracking of CR documents which includes 'Cash on Hand' as of 6/30. With this new reporting device, 'Cash on Hand' information can be pulled directly from Info-Advantage for the AFR – 10 reports. This will be the most effective process to properly report 'Cash on Hand' amounts.*

Individual training for Department for Accounting and Procurement Services (DAPS) staff on the Closing Package with FAC will be requested at the beginning of the calendar year. This training will provide a better understanding of FAC procedures and reporting of the Closing Package forms.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2014-002: The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives

The Kentucky Department for Workforce Investment (DWI) exhibited an operating environment which failed to clearly establish a commitment to ensuring accuracy and integrity in financial reporting over achieving financial goals and objectives. Correspondence identified DWI management was ineffective in communicating newly developed policies to personnel in an effort for DWI to change operating focus to Employment Services (ES) in response to a decrease in Unemployment Insurance (UI) claims. This poor communication led to questionable time and attendance reporting practices and increased risks of noncompliance with federal program requirements. Additionally, emails identified a direct disregard by DWI management in following guidance provided by United States Department of Labor (USDOL) when identifying if activity within the ES cluster qualified as an allowable cost. Correspondence identified the following deficiencies:

- During a conference call in the fall of 2013, regional managers for UI offices were instructed only one person per office was allowed to perform and charge time to UI functions, with the total time charged not to exceed 37.5 hours in a week. Although management's intent may have been to change the primary focus of operations from UI to ES to react to a changing economic climate, communications were ambiguous, requiring multiple question and answer type emails to help clarify management's objectives. Inadequate communication created confusion at all staff levels within the organization impacting the operating environment, with some employees believing the intent of the communication was to code time to ES regardless of whether or not the actual activity was UI related.
- DWI management instructed employees, in an effort to minimize the amount of time being charged to UI grants, to allocate their time with clients to seven minutes related to UI activities, and eight minutes related to ES activities. As such, with time being reported in 15 minute increments, a "majority rules" approach would ensure the entire 15 minute period would be charged against ES grants, which had available funding. This further supported employees' belief that management's goals was intended to arbitrarily code time to ES programs, regardless of the actual activity.
- DWI personnel requested guidance from USDOL asking if Kentucky can use Wagner-Peyser funds to pay for Disabled Veterans' Outreach Program (DVOP) and Local Veterans' Employment Representative (LVER) salaries, benefits, or travel in the event that the veterans staffing grant runs out of money before the end of the federal program year. Communications from USDOL indicated "We have researched your request and consulted with the National Office. The flexibility does not exist to use Wagner-Peyser funds to pay for DVOP/LVER salaries, benefits, travel, etc." In response to concerns over this activity being unallowable in accordance with federal grant agreements and compliance requirements, DWI management identified "while I respect [USDOL's] written response, I disagree with [their] response. I have consulted extensively with our Cabinet's leadership team and we feel confident that our decision to re-direct WP funds to cover these expenses is one that we can justify to USDOL should the

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2014-002: The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives (Continued)

need arise.” DWI’s disregard to federal guidance and determinations, especially without the documentation of sound research and/or evidence to support their position, establishes a poor ethical climate and control environment, which negatively impacts the tone set by upper management.

An improving state and national economy and the Federal Government shutdown greatly impacted federal funding available to DWI during state fiscal year 2014. As funding sources became limited, DWI management implemented new operating policies in an attempt to redirect personnel to complete activities which had an available funding stream.

By placing a limit on the number of staff and hours allowed per week for UI functions, as well as suggesting staff follow the “majority rules” principle in accounting for their time, management is indirectly encouraging employees to falsify their time reports, as staff are pressured to record hours within management’s required limits instead of coding time as actually worked for a given federal program. Additionally, DWI management’s disregard to guidance provided by USDOL indicates a poor operating attitude lending itself to an inadequate control environment.

The overall impact of a deficient control environment increases the risk of inaccurate or falsified financial reporting as well as the possibility of noncompliance with federal regulations. Any personnel costs identified to have been inappropriately charged to the wrong federal program would be considered disallowed costs, and subsequently be subject to repayment to the Federal Government.

The tone at the top is the cornerstone for any organization’s control environment, which sets the values and standards expected of all employees. Management is tasked with creating an operating environment, as supported by their actions, which promotes accuracy in financial reporting, compliance with federal regulations, and integrity in operations.

Recommendation

We recommend DWI strengthen its control environment by ensuring policy communications are clear, requiring staff to operate with a high degree of integrity, and accepting guidance and determinations provided by federal agencies. DWI management should strengthen policies that support accuracy in financial reporting and timekeeping, as employees should be directed to charge time to programs accurately as it is worked to ensure time worked on a federal program is not inappropriately charged.

We will be conducting additional audit procedures to address these deficiencies during federal compliance testing associated with the Statewide Single Audit of Kentucky (SSWAK) to determine the extent of any noncompliant and/or unallowable charges to federal programs.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2014-002: The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives (Continued)**

Management's Response and Corrective Action Plan

During the period of time at question, there were two significant circumstances converging on OET. It is important to understand each of the circumstances individually and to understand the collective impact of each.

1. *There was a \$3428.37 expenditure to a grant during August 2013 which has been described as "...a direct disregard by DWI management in following guidance provided by United States Department of Labor (USDOL) when identifying if activity within the ES cluster qualified as an allowable cost." During August 2013, OET continued to adjust to the financial circumstances surrounding the Jobs for Veterans State Grant (JVSG). The grant required Kentucky to maintain 39 full time positions. Those 39 fulltime positions bring personnel costs, COT costs, as well as travel necessary to do the assigned work. Regardless of the changing landscape of the cost for Kentucky agencies to do business in Kentucky, the USDOL requires that OET maintain its staffing levels. During August 2013, the OET realized a \$3428.37 deficiency via a payroll default due to lack of funds. Keep in mind that payroll is paid after the work is completed; therefore, the Commonwealth of Kentucky owed \$3428.37 to employees for work completed during the month of August 2013. Therefore, the decision was made to utilize Wagner Peyser funds to pay the \$3428.37 still owed by the agency to allow its employees to be made for the work they had already performed. In making this difficult decision, OET management consulted every funding stream available to it. OET did not have other funds available to utilize. OET management did not make the decision without considering all options available nor did management act without integrity. Management made the best decision based on the options available at the time. It is important to note that OET does not have non-grant funds which could have been utilized. Furthermore, it is important to note the context of the opinion provided by the federal representative. The federal representative was not presented with the facts of the situation nor did the federal representative consult with any person in management of the agency to determine if there were extenuating circumstances involved in the situation.*

As a result of the DOL guidance from ETA, effective September 1, 2013, all JVSG funded staff were instructed to stop performing JVSG funded activities and to perform only Wagner Peyser funded activities. Clear guidance was provided to JVSG staff and Regional Managers regarding the change in addition to a conference call. It is important to note that with the JVSG, Kentucky has the benefit of a USDOL representative in Frankfort who serves as a liaison between Kentucky and USDOL on JVSG matters. Additionally, that federal representative monitors the work of Kentucky, as it relates to JVSG, to ensure federal compliance is maintained. During the period in question, Kentucky had conversations with this federal representative who was made aware of all circumstances impacting Kentucky. At no point, did Kentucky receive federal guidance or instruction to operate in a different manner than what OET leadership had chosen to do.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2014-002: The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives (Continued)**

Management's Response and Corrective Action Plan (Continued)

OET leadership made the necessary and appropriate changes to ensure that work performed aligned with the proper funding streams. It was during this time that the federal shutdown occurred and the guidance from the US Department of Labor Veterans Administration stated that all JVSG activities must cease. Several other states put their JVSG staff on furlough. Kentucky chose not to furlough staff and, instead, re-directed their work to align with the funding streams available. This is an appropriate and necessary course of action given the unique circumstances. OET will seek non-federal funds in the amount of \$3,428.37 to cover this expenditure.

2. *On October 1, 2013, the federal government entered into a shutdown period. At which time, two grants/ funding streams, one of which is at question here, from the US Department of Labor were completely shuttered. Work could not be performed on those grants and, as such, the Commonwealth of Kentucky employees whose primary functions are associated with those grants were redirected to work that had available funds in an effort to not furlough those employees.*

Given that the federal shutdown was a unique and extraordinary circumstance which caused numerous questions by staff, OET management instituted a practice of responding to all OET Regional Managers with any and all questions received by Regional and/ or local office managers. In other words, if a Regional Manager in Lexington asked a shutdown related question, the question and answer was provided to all Regional Managers throughout the Commonwealth. This practice was established as an efficient means of answering questions and was modeled after the commonly utilized model of a "Frequently Asked Questions" approach. Additionally, numerous conference calls were held with OET Regional Managers beginning on October 1, 2013. This was an opportunity for information to be disseminated broadly and for everyone to participate in conversation.

During October 2013, OET leadership were required to make swift decisions to ensure work performed by staff aligned properly with the manner in which those staff charged their time, as well as to avoid layoff or furlough of any permanent staff. OET Regional Managers were directed to align business practices which ensured that only one staff person per office could perform Unemployment Insurance (UI) functions because the UI Administrative grant could only sustain a limited amount of ongoing charges. Where needed, based on volume, Regional Managers were permitted to have up to two staff who performed UI functions and, therefore, coded their time to the UI Administration code. For those staff who were redirected from UI work to re-employment services work, their primary templates changed and their work changed. It is, also, noted that the effort to ensure proper time coding aligned with the work performed

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

FINDING 2014-002: **The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives (Continued)**

Management's Response and Corrective Action Plan (Continued)

was well underway prior to the October 2013 federal shutdown. It is fair to say that the federal shutdown, however, increased the pace of the code alignment work. As such, prior to the shutdown and continuing as recently as an OET Managers' meeting in October 2014, managers are continually trained and refreshed on how, when and why to ensure that all staff are coding time based on how functions are performed. OET management fully understands the importance of this concept and has proven its dedication to the concept continually. During this time, Kentucky was in regular and ongoing contact with USDOL representatives from the national office who were aware of Kentucky's circumstances. At no point was OET leadership directed to operate in a different manner.

It is not accurate to state that any changes noted within this audit were done in a "...response to a decrease in Unemployment Insurance (UI) claims." The majority of issues raised, as it relates to RCW Reg#1 surround the unique circumstances of the federal government shutdown and how one state agency, which is entirely federally funded, responded to the shutdown. The actions were not taken in response to a decrease in Unemployment Insurance claims. However, it is fair to say that the unique circumstances created by federal shutdown permitted the agency to place a renewed emphasis on ensuring that all staff code time appropriately and, as such, started to remind managers of the critical nature of appropriate time coding. These actions have continued since the shutdown. Time coding is a frequent topic of conversation with managers. The strategy expected of all staff is that time is coded according to the functions performed.

At no point did OET leadership invoke a "majority rules" approach to time coding. At no point did OET leadership instruct staff to code time to "ES" when appropriate work was not being performed. OET leadership did remind Regional Managers that providing reemployment services is the primary mission of the agency. Establishing economic stability through Unemployment Insurance is a vital and important first step; however, it is not in the best interest of the customers we serve to only provide economic stabilization. We must provide the most effective means by which the customer re-enters the workforce as quickly as possible making a family sustaining wage. Therefore, the provision of re-employment services is vital to the ongoing economic stability addressed, in part or the whole, through Unemployment Insurance. Furthermore, it should be noted that a significant number of OET staff in career centers, while assisting a customer with a UI issue were already in the practice of discussing employment opportunities, providing labor market information and general job searching information; however, those same individuals were inadvertently coding such time to UI because UI was the primary template of that individual. Essentially, OET leadership brought to the attention of staff that re-employment services provided to UI recipients are functions appropriate to be performed when coding time to Wagner Peyser. It became apparent to OET leadership that most staff in

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

FINDING 2014-002: The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives (Continued)

Management's Response and Corrective Action Plan (Continued)

career centers approached their work based on the "type" of customer (UI claimant, not a UI claimant) rather than approaching the work based on function performed. While this concept seems easy to grasp after the fact, the change in approach represents a substantial shift in philosophy of the agency. However difficult change may be to grasp and implement, it is unfair and inaccurate to characterize the shift to a function based time coding approach as "arbitrary" and "...[without regard] to the actual activity." Additionally, it is not fair to allow the belief of an employee or a group of employees, who did not possess full knowledge of all circumstances impacting OET, to frame the perception that OET leadership acted without regard to integrity or federal grant guidelines.

Furthermore, based on time in the field, Cabinet level officials explored concerns that OET leadership instructed OET staff to code time in a manner that was inconsistent with the federal grant guidelines. However, in an attempt to further clarify and reinforce the agency's commitment to proper time coding, the OET Executive Director issued guidance to all OET employees on September 16, 2014. Said guidance is attached.

It is important to note that a culture shift is occurring in the agency. Based on the recent recession and the high numbers of individuals who were receiving Unemployment Insurance benefits in Kentucky, often times staff in career centers (local offices) were addressing issues with Unemployment Insurance claims and not always taking the time (because of long lines of customers) to provide job search services. However, current OET leadership have continually stressed that individuals receiving Unemployment Insurance benefits are the exact individuals who need to receive re-employment services (Wagner Peyser, ES). It should not be that there are two customers in the career centers- those receiving Unemployment Insurance and those looking for a job. The mere fact that a person is receiving Unemployment Insurance benefits implies that a re-employment service is required. This represents a culture shift for the employees of the career centers. Leadership fully recognizes that the current mindset of some staff, who present as slightly resist to change, did not develop overnight and, therefore, the shift to viewing Unemployment Insurance recipients as the customers to receive re-employment services will not occur overnight, either.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

FINDING 2014-002: The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives (Continued)

Auditor's Reply

Management's determination to request guidance from USDOL only to disregard their response is a significant issue regardless of the dollar amount in question as it establishes a tone and operating environment that is not conducive for ensuring accurate financial reporting or compliance with federal regulations. This further brings into question if there are other instances or situations where management has made decisions contrary to state and federal guidelines.

Management's response further identifies "it is not fair to allow the belief of an employee or a group of employees, who did not possess full knowledge of all circumstances impacting OET, to frame the perception that OET leadership acted without regard to integrity or federal grant guidelines." We would like to reiterate that the miscommunication with staff created confusion which caused time to be miscoded for some employees. It is evident based on the weaknesses identified that management should strengthen communications with staff at all levels to clearly establish its operating tone, and prevent any confusion over management objectives and requirements.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2014-003: The Department for Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of Its Closing Package

The Department of Workforce Investment (DWI) failed to implement adequate internal controls over the preparation and subsequent review and monitoring of its closing package as submitted to the Finance Administration Cabinet (FAC). Review of the closing package identified the following misstatements:

- DWI's closing package reported \$993,613 as benefits accounts receivable for fund 6200; however, only \$275,659 was supported by agency documentation. This resulted in an overstatement of \$717,954 in accounts receivable on the closing package. A similar finding was commented on in the prior year audit regarding an understatement in the closing package.
- DWI did not have documented methodology in place to identify which programs to include or exclude in the calculation for the allowance for uncollectible accounts. Supporting documentation provided identified that not all programs were utilized in calculating the amount. Additionally, the only documentation maintained to support interest and penalty amounts reported on the benefits accounts receivable are emails received from COT.
- DWI changed its methodology in fiscal year 2014 for reporting the liability associated with overpayments for Unemployment Insurance (UI) taxes to only recognize the current year's overpayments, disregarding funds collected in prior years which were still payable at fiscal year end. This resulted in a \$20,803,009 understatement of accounts payable for fund 6210 on DWI's closing package.

In addition to weaknesses identified in the preparation of its closing package, DWI failed to properly administer its accounts payable balance. DWI reports identified \$40,708,442 in overpayments received from employers as potential accounts payable. This amount is an accumulation of overpayments in contributions, interest, penalties, and surcharges aging from the current fiscal year back to 1989 for both active and inactive employers. DWI has elected to recognize amounts received in the last five years for active employers as accounts payable. With \$21,832,576 being identified as accounts payable in fiscal year 2014, \$18,875,866 of overpayments are still being tracked without a clear mechanism in place to determine when these overpayments are no longer considered payable to employers, or where these funds are to revert once written off.

DWI did not have formalized policies and procedures in place to establish necessary internal controls over the preparation and review of closing package forms. Additionally, a methodology was not documented to support and identify Management's determinations necessary for calculating amounts to be disclosed within the closing package including accounts payable and the allowance for uncollectable.

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 \$20,803,009. The oversight and lack of review by DWI could result in a material misstatement to the financial statements for the Unemployment Compensation Fund reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) if undetected.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2014-003: The Department for Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of Its Closing Package (Continued)

Sound internal controls over the preparation of the closing package dictate that adequate preparation and review procedures be implemented to ensure that the closing package contains verifiable and accurate data before submission. Management's methodology for calculating balances and determining estimates should be formally documented to ensure consistency from year to year in financial reporting as well as to ensure the completeness and accuracy of account balances. In addition, proper internal controls dictate that all supporting financial data be reconciled and reported in a timely manner.

Recommendation

We recommend the following:

- DWI should develop and maintain sufficient written instructions to assist personnel in preparing its closing package. All amounts disclosed should be well supported by adequate documentation. Additionally, internal controls over the closing package preparation should include a management level review, which includes agreeing supporting documentation to the amounts reported in the closing package.
- DWI should re-evaluate its methodology in calculating the allowance for uncollectible amount for fund 6200 benefits accounts receivable. Currently, all actual write-offs for each program are not included in the estimation, however all claimant overpayments are reported as accounts receivable. Unless justified otherwise, all claimant overpayments should be considered in the allowance for uncollectible calculation.
- DWI should evaluate funds currently maintained and identified as overpayments of UI taxes and determine adequate procedures to write off payables that are considered to be no longer probable or likely to occur based on DWI's established methodology. DWI should evaluate state laws and regulations to determine the correct treatment and accounting of funds written off as no longer being payable, and ensure any write off method is in accordance with Generally Accepted Accounting Principles (GAAP).

Management's Response and Corrective Action Plan

1. *Per the APA recommendation of having written instructions on how to complete the closing package, the Integrity Branch of OET will provide written instructions of the fiscal year closing package process before the end of the current fiscal year. This will provide a checklist of all documentation needed to support the closing package information reported.*

There will be a double-check by management in the Integrity Branch for accuracy of information provided by COT compared to totals expected as well as data entry validity. There will also be a triple-check of information by management in the Grant Management Branch and the Division of Grant Management to make previous year closing package comparisons for unreasonable or unlikely differences.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2014-003: The Department for Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of Its Closing Package (Continued)**

Management's Response and Corrective Action Plan (Continued)

2. *In regards to the recommendation of re-evaluating inconsistent methods of calculating accounts receivable and the allowance for uncollectible accounts, clarification in this area will be provided. Currently, all federal programs that provide benefits are reported in overpayment accounts receivables on the closing package because we recover these overpayments. However, beginning in 2015, we began returning these federal overpayments to the federal government, so we will also be reporting these amounts in the accounts payable area of the closing package as well.*

In the allowance for uncollectible accounts federal programs, with the exception of UCFE, UCX and Postal programs are excluded from these calculations. This is due to the fact the federal program collection amounts are unable to be written-off since we are not the owners of this money, but instead the collectors.

All documentation supporting these figures will be printed in-house as well as via COT to be filed for internal review and audit purposes.

3. *Since 2007, OET has reported the total deferred revenue on all active accounts for a 5-year period. During the FY2013 review, the APA's office advised OET to report only the total deferred revenue accumulated during FY2014 on the closing package. OET staff submitted an e-mail to APA staff to document the agreed upon understanding so that clarity was gained by both OET and APA going forward with this methodology. Therefore, OET reported only the accumulated deferred revenue from July 1, 2013 to June 30, 2014, resulting in the difference between FY2013 and FY2014. Although the process had changed OET continued to maintain the report and documentation showing deferred revenue totals on active accounts for a 5 year period. We have since amended our process and reverted to our five year reporting method.*

OET does not accept the weakness identified as the lack of a clear mechanism to determine when overpayments are no longer payable. Pursuant to KRS 341.330 refunds may not be issued on accounts payable more than five (5) years old. Overpayments on accounts which have been void/inactive for more than five years are not payable. However, all overpayments for active accounts are considered payable since they can be used to pay amounts due on future returns.

FINANCIAL STATEMENT FINDINGS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2014-003: The Department for Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of Its Closing Package (Continued)**

Auditor's Reply

The determination to only report the current year's portion of unearned revenue as a liability on the FY14 closing package is a decision reserved for DWI Management. During FY13, the APA did not provide a formal recommendation to DWI suggesting a change in methodology in determining amounts to be disclosed within their closing package.

Management's response indicates per KRS 341.330 that refunds may not be made on accounts payable more than five years old. Review of KRS 341.330 (2) related to contributions, interest, or penalties erroneously collected does not explicitly state there is a five year period in which an application for refund must be made. Interpretation of KRS 341.330 (2) could therefore suggest excess contributions collected older than five years may be considered payable. We again recommend DWI establish a formal policy to identify a methodology for when these liabilities can be written off and determine the proper accounting for the collected overpayments once they are no longer recognized as being payable.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-004: The Cabinet For Health And Family Services Did Not Follow Payroll Policies and Procedures

During the fiscal year 2014 audit of the Cabinet for Health and Family Services (CHFS), payroll was tested to ensure controls were in place and the payroll was accurately stated. Sixty (60) employee records were reviewed as well as an additional twenty-three (23) employee records requested from Estill County Department for Community Based Services (DCBS). The reviewed documentation consisted of a Master list of employees obtained from Personnel Universe in Infoadvantage, timesheets, leave/overtime forms (CHFS-2), Kentucky Human Resource Information System (KHRIS) screen prints, and KHRIS payroll data obtained from Personnel Universe in Infoadvantage.

The following exceptions for Estill County DCBS were found:

- One employee signed his/her timesheet after it was entered into KHRIS
- Four timesheets were approved by a supervisor after being entered into KHRIS
- One employee's overtime supporting documentation did not agree to the timesheet
- One employee entered their own timesheet into KHRIS. (This instance occurred before CHFS implemented new procedures to prevent this type of activity)
- One employee had .5 hours of overtime in KHRIS that was not shown on the timesheet or CHFS-2

The following exceptions were found for the other departments of CHFS:

- Five employees signed his/her timesheet after it was entered into KHRIS
- One employee signed the CHFS-2 but did not date
- Seven employee records were approved by a supervisor after being entered into KHRIS
- Three employee records were signed by the supervisor, but were not dated

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

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

Recommendation

We recommend CHFS:

1. Stress to each timekeeper, employee, and supervisor the importance of following procedures consistently under any circumstance and safeguarding the employee payroll records.
2. Develop and implement procedures to ensure that all timesheets are signed by the employee and approved by a supervisor before being entered into KHRIS.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-004: The Cabinet For Health And Family Services Did Not Follow Payroll Policies and Procedures (Continued)**

Recommendation (Continued)

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

Management's Response and Corrective Action Plan*Estill County:*

It was the understanding of OHRM that the issues with Estill County were an isolated incident and had been resolved. We have reviewed the identified errors and will address directly with appropriate leadership to ensure that a performance improvement plan is implemented as necessary. There has been a change in timekeepers since these errors occurred; however, we will remind the current timekeeper of the expectations in performing these duties.

All other departments:

CHFS Human Resource Administrators (HRA's) run multiple reports during payroll entry as part of their pre-payroll reconciliation process. However, the type of errors found by the auditor would not be identified by reviewing the HRA's reports. However, we recognize the significance of these errors and will draft an email communication to timekeepers and supervisors to reiterate the importance of reviewing the timesheets and CHFS-2 forms for accuracy, including obtaining proper signatures/dates prior to entering into KHRIS.

Email communication reminders will be sent out no later than close of business Friday, December 5, 2014.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-005: The Cabinet For Health And Family Services Did Not Record Medicaid Expenditures To The Correct Contracts

As part of the FY 2014 audit for the Cabinet for Health and Family Services (CHFS), contracts made with Managed Care Organizations (MCOs) were reviewed. While working through the contract documentation, it became apparent that of the new ACA Medicaid Expansion contracts, only one (Anthem) had any payments associated with them as of the end of fieldwork in August 2014. It was found that the payments for new contracts issued to Coventry, WellCare, Humana and Passport for the Medicaid processing for Region 3, or the ACA Medicaid Expansion for regions other than Region 3, were not being attributed to the correct contract. Instead, the payments that should have been attributed to the 'new' contract have been lumped together with others payments and attributed to the 'old' contract.

It should be noted that no exceptions were found during testing of payments to the MCOs, except for the contract issued described above, and there were no questioned costs.

These MCOs all had extant contracts covering only Medicaid Region 3 when new contracts created to cover the rest of the state, excluding Region 3. When new contracts were established, changes were not implemented to the payment process that would have tagged payment transactions with the new contract number reference.

Contracts covering Region 3 have expenditures incorrectly attributed to them and contracts for the rest of the state have no expenditures attributed to them. When payments are not properly categorized or attributed to contracts, the agency runs the risk of over-expending established limitations or paying for unauthorized services.

According to the Finance and Administration Cabinet Policy statement FAP 111-45-00 entitled Payment Documents:

“An agency shall select the appropriate payment method for all goods and services...All payments referencing contracts and awards established in the state’s procurement system shall be made in the state’s procurement system and reference the appropriate award.”

Recommendation

We recommend CHFS develop and implement policies/procedures to ensure that all expenditures are charged against the correct contracts.

Management’s Response and Corrective Action Plan

The Department for Medicaid Services (DMS) agrees with the recommendation and has developed a process to ensure that all expenditures are charged against the correct individual contracts. DMS worked with the staff in the Payables and Travel Reimbursement Branch, in the Division of Accounting and Procurement Services (DAPS), to develop a process where the MCO paid amounts are itemized by each individual contract number and sent to DAPS for payment processing.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-006: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation

Our fiscal year (FY) 2014 audit of the Cabinet for Health and Family Services (CHFS) Kentucky Medicaid Management Information System (KYMMIS) revealed the Department for Medicaid Services (DMS) did not maintain updated documentation of all programmed audits and edits performed during KYMMIS system processing. In addition, there were instances found during testing where certain edits were not necessary or did not function as designed. These audits and edits were applied to those transactions paid by the Commonwealth for individuals not eligible for managed care. System edits ensure the data within a transaction is complete, accurate, and formatted correctly; whereas, system audits provide a check against historical transactions to ensure the current claim is valid and allowable. Multiple instances of inactive system audits or edits continued to be identified as active within agency manuals, whereas multiple active audits and edits were omitted from the associated documentation. Similar issues were noted in the prior three audits, although some improvements have been made during FY 2014.

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

Of the 546 programmed audits tested, we determined the following:

- One hundred seventeen audits were denoted in the Audit Manual as active that DMS has identified as inactive within KYMMIS.
- Four audits within KYMMIS were identified by DMS as active, but they are not included in the Audit Manual or Claim Check Manual .

Of the 779 programmed edits tested, we determined the following:

- One hundred six edits were included in the Edit Manual as active, but DMS indicated these were inactive within KYMMIS.
- Fourteen edits within KYMMIS were identified by DMS as active but were not included in the Edit manual.

Additionally, on the listing of active edits provided by DMS, there were 31 codes that were later identified as actually being Claim Check codes and not DMS transaction edits. These codes are listed in the Claim Check Manual. In past years, CHFS staff had identified these codes as audits or edits at different times. The Claim Check Manual does not explicitly identify whether the codes are audits or edits. It is important to properly identify whether these codes are audits or edits in order for reviewers to ensure the underlying process is functioning as intended. Additionally, one of these was identified as inactive, but it is not denoted as such in the Claim Check Manual.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-006: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation (Continued)

We sampled six audits and seven edits reporting less than five claims failed for the current fiscal year to determine whether they were active and functioning as intended. All six audits appeared to be functioning correctly. However, out of seven edits tested, one of the seven edits tested was determined to be not functioning as intended. DMS and the KYMMIS vendor are investigating this situation. Additionally, five edits were determined to be unnecessary, because the particular situations evaluated by the edits are not applicable.

We are aware DMS is undergoing a project to review the functionality and documentation related to all audits and edits. Corrections to the configuration and documentation will be made as the audits and edits are reviewed. DMS will work with the vendor to address these changes. Due to the implementation of the Affordable Care Act, the Medicaid Expansion, and a departmental reorganization, the progress on this project has slowed down. However, with refocused efforts and additional staffing, this review project is expected to be completed in December 2015.

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

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

Recommendation

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

Once this project is complete, any new audits and edits should be reviewed and thoroughly tested in a similar manner prior to being implemented. Documentation of this process should be maintained for audit purposes.

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

FINDING 2014-006: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation (Continued)

Management's Response and Corrective Action Plan

CHFS concurs with the APA recommendation. The Office of Administrative and Technology Services (OATS) has continued to work on the audit and edit project. Included in the audit and edit project has been an effort to update the KYMMIS Audit, Edit, and ClaimCheck manuals to reflect this review, including descriptions of all audits or edits and the active, inactive, or end-dated status of each audit or edit. OATS completed its review of the KYMMIS Edit, Audit, and ClaimCheck Manuals in June 2014, and is now working with the vendor to correct any configuration and documentation inaccuracies. In addition, within the Claim Check manual, the designation of whether the error code will function as an audit or edit will be explicitly stated. The anticipated completion date of the current back log is August 29, 2014, when all audits and edits will comply with statutes and regulations, and the logic behind the configuration will match the desired function.

OATS, in collaboration with DMS, has also completed its review of KYMMIS edits and audits that had no "hits" during the past year to determine their need and accuracy. The findings of this review have been documented and provided to the vendor for remediation. The anticipated completion date of this effort is September 30, 2014. Any new audits and edits will be reviewed and thoroughly tested prior to being implemented.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-007: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Encounter Data Submitted To The Medicaid Management Information System Is Accurate And Complete

Our fiscal year (FY) 2014 audit of the Cabinet for Health and Family Services (CHFS) Kentucky Medicaid Management Information System (KYMMIS) revealed the Department for Medicaid Services (DMS) did not ensure the encounter data sent from the Managed Care Organizations (MCO) was complete or accurate. Encounter data contains contractually required data elements related to each service or item provided to a patient through the healthcare system. Similar issues were also noted during the prior year audit.

The MCOs submit their encounter data to the vendor of the KYMMIS, and then the vendor uploads this data to KYMMIS. If specific data transactions are rejected due to incompleteness or inaccuracy, the remainder of the data file is accepted and the erroneous or incomplete transactions are sent back to the appropriate MCO for correction. Once the corrections are made, the MCO resubmits the data to the vendor and it is uploaded into KYMMIS. DMS staff has the ability to view the KYMMIS data by the batch file submitted or by the specific claim.

DMS created an Encounter Resubmission Tracking Report, which tracks the data that had to be resubmitted after correction. A set of Encounter Activity Status reports has also been developed to run weekly and monthly for each MCO. These reports are reflective of a point in time and track files by paid, denied, voided, and adjusted status. The contracts between CHFS and the MCOs state if the data is not resubmitted within 10 days of the date the records are returned, penalties will be assessed against the MCO. When asked if all MCOs were in compliance with the 10 day deadline for resubmitting corrected encounter data, DMS staff stated they were unable to verify that the MCOs were meeting the requirement. However, staff is working to automate the tracking of contract penalties related to encounter submissions.

Multiple communications have been made between the MCOs and CHFS, due to the MCOs not consistently meeting the threshold for submitting data. Additionally, Weekly Encounter Technical Workgroup meetings are held with the MCOs to improve the encounter submission process. However, at the time of our review, no penalties had been assessed against the MCOs for their failure to consistently meet the contract terms. According to the MCO contracts, these penalties could have been assessed at \$500 per day beginning on the fifth calendar day after the encounter data was due.

Based on the fact that the MCOs are not consistently submitting and correcting the encounter data, we cannot state with any certainty that the data housed within KMMIS related to the MCOs is complete and accurate.

The expedited managed care implementation, lack of reporting tools within KYMMIS, and miscommunications with the MCOs have been identified as causes of this situation.

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-007: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Encounter Data Submitted To The Medicaid Management Information System Is Accurate And Complete (Continued)**

According to the MCO contracts,

17.1 Encounter Data Submission

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

39.4 Health Care Data

- A. Encounter data is due on a weekly basis and shall be considered late if not received after four (4) calendar days from the weekly due date. Beginning on the fifth calendar day late, the Department shall withhold Five Hundred (\$500.00) Dollars a day for each day late from the Contractor's Capitation Payment for the month following non-submission.
- B. If the Contractor fails to submit health care data derived from processed Claims or Encounter data in the required form or format required by the terms of this Contract for one calendar month, the Department shall withhold an amount equaling five (5%) percent of the Contractor's Capitation Payment for the month following non-submission. The Department shall retain the amount withheld until the data is received and accepted by the Department less Five Hundred (\$500.00) Dollars per day for each day late.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-007: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Encounter Data Submitted To The Medicaid Management Information System Is Accurate And Complete (Continued)

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

Recommendation

We recommend DMS continue to use the Encounter Resubmission Tracking Report, along with other reports available in KYMMIS, to track the submission of MCO data. DMS should continue working toward automating the tracking of penalties related to encounter submissions. If MCOs do not consistently resubmit their corrected data within 10 days, as stipulated in the contract, DMS should exercise contract language allowing DMS to withhold penalty amounts from payments to contractors.

In addition, DMS should continue to provide specific guidelines and instructions to the MCOs related to the submission of data in order to reduce errors, which would reduce the amount of files rejected and resubmitted. If MCOs are unable to meet the expectations and requirements for data submission, DMS should enforce the consequences stated in the contracts.

Management's Response and Corrective Action Plan

CHFS concurs with the APA recommendations. The MCO Compliance Branch within DMS has completely rewritten the encounter tracking process in an effort to automate the tracking of penalties related to encounter submissions. DMS continues to use the Encounter Resubmission Tracking Report, along with other reports available in KYMMIS, to track the submission of MCO data. DMS will impose withholds and penalties as defined in the contract.

DMS plans to implement this process of assessing withholds and penalties after two months of mock reporting and notification. September 2014 will be the first live month with administrative fees occurring in October 2014.

In addition, DMS, along with OATS and the vendor, will continue to work with the MCOs during weekly IT meetings as well as during MCO requested encounter specific meetings. These discussions include dialogue related to specific guidelines and instructions to the MCOs related to the submission of data. An encounter technical workgroup consisting of all MCOs, DMS, OATS and vendor staff has been meeting since June 2013.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-008: The Cabinet For Health And Family Services Did Not Fully Protect All Sensitive And Confidential Data

Our fiscal year (FY) 2014 audit of the Cabinet for Health and Family Services (CHFS) revealed that, although policies and processes are in place, CHFS did not consistently follow policies to ensure that all sensitive and confidential data is protected. However, CHFS has taken steps to protect certain types of data.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, the auditors thoroughly discussed this issue with CHFS to address specific areas of concern.

The lack of resources and personnel may have contributed to the failure to adequately protect sensitive or confidential data.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public. It is possible information related to employees or vendors or citizens could be compromised. This significant type of control weakness could potentially be exploited either internally or externally.

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

Recommendation

We recommend CHFS management ensure all data classified as confidential and sensitive is sufficiently protected. If the Commonwealth Office of Technology (COT) manages these resources, CHFS should work with COT to ensure policies are consistently followed to secure the data. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority. Further, we recommend CHFS management update agency policies regarding data protection to reflect the actions and tools used by the agency. Once updated, policies should be distributed to all staff to ensure they are aware of agency security requirements.

Management’s Response and Corrective Action Plan

CHFS concurs with the recommendation. As part of the consolidation, CHFS is working with COT to ensure that policies are consistently followed to secure the data. Additionally, CHFS has worked with COT to define policy responsibility going forward. CHFS is in process of updating the agency policies accordingly—particularly with regard to data protection. CHFS policies are then published according to agency process.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-009: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files Which Allowed Instances Of An Individual Other Than The Member Being Able To View Information

During the fiscal year (FY) 2014 Cabinet for Health and Family Services audit, it was found that sufficient controls were not in place within the Kentucky Health Benefits Exchange (KHBE) Worker Portal module to ensure caseworkers only merged potential duplicate case files where sufficient data was matched. Due to the existence of incorrectly merged cases, there were instances identified where someone other than the member was able to view personal identifiable information (PII) through the KHBE user application, kynect.

During fieldwork, the auditors became aware of an individual who stated another individual's information was available to them after logging into their kynect account. This statement was made in an interview with a national news organization. Discussions with agency management identified that this particular situation was caused by a CHFS employee merging two unique cases in error. Upon further review by CHFS management after the merge, there was sufficient information in the data for the CHFS employee to have been able to determine the case files related to two unique individuals rather than the same person. There was no indication through this review that either sensitive or confidential data was viewed by either effected case member. These case files were subsequently separated.

In an attempt to determine whether other case files had been erroneously merged, CHFS management created a report that identified approximately 500 case files where a merge issue could potentially have occurred. This review found 321 case files, or approximately 64.2 percent, where the cases were inappropriately merged. Further, there were 14 cases, or approximately 2.8 percent, of those reviewed where information that would be considered sensitive or confidential was disclosed to an individual other than the case member.

Based on these findings, CHFS management began altering features within the system that would provide CHFS employees with tools to better assess whether duplicate cases exist and need to be merged or are unique and should be maintained separately. These tools include filtering for specific data matches and additional detailed information and comparison capabilities that would allow the CHFS employees to make more informed determinations. These changes were put into place in late February and March 2014. In addition, CHFS management is looking at other control options that would limit access to the merging capabilities in the system or require additional approval for case merges to be finalized.

Historically, individuals who are requesting eligibility determinations for service would meet with a CHFS Department of Community Based Services (DCBS) employee and provide all necessary information at that time. This direct interaction would allow the employee to better make the determination of whether there was an existing case within the system for the individual. Although direct interaction with DCBS employees is still an option, with the advent of the KHBE, individuals now also have the ability to enter their own personal information into the website. In the original concern discussed above, the problem occurred when one case file was developed through the KHBE and a

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-009: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files Which Allowed Instances Of An Individual Other Than The Member Being Able To View Information (Continued)

second account with the same name was created at a DCBS office. The caseworker reviewing these case files determined erroneously that the two case files were for the same individual.

If case files are incorrectly merged, it is possible for an individual other than the member to view or alter PII related to the member.

Access to PII should be restricted to only the associated member and appropriate staff who must work with the data in order to provide the required services. Further, separate case files should be maintained for all unique individuals.

Recommendation

We recommend CHFS continue to monitor the effectiveness of the tools put in place to assess whether cases are duplicate and need to be merged or are unique and should be maintained separately. If these tools are not as effective as anticipated, CHFS management should consider additional process changes to ensure only true duplicate case files are merged.

Management's Response and Corrective Action Plan

CHFS concurs with the finding. KHBE continues to monitor the effectiveness of the tools put in place to assess whether cases are duplicate and need to be merged or are unique and should be maintained separately. CHFS has implemented the following modifications and monitoring processes to help identify and prevent potentially merged citizens:

- *Business rules for the programmatic identification and merging of duplicate cases were tightened*
- *Application changes were made to make the manual merging of cases more difficult and to require more reviews by caseworkers*
- *Additional training was conducted and job aids developed for caseworkers to clarify functionality and use of the KHBE system*
- *MCI Inspector Tool has been provided to help monitor the potential merge cases. This tool is monitored multiple times throughout the day.*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-010: The Cabinet For Health And Family Services Did Not Ensure Adequate Security Is In Place Over Information Available Through The Commonwealth's Email System

Our fiscal year (FY) 2014 audit of the Cabinet for Health and Family Services (CHFS) revealed two objects found within the email system's public folders were open to anonymous viewing by any individual validly logged into the Commonwealth's email system. Further, the folder role for an anonymous viewer was set with editing permissions and one of the objects was found to contain entries that included sensitive information.

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

With the Information Technology Infrastructure Initiative (I.3) that is consolidating the infrastructure for many agencies into the Commonwealth Office of Technology (COT), there has been some confusion regarding which agency is responsible for system security controls.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public. It is possible these types of data could be compromised.

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

Recommendation

We recommend CHFS examine the permissions established for the noted objects to ensure access is restricted to only designated users. In addition, we recommend specified CHFS staff should periodically review the security control permissions applied to all agency public folders and subfolders to ensure secure roles are restricted as deemed appropriate and anonymous access is disallowed for folders or calendars containing sensitive or confidential information.

Management's Response and Corrective Action Plan

CHFS concurs with this finding. COT will work with CHFS on securing the public folders with only the necessary users once specified by CHFS. This will allow both parties to establish a base of needed permissions moving forward. Periodic reviews of security permissions of public folders and subfolders will be conducted upon request by the agency. COT will soon move to Microsoft Exchange 2013 where all public folders will be converted to mailboxes allowing for improved management of permissions.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-011: The Commonwealth Office Of Technology Is Not Properly Monitoring Inventory

As part of our audit of the Commonwealth Comprehensive Annual Financial Report, we review capital asset inventory procedures for various state agencies to provide an opinion on the accuracy of the Commonwealth's financial statements. The annual year-end inventory observations for the Commonwealth Office of Technology (COT) revealed six instances of control deficiencies and/or noncompliance with established inventory observation procedures. These are noted below:

- COT displayed insufficient monitoring of the inventory control framework as a whole. The monitoring of internal controls and related activities in question are insufficiently documented and understood by staff.
- In general, COT personnel were not prepared for the inventory observations. Observations revealed some COT staff weren't familiar with established inventory procedures or were assigned at the last minute.
- Inventory items were either missing or the asset location was incorrectly documented.
- Inventory items were not always tagged with a fixed asset tag or easily identifiable.
- COT staff members were unable to clearly identify who should authorize a deletion (missing item) in the inventory system or disposal (e-scrap) of an obsolete item.
- Communication to correct problems identified during the inventory, such as updated asset location, were not performed in a timely manner.

The roles and responsibilities for the inventory control process have not been clearly communicated to staff. COT has failed to adequately document and distribute guidance for the inventory process. This increases the risk of the inventory control process not working effectively and enhances the potential for errors to occur.

The auditors appreciate that inventory control is especially challenging for COT given the sheer amount, high utilization, and frequent turnover of assets. We also acknowledge the challenges posed by the ongoing consolidation of IT equipment, personnel, and processes. However, the tracking of inventory for acquisition, disposal, surplus, and cannibalization becomes difficult when effective controls are not in place. This can lead to deficiencies in accuracy, asset location, and timeliness of recording items in eMARS, the State's accounting system.

The Finance and Administration Cabinet's Manual of Policies and Procedures, FAP 120-20-01, states:

- I. General Provisions Pertaining to Fixed Asset Records
 - a. A State Agency shall maintain current records of physical properties and equipment and make appropriate additions and deletions to fixed asset records as property is acquired or disposed.
 - b. The administrative head of an agency shall be responsible and accountable for the custody and safekeeping of all personal property assigned to, purchased, or otherwise acquired by the agency. Each agency head shall either serve or appoint an employee of the agency to serve as agency property officer with responsibility for both maintaining the agency's fixed asset records and taking the annual physical inventory.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-011: The Commonwealth Office Of Technology Is Not Properly Monitoring Inventory (Continued)

- c. Each budget unit shall review its fixed asset records as of June 30 each year to ensure completeness and accuracy.
 - d. If the review process reveals incorrect or inadequate information, the agency shall take the necessary steps to correct the discrepancies.
- III. Expendable Personal Property
- c. The agency supply system shall use economic order quantities for restocking based upon past and anticipated usage. Every effort shall be made to avoid an accumulation of surplus or obsolete stock that reduces storage space.

Recommendation

- Develop and implement a sufficient asset monitoring program to include inventory procedures based upon FAP 120-20-01 specific to COT.
- Train employees on established inventory procedures while communicating the importance of sound asset tracking.
- Consider performing less intensive periodic inventory counts to improve the efficiency and accuracy of the yearly count.
- Properly affix fixed asset tags in order to make the item easily identifiable.

Management's Response and Corrective Action Plan

Develop and implement a sufficient asset monitoring program to include inventory procedures based upon FAP 120-20-01 specific to COT:

COT has implemented the CHFS Procurement, Payables, and Asset Tracking System (PPATS) for asset tracking. The system is based upon the requirements of FAP 120-20-01, and went live for COT December 5, 2013. As part of the I.3 infrastructure consolidation project, as an agency's infrastructure support is consolidated, the assets are entered into the PPATS system. COT is initiating a project to document in PPATS all assets at existing COT locations and previously consolidated agencies.

The system is part of the daily operation of COT in that assets are entered into the system upon acquisition, and are transferred to a custodian at each point in the deployment and disposal process. The data from this system will be utilized to periodically update EMARS.

Train employees on established inventory procedures while communicating the importance of sound asset tracking:

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-011: The Commonwealth Office Of Technology Is Not Properly Monitoring Inventory (Continued)**

Management's Response and Corrective Action Plan (Continued)

Training for the PPATS system was provided before and during implementation, and is available on a continuing basis as a need is identified. Procedures and users guides are published under the system help menu along with FAP procedures.

Consider performing less intensive periodic inventory counts to improve the efficiency and accuracy of the yearly count:

As assets are added, moved, or disposed of, the PPATS records, and then the EMARS records, are updated. Beyond that, personnel resources are not available to perform periodic inventory counts or spot checks.

Properly affix asset tags in order to make the item easily identifiable:

Processes have been modified to ensure vendor shipments are only made to sites where COT Field Services staff are located and are responsible for properly documenting receipt and properly tagging assets.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-012: The Commonwealth Office of Technology Did Not Formalize A Policy To Govern The Security Of The eMARS Production Databases And Ensure Agencies Consistently Apply The Established Procedures

Our fiscal year (FY) 2014 audit of the Commonwealth Office of Technology (COT) revealed that informal logical security procedures existed for granting and revoking access to the Enhanced Management Administrative and Reporting System (eMARS) production databases and for establishing non-expiring passwords for specific types of accounts. However, these procedures were not written or consistently applied. This situation was also noted during the previous six audits of the Finance and Administrative Cabinet. The databases specifically reviewed for FY 2014 were the ePayment Gateway, Finance and Administration, Vendor Self Service, and infoAdvantage production databases.

In order to request access to the eMARS production databases, a COT-F181 form must be completed, authorized electronically, and emailed to the Commonwealth Service Desk for processing within the Commonwealth Office of Technology (COT) service tracking application. Although COT staff is responsible for the administration of these databases, the identification of those individuals no longer requiring access to the databases is the responsibility of the associated agencies. An addendum to the eMARS Security Policy was developed that states a list of user IDs that have access to the eMARS production databases will be created by the COT Database Administrator (DBA) group and provided to the eMARS team twice a year. However, according to COT staff, this report was not created during FY 2014, since it was not requested by the eMARS team.

Further, of the 70 user accounts tested to ensure users are active employees or contractors requiring access, six users, or approximately 8.57 percent of the testing population were found to have access that should be revoked. In addition, one individual has two different active accounts that are no longer necessary and should be revoked.

Finally, all three profiles on each of the four databases had a profile setting related to failed login attempts and/or password reuse time limits that did not comply with the CIO-072 COT Userid and Password Policy.

We are aware COT cannot grant or revoke access or complete a review without a request initiated by the agency is sent to the COT Service Desk. However, with COT having oversight authority, COT should consistently communicate with all agencies that the procedures in place must be followed on a consistent basis, ensure only necessary and approved accounts remain active, and user accounts are revoked as necessary in a timely manner.

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

COT has not formalized written procedures for outside agencies to request access to databases under their administrative control.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-012: The Commonwealth Office of Technology Did Not Formalize A Policy To Govern The Security Of The eMARS Production Databases And Ensure Agencies Consistently Apply The Established Procedures (Continued)

Failure to consistently apply logical security controls could lead to a lack of understanding by management and users that could result in a failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources. This situation increases the risk of unauthorized data modification, destruction of assets, interruption of services, or inappropriate or illegal use of system resources.

Established security policies and procedures should be formally documented, communicated to affected staff, and consistently applied to provide continuity for policy implementation and set the tone of management concern for a strong control system to secure assets and resources. Access is to only be granted to approved users, and access must be removed promptly upon termination of employment or when access is no longer required. Information should be provided to agencies periodically to allow them to review access for necessity.

Further, the settings established on all resources under COT's administrative control are to comply with the Userid and Password Policy (CIO-072). Specific to this comment, the policy states "[t]o prevent individuals from attempting to log-in with UserIDs by guessing passwords, accounts will be locked after three (3) consecutive invalid log-in attempts" and "password history of at least six previous passwords must be kept to prevent individuals from reusing recently used passwords."

Recommendation

We recommend COT create written logical security procedures related to databases to ensure only authorized access is granted to the ePayment Gateway, Finance and Administration, Vendor Self Service, and infoAdvantage production databases. Once finalized, the procedures should be distributed to applicable COT and agency staff to ensure all staff is aware of the requirements for gaining access to databases administered by COT.

We also recommend that COT review profile settings for all databases administered by COT to ensure security settings are set to comply with the COT password policy.

Finally, we recommend COT develop listings of users with access to databases administered by COT on a periodic basis and provide these to the agency owner for review. COT should request that they review the access rights within the listing and provide confirmation of necessity for all accounts. Any accounts that are no longer needed should be reported to COT with a request for the access to be removed. This type of communication to applicable agencies will help ensure the procedures in place are followed on a consistent basis, only necessary and approved accounts remain active, and user accounts are revoked as necessary in a timely manner.

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

FINDING 2014-012: The Commonwealth Office of Technology Did Not Formalize A Policy To Govern The Security Of The eMARS Production Databases And Ensure Agencies Consistently Apply The Established Procedures (Continued)

Management's Response and Corrective Action Plan

COT management agrees with the auditor's recommendation. COT has a change management process in place addressing how database access is granted and terminated via a completed COT-F181 form submitted to the Commonwealth Service Desk (CSD). Going forward, COT will make sure this process is enforced appropriately and will coordinate with the agency identified in the finding to ensure that a process is in place to recertify database access. COT acknowledges that database profile settings should be set to comply with the enterprise password policy unless an approved security exemption is in place. The accounts noted are being reviewed and appropriate action will be taken and documentation will be retained.

COT will coordinate with the agency identified in the finding and develop a proactive process for sending a listing of users with database access rights to the agency for verification twice a year to ensure only necessary and approved accounts remain active. This process will be completed by the first of December 2014.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-013: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood

Based on a control weakness originally identified during the fiscal year (FY) 2009 audit of the Office of Financial Management (OFM) concerning the ability to access a machine housing the Complete Asset Management, Reporting, and Accounting (CAMRA) application, it was determined that the Finance and Administration Cabinet (Finance) did not properly restrict access to machines on one of its domains. On October 23, 2012, the Commonwealth Office of Technology (COT) was given the responsibility for management of information technology (IT) infrastructure services including servers, networks, storage, and IT security for specific executive branch agencies through Executive Order (EO) 2012-880. Therefore, this review was performed within the FY 2014 audit of COT.

During the FY 2014 audit, a review of this domain through Network Neighborhood revealed 153 out of 203 machines were available for any network authenticated user to access. Of the 153 machines, 98 machines had files or folders that were visible. Also, the auditor was able to access sub-folders within 33 machines. Thirty-two machines contained files or documents which the auditor could view.

Of the 32 machines containing accessible files or documents, four machines were found to house information that would be considered confidential or sensitive in nature. The information found on these machines included:

- Scanned images of tax documents, checks, invoices, audit reports, civil summons, last will and testament documents, trust agreements, child support liens, insurance surcharge reports, and documents containing employee identification numbers, social security numbers, and contact information;
- Memos including staff names and social security numbers; and,
- Documents containing Internet Protocol (IP) addresses, server names, passwords, ports, and Media Access Control (MAC) addresses.

These specific instances were immediately reported to COT during audit fieldwork and corrective actions to secure these machines were taken by COT staff.

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

Machines within the oversight authority of COT were not properly secured with restricted access.

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-013: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood (Continued)

The responsibility for ensuring the security of the commonwealth's network falls to COT. According to EO 2012-880,

- III. The [Chief Information Officer] CIO of COT shall be responsible for management of all executive branch information technology infrastructure services. These duties include, but are not limited to the following: information technology infrastructure, computing equipment, support staff, servers, networks, storage, desktop support, telephony, enterprise share systems, information technology security, disaster recovery, business continuity, database administration, software licensing, and all related planning, administration, asset management and procurement.

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

Recommendation

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

Management's Response and Corrective Action Plan

COT management agrees with the auditor's recommendation. Security on all network machines should be configured to properly restrict access, unless a valid business purpose is determined. COT will review the machines identified in the audit detail to ensure resources are adequately secured and corrective action has been taken. COT provides training to all COT staff on protecting sensitive information and this will be strictly enforced.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-014: The Department Of Corrections Did Not Adequately Protect Sensitive And Confidential Data

Our fiscal year 2014 audit revealed weaknesses in the Department of Corrections (DOC) procedures regarding the security of confidential and sensitive data. DOC is required to adhere to Commonwealth Office of Technology (COT) policies and standards, and there are several policies and procedures that address data protection. However, DOC has not fully protected all data.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with DOC and COT.

Agency staff were unaware of the COT Enterprise Policies and Standards that specifically cover protection of sensitive or confidential information. Based on discussions with certain COT and agency staff, this situation may have been caused by inadequate communication of COT security related policies and standards reaching the agency staff who will be working on these areas.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors. This significant type of control weakness could potentially be exploited either internally or externally.

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

Recommendation

We recommend DOC management ensure confidential and sensitive data is sufficiently protected. Management should ensure adequate resources are dedicated to complete this project in a timely manner and ensure the maintenance of confidential and sensitive data remains a top priority.

Management’s Response and Corrective Action Plan

Per the APA office, this is a new initiative that is currently being addressed across all Cabinets/Agencies within the Commonwealth.

Acting upon suggestions from the APA Audit Team, Department of Corrections (DOC) Management will schedule meetings to develop a direction for the various branches and staff within the DOC. Once the proper policy/procedures are in place, the DOC will make this part of the annual training that employees complete as part of the American Correctional Association accreditation.

The Department of Corrections is working with the COT CISO’s office on protecting the sensitive data across the department. This increased cost to the Cabinet/Agency should be recognized by the Legislature and plans made to fund the process.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-015: The Department Of Workforce Investment Did Not Fully Protect All Confidential And Sensitive Information

Our fiscal year 2014 audit revealed weaknesses in the Department of Workforce Investment (DWI) procedures regarding the security of confidential and sensitive data. DWI is required to adhere to Commonwealth Office of Technology (COT) policies and standards, and there are several policies and procedures that address data protection. However, DWI did not follow these policies to ensure all data was fully protected. However, DWI has taken steps to protect certain types of data.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with DWI.

DWI is aware of COT's data protection policies; however, they did not ensure staff adhered to these policies.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors. This significant type of control weakness could potentially be exploited either internally or externally.

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

Recommendation

We recommend DWI management ensure all data classified as confidential and sensitive is sufficiently protected. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority. Further, management should provide training to staff, as needed, to ensure policies are consistently applied.

Management's Response and Corrective Action Plan

The I3 Initiative of IT consolidation went into effect November 2012, at which time all Cabinet security staff were transferred to COT. The COT policy concerning data classification was issued October 2013. While the Cabinet's intent is to adhere and follow all COT policies, we no longer have Cabinet security staff to support and enforce these policies. We have submitted a request to establish a security compliance position.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-015: The Department Of Workforce Investment Did Not Fully Protect All Confidential And Sensitive Information (Continued)**

Auditor's Reply

For clarification, the COT enterprise standard related to data classification has been in place since September 2009, with the most recent update in June 2013. As there are now limited Cabinet staff with the expertise to perform this function due to the I.3 Initiative, management should work with COT to develop a plan to perform an assessment of the Cabinet-owned data for confidential and sensitive elements and to determine any necessary enhancements to security controls in order to bring the Cabinet in line with enterprise policies and standards.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-016: The Division Of Finance Facilities And Support Is Not Properly Monitoring Inventory

As part of our audit of the Commonwealth Comprehensive Annual Financial Report (CAFR), we review capital asset inventory procedures for various state agencies to provide an opinion on the accuracy of the Commonwealth's financial statements. While performing an inventory observation at the Governor's Mansion for items under the supervision of the Kentucky Division of Historic Properties, the auditor became aware that the asset records in the accounting system, eMARS, were not accurate.

We noticed duplicate items, inconsistent descriptions, and items present but not accounted for in eMARS during our observation. Since these items are historic they are also tracked in a separate inventory system called Past Perfect. This is an inventory system which allows for a more detailed description of historic items than eMARS. Updates in Past Perfect are more regular and therefore more accurate for these types of items. However, a control deficiency exists in the tracking of historic items in Past Perfect due to insufficient segregation of duties. One individual is responsible for both performing the inventory counts and making adjustments within Past Perfect.

This control deficiency was present because of a poorly designed process. The Governor's Mansion houses some of Kentucky's most unique State assets. Irreplaceable items are at risk of being inefficiently tracked, lost or stolen.

According to FAP 120-20-01:

PERSONAL PROPERTY AND VEHICLE INVENTORIES

Pursuant to KRS 45.313, each budget unit shall maintain a current fixed asset record of equipment having an original cost of five hundred dollars (\$500) or more and a useful life of greater than one year. To ensure compliance with this requirement, the Finance and Administration Cabinet may conduct physical audits of fixed asset records. Agencies shall enter records into the fixed asset system for non-expendable property that promotes financial reporting, safeguarding of assets, and adequate insurance. Expendable property should be accounted for using the statewide inventory control system or an appropriate internal method of accounting for the flow of expendable property.

Recommendation

- The Kentucky Division of Historic Properties should develop and implement policies and procedures to consistently and accurately record fixed assets in eMARS.
- Past Perfect should be reconciled to eMARS to ensure that all assets are recorded for tracking purposes.
- The policies and procedures implemented should also include acceptable internal controls so that the person performing the inventory count is not the individual who is updating and maintaining inventory in the system.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-016: The Division Of Finance Facilities And Support Is Not Properly Monitoring Inventory (Continued)**

Management's Response and Corrective Action Plan

Facilities and DHP have been working to insure all inventory data from Past Perfect is reconciled to eMARS, we have a completion goal of February 2015. This will include all discrepancies and missing acquisition values and costs. DHP is working on a list of approximately 2,000 items which do not have acquisition values or dates recorded of purchase. Facilities will assist DHP in inventory process for 2015 and beyond, this will include helping to perform inventory counts and keeping eMARS data accurate and updated. DHP will send monthly updates from Past Perfect to Facilities for eMARS.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-017: The Office Of Financial Management's Internal Controls Over The Monitoring Of Trading Limits Are Not Designed Effectively

As part of the audit of the Commonwealth Comprehensive Annual Financial Report, the controls over cash and investments in the Office of Financial Management (OFM) are audited. The Investment Section within OFM uses multiple resources to help them manage the Commonwealth's investment portfolios. The Bloomberg Professional Service (BPS) is one of those resources and it is intricately woven into the daily activities of the investment staff.

The Compliance Manager (CMGR) is a key component of the Asset & Investment Manager (AIM) on the BPS. OFM uses the CMGR to ensure they are in compliance with statutory and other State Investment Commission-directed restrictions. The CMGR enables OFM to minimize risks by performing compliance tests throughout the life of a trade. For example, within CMGR, OFM can establish rules for all asset types, monitor firm-wide exposure, apply rules on a pre-trade, post-trade, and end of day basis.

The Bloomberg Transaction Manager (BTM) controls user access to CMGR in the Assign Privileges function (FTP). The BTM can grant permission to a user with either Compliance Officer or Compliance View Only access. The Compliance Officer access enables the user to create/edit/delete/view rules, activate/deactivate rules and run compliance reports. The Compliance View Only access enables the user to display rules and run compliance reports. Within OFM, a trader has been granted Compliance Officer access, whereas an employee within the Accounting Section has been granted Compliance View Only access. Because of this, controls over compliance are inadequately segregated since the Investment Section can establish, exceed, and approve departures from compliance parameters without external approval.

At present, an employee within the Accounting Section runs the Compliance Manager report weekly. If there are violations listed, the employee will contact the Compliance Officer for an explanation of the violation. This communication is after the violations have occurred, however.

OFM management did not ensure independent monitoring of the violation reports generated from the Compliance Manager. By granting a trader Compliance Officer access, management has granted the trader the ability to alter rules regarding their own trading limitations and those of the other traders.

Because of the inadequate separation of duties, a trader can create, edit, or delete rules which could apply to their own trades.

Proper internal controls dictate that an employee should not be able to approve and change parameters within a system that pertains to their own job limitations.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-017: The Office Of Financial Management's Internal Controls Over The Monitoring Of Trading Limits Are Not Designed Effectively (Continued)

Recommendation

We recommend OFM ensure an active trader is not granted Compliance Officer access. Since an employee within the Accounting Section is currently responsible for following up on the violations, their access could be changed from Compliance View Only to Compliance Officer. This will provide an employee outside of the Investment Section the authority to create, edit, delete, view, and monitor compliance with established rules. The Investment Section, because of their expertise, should be consulted in regards to acceptable and reasonable compliance parameters.

We also recommend OFM prepare written policies and procedures regarding the recording and documenting of trading violations and the follow through to ensure compliance with all restrictions placed on investment portfolios, either by statutory, regulatory, and/or the State Investment Commission guidelines. These procedures should give adequate consideration to ensuring that agency management is immediately notified when violations have occurred.

Management's Response and Corrective Action Plan

OFM agrees that additional safeguards are needed to monitor compliance with established rules through the Compliance Manager function of the Bloomberg Professional Service (BPS). We reviewed APA's recommendation to move Compliance Officer access to an employee not within the Investment Section; however, this approach would be cost prohibitive as FAC would have to obtain an additional license and terminal to implement this recommendation at a cost of \$22,800 per year. OFM has started running a log of rule changes after settlement in the compliance module. This log, which will be reviewed weekly, cannot be altered by the Compliance Officer; thus, any unauthorized changes that had occurred during the week would be detected, investigated, and reported.

OFM has procedures in place to assure that agency management is notified promptly of any trading violations. OFM is in the process of fully documenting these existing procedures, which will be submitted to the State Investment Commission (SIC) for approval.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-018: The Office Of Financial Management Is Not Adequately Monitoring All Investment Pools

As part of our audit of the Commonwealth Comprehensive Annual Financial Report, the accuracy of investment pool valuations managed by the Office of Financial Management (OFM) is audited. OFM contracts with a major bank for a variety of custodial banking and account management services. As part of the contract, the custody bank is required to provide an encrypted file daily with market prices of all securities beneficially owned or pledged to the Commonwealth. During the fiscal year 2014 audit of the Office of Financial Management, it was discovered that investments from one of the four investment pools managed by the Investment Section were not being included on the daily price file received from the custody bank.

While performing a year end market valuation of all investment portfolios, it was discovered that investments within the Bridge Pool, with the exception of one investment, were not included within the interactive database pricing file. As a result, the market value for these investments as of June 30, 2014 could not be confirmed.

The Investment Section within OFM did not ensure the monitoring of the market valuation of the Commonwealth's investments since they were not aware that the investments within the Bridge Pool were not being included in the daily price file received from the custody bank. It was approximately ten months from the inception of the Bridge Pool before the investments were included on the daily price file received from the custody bank.

Without adequate processes and procedures in place to ensure the accuracy of the market value of the investments, there is a greater risk of misstatements in the financial statements and deficient monitoring of the Commonwealth's investments.

While the Investment Section's overall objective should be to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices, it is also responsible for ensuring that the market values being utilized by the Accounting Section for presentation in the Commonwealth's financial statements are correct.

Recommendation

OFM should enhance its internal control procedures to ensure that they have the information they need to properly monitor the Commonwealth's investments while ensuring that the market values being utilized by the Accounting Section for presentation in the Commonwealth's financial statements are correct.

We recommend policies and procedures be created and implemented to ensure that the price lists received daily are being utilized by the Investment staff in the analysis of performance and returns of each pool and in the valuation of the investments for financial reporting purposes.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-018: The Office Of Financial Management Is Not Adequately Monitoring All Investment Pools(Continued)**

Management's Response and Corrective Action Plan

When the bridges pool was created, it was unintentionally excluded from the custodial bank daily pricing process. Office of Financial Management (OFM) staff discovered this error prior to APA's audit and took corrective action. OFM agrees that internal control procedures could be improved, and subsequently modified and implemented changes to an existing daily report so that it can be used to detect problems such as this immediately.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-019: The Office Of Financial Management Did Not Properly Record The Issuance Of Notes In eMARS

During the audit of the fiscal year 2014 Commonwealth Comprehensive Annual Financial Report (CAFR), testing revealed that proceeds from the issuance of notes were incorrectly recorded as proceeds from the issuance of bonds in the statewide accounting system – Enhanced Management Administrative Reporting System (eMARS).

After approval in the biennial budget, funding for various projects is attained through the issuance of bonds and notes. Bonds and notes are issued by one of several Kentucky agencies empowered to do so, including the Kentucky Asset Liability Commission (ALCo). The debt service requirements related to bond and note issuances is then administered by the Finance and Administration Cabinet (FAC) Office of Financial Management (OFM).

During fiscal year 2014, ALCo issued Project Notes, 2013 Federal Highway Trust Fund First Series A in the amount of \$212,545,000, and Project Notes, 2014 Federal Highway Trust Fund Series A in the amount of \$132,175,000. Funds received from these notes were incorrectly recorded as bond proceeds in eMARS.

Funds received from the issuance of bonds and notes are presented as separate line items in the financial statements presented within the CAFR. The FAC Office of Statewide Accounting Services (SAS), the office responsible for the production and distribution of the CAFR, verifies the proceeds received from bonds and notes during the fiscal year. For the issuances listed above, SAS was able to identify and correct the error in classification for financial reporting purposes. Without detection and correction of the classification error by SAS, the amounts for new issuances of bonds and notes would have been materially misstated in the financial statements.

Proceeds from notes issued by ALCo and administered by OFM were incorrectly recorded as proceeds from the issuance of bonds. OFM review of the documents recording the receipt of the proceeds failed to detect and correct the error in classification.

The accounting records detailing the note issuance transaction contain inaccurate classifications for the funds received. The presence of erroneous accounting records creates the risk that amounts for the issuance of bonds and notes could be incorrectly reported in the financial statements; thus, providing all financial statement users and stakeholders with inaccurate information.

Proper internal controls dictate that all errors in the recording of transactions, including the receipt of bond and note issuance proceeds, be prevented or detected and corrected on a timely basis. This includes review of transactions by appropriate levels of management to ensure completeness and accuracy.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-019: The Office Of Financial Management Did Not Properly Record The Issuance Of Notes In eMARS (Continued)

Recommendation

We recommend OFM evaluate current review policies and procedures to ensure all transactions recording the issuance of bonds and notes are reviewed for proper recording of both transaction amount and classification before finalization in eMARS.

Management's Response and Corrective Action Plan

OFM agrees, and will review internal procedures, to add an additional layer of internal controls to our current multi-step process to help prevent this issue from occurring again.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-020: The Finance And Administration Cabinet Did Not Ensure Available Information Within infoAdvantage Universes Was Complete To Allow Accurate Reporting

As noted in the past seven audits, our fiscal year (FY) 2014 audit of the Finance and Administration Cabinet (Finance) revealed infoAdvantage, the reporting solution used in conjunction with the enhanced Management Administrative and Reporting System (eMARS), could not be consistently relied upon to provide the user with complete and accurate data. During the audit, we found instances where reporting was not functioning properly.

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

- We noted that the “Customer” field was prohibited for the Solicitation Response (SR) and Solicitation Response Wizard (SRW) documents, based on the DCTRL table; however, there was not a “Vendor/Customer Code” within the SR class or linked to the document codes within the Procurement Awards Universe. This field was available to be populated when the document was developed, due to the fact that a “Vendor” code is allowable. When a user develops a report of SR or SRW documents from the infoAdvantage Procurement Awards universe including this field, the values for the “Vendor/Customer Code” are populated from the Award Accounting Line. However, there was not a direct relationship between the SR and the Award Accounting Line tables in the Procurement Awards universe. Therefore, the data values returned cannot be relied upon.
We found that the “Cited Authority” field was required for the Contract (CT), Contract 2-Way Match (CT2), Contract KYTC (CTT1), Contract 2-Way Match KYTC (CTT2), Delivery Order (DO), Delivery Order 2-Way Match (DO2), Delivery Order PunchOut without ProCard (DO4), General Accounting Expense/Expenditure (GAX), Purchase Order (PO), Purchase Order 2-Way Match (PO2), Proof of Necessity Agreement (PON2), Commodity Based Payment Requisition (PRC), and Commodity Based Internal Payment Requisition (PRCI) documents based on the DCTRL table; however, the “Cited Authority” field was not available in the Accounting Journal class or linked to the document codes within the General Accounting Universe. The field was available for use when these documents were developed.
- We noted there was no “Event Type” field available within the Accounts Payable - KY Universe; therefore, the auditor was not able to test for required or prohibited fields based on the Event Requirement (ERQ) table. Specifically, this issue affected the Check Writer Check Cancellation (CWC) document.

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-020: The Finance And Administration Cabinet Did Not Ensure Available Information Within infoAdvantage Universes Was Complete To Allow Accurate Reporting (Continued)

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

We are aware Finance is preparing for an upgrade to infoAdvantage when eMARS is upgraded to version 3.10 in the spring of 2015.

Over the last several years, Finance has been working on upgrades to the financial and reporting modules of eMARS. These efforts have taken a great deal of the available resources.

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

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

Recommendation

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

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

FINDING 2014-020: The Finance And Administration Cabinet Did Not Ensure Available Information Within infoAdvantage Universes Was Complete To Allow Accurate Reporting (Continued)

Recommendation (Continued)

To further assist end user reporting capabilities, in conjunction with the upgrade to eMARS 3.10, Finance should develop a data dictionary that is available to all users. This data dictionary should include information concerning:

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

Management's Response and Corrective Action Plan

We are still on target to meet the March 2015 upgrade to the eMARS infoAdvantage reporting application. From a universe standpoint this will be the first upgrade since the eMARS implementation in July 2006. There will be a number of new "baseline" universes available in the reporting application. We are working with the vendor to resolve all known reporting issues/problems.

We are working with the vendor as part of the 3.10 upgrade to analyze and evaluate all available tools to assist users in their report development.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-021: The Finance And Administration Cabinet Did Not Adequately Protect Sensitive And Confidential Data

The fiscal year (FY) 2014 audit revealed weaknesses in the Finance and Administration Cabinet's (Finance) internal controls involving the security of confidential and sensitive data. While the agency generally complies with the Commonwealth Office of Technology (COT) Standard Procedure, COT-067 Security Standard Procedures Manual, it was revealed that data was not adequately protected from potential intentional or unintentional access or misuse of information. This issue was first identified in FY 2013.

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

Although Finance has plans to protect sensitive and confidential data, these plans were not completed during FY 2014.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors. This significant type of control weakness could potentially be exploited either internally or externally.

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

Recommendation

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

Management's Response and Corrective Action Plan

Finance will work with COT to investigate areas of potential improvement based on the detailed findings provided by the auditors. Effective November 29, 2013 the Finance Cabinet issued a Standard Procedures document regarding the Storing and Collection of Confidential Information.

For the servers and databases mentioned in the finding Finance is working closely with COT to identify all areas where sensitive and/or confidential data is contained. Additionally, Finance and COT is working with developers to acquire the necessary tools to ensure the sensitive/confidential information is protected in a manner that meets the standards identified within the COT Enterprise Standards.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-022: The Department Of Juvenile Justice Payroll Documentation Lacked Adequate Approvals For Overtime And Leave Time

Department of Juvenile Justice (DJJ) employee time sheets were tested at both the facility operations and agency levels. During our testing we noted 20 exceptions which included the following:

- There were 11 timesheets tested that did not have the appropriate prior approval for overtime worked or leave time taken during the pay period. In some instances these approvals were routinely signed at the end of the pay period.
- One timesheet did not agree to the Payroll Summary Report of hours worked as distributed to overtime hours worked.
- Eight timesheets were corrected by marking through or adding information. These changes were not appropriately approved or signed by the employee or supervisor, which indicates that their approval of these changes was not documented or not obtained.

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

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

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

Recommendation

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

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

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-022: The Department Of Juvenile Justice Payroll Documentation Lacked Adequate Approvals For Overtime And Leave Time (Continued)**

Management's Response and Corrective Action Plan

The Department of Juvenile Justice has developed policy and procedures, which have been submitted to the Department Executive Committee for review and final approval prior to issuance. The policies and procedures set forth the requirement of prior approval of overtime and leave; require all timesheets be signed by the supervisor and employee; and indicate any changes or corrections to the timesheets must be verified by initials next to the changes or require a corrected timesheet. In addition, a process to review the timesheet and payroll of a percentage of the department staff to ensure that payroll is completed per the established guidelines has also been placed into a policy and procedure.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-023: Department Of Juvenile Justice Procurement Card Purchases Violated FAC Policies And The Agency Does Not Have Adequate Policies Or Procedures In Place To Address Prior Authorization Of Expenditures

Testing for the FY 2014 Department of Juvenile Justice (DJJ) included a review of expenditure transactions. DJJ lacks policies and procedures that dictate documentation of prior approval and verification of purchases.

Results of our testing of expenditure transactions, including Procurement Card (ProCard) transactions, noted a total of ten procurement card transactions with no documented prior supervisory approval. These purchases included a \$233 digital camera, food, and postage. While all of these items appear to be reasonable purchases made by the agency for use at DJJ facilities, they are also readily converted to personal use.

Additionally, we noted nine exceptions related to the processing of ProCard expenditure payments. There were two instances where DJJ had not followed ProCard procedures, as set forth by the Finance and Administration Cabinet (FAC, specifically the FAP 111-58-00 Policy and Procedures for Procurement Card Program. Additional errors were due to failure to follow DJJ internal procedures for the processing and approval of ProCard transactions. The following errors were noted:

- One instance where the procurement card was used by someone other than the cardholder
- One instance where the cardholder did not sign the receipt
- One expenditure improperly included the payment of sales tax
- Six instances where the supervisor of the cardholder did not sign the bank transaction report indicating review and approval of the expenditures

ProCard purchases are point of sale purchases. While testing found nothing to indicate non-compliant purchases, if such a purchase were to be made, due to the lack of a prior approval, it is unlikely that the improper purchase would be identified prior to making the purchase by the card holder and the funds paid to the vendor.

A facility employee improperly used a supervisor's card to complete a purchase. While this likely occurred with the supervisor's approval, the use of a procurement card by anyone other than the cardholder is prohibited by FAC policy.

Payment for ProCard transactions is made by Central Office DJJ staff. Cardholders and supervisors are required to submit a screen print of weekly transactions with original receipts with the receipts and transaction summary signed by both the cardholder and their supervisor to document that transactions were reviewed and approved by the supervisor.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-023: Department of Juvenile Justice Procurement Card Purchases Violated FAC Policies And The Agency Does Not Have Adequate Policies Or Procedures In Place To Address Prior Authorization Of Expenditures (Continued)

The prior approval of expenditures ensures that adequate funds exist for purchases and that management concurs with the necessity of purchases. Budgetary restraints have forced many state agencies including DJJ to reduce expenditures. Not adhering to a policy requiring prior approval of expenditures could result in unnecessary expenditures or purchases that exceed available funds.

Also, DJJ's current policy provides no incentive to reduce spending, nor does it require authorization to establish whether a purchase should be made.

FAP 111-58-00 defines the Cardholder as, "a Commonwealth of Kentucky employee who has a procurement card issued in their name and is the only person authorized for use of the card."

FAC's Procurement Card Program Policy and Procedures Manual states:

Each individual procurement card is issued exclusively to a state employee and shall **NOT** be shared or loaned. An employee issued an individual card is required to sign an *Employee Usage Agreement* accepting the terms and conditions provided by the Finance and Administration Cabinet. An individual card embossed with the employee's name shall be issued and used exclusively by that employee.

DJJ procedures require cardholders and their supervisor to sign each original receipt and the transaction reports submitted for payment of ProCard charges. This signifies both the cardholder and reviewer have approved the charges to the ProCard and that the charges are valid expenditures.

Recommendation

Current DJJ policy requires director level approval for expenditures exceeding \$1,000 and approval of immediate supervisors below this amount. This policy does not specify prior approval below \$1,000 or the documentation of prior approvals.

We recommend that DJJ implement a policy to require documented prior supervisory approval of purchases below \$1,000. The policy should consider how to make exceptions for items deemed emergency and could exempt routine items such as utility payments and other purchase types as deemed prudent. The policy should also specify at what amounts additional levels of approval are required and exceptions should be documented in writing.

Further, DJJ should provide additional training for those employees who encountered issues with the execution and documentation of ProCard purchases in compliance with FAC and DJJ policies. DJJ may also consider whether ProCards are currently issued to those employees that actually require them to facilitate the purchasing needs at their offices and facilities.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

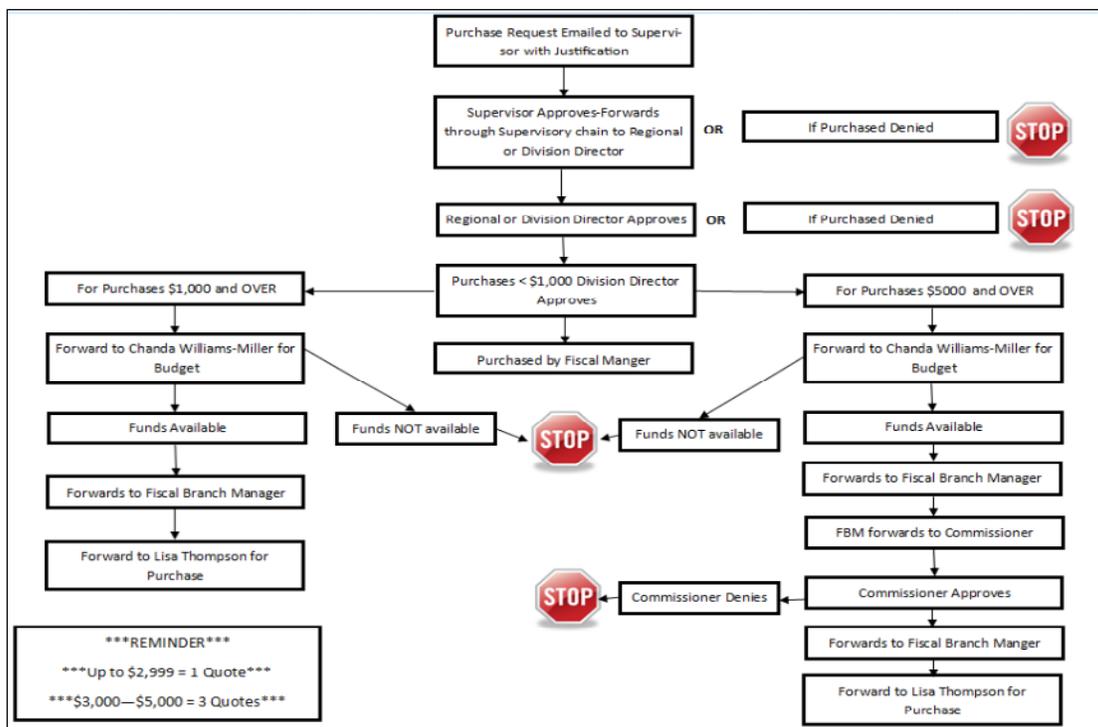
FINDING 2014-023: Department Of Juvenile Justice Procurement Card Purchases Violated FAC Policies And The Agency Does Not Have Adequate Policies Or Procedures In Place To Address Prior Authorization Of Expenditures (Continued)

Management’s Response and Corrective Action Plan

The Department’s current protocol for purchases requires prior approval for purchase over and under \$1,000. The flow chart on the following page illustrates protocol in effect currently and has different level of approvals needed when the amounts exceed \$5,000. The flow chart has been provided to all fiscal managers and fiscal officers in the facilities. The Department will develop policies to allow for exceptions for items deemed emergency, routine or prudent. The chart will be amended to account for purchases using pro-card and the aforementioned exceptions. The amended flowchart will be sent out to all fiscal personnel along with a short narrative of explanation of exceptions within the next 90 business days. The Fiscal Branch Manager will amend and send out the amended flow chart.

The Department currently requires all procurement card holders and approvers to execute an annual on-line training. Once the Department is provided with a list of offending employees who encountered issues with execution and documentation of procurement card purchases, they will be required within the next 30 business days to retake the training. The on-line training is very thorough and covers all areas found at issue in the audit.

The Department currently evaluates and adjusts procurement card holders as deemed necessary to effectively provide services to the youth of the Commonwealth of Kentucky. The facilities operate on a 24/7 basis which requires multiple card holders within each facility.



FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-024: Department Of Juvenile Justice Facilities Do Not Have Adequate Segregation Of Duties Over Cash Accounts

As part of our audit of the FY 2014 Kentucky Department of Juvenile Justice (DJJ) site visits were conducted at certain DJJ facilities to determine that controls were in place over financial receipts and disbursements. Results of testing conducted during visits at the facilities included the following internal control weaknesses:

- The fiscal manager at the facility is responsible for collecting cash, making deposits, posting transactions to the general ledger and the eMARS statewide accounting and reporting system, and reconciling the bank accounts or petty cash funds. These are incompatible duties that should be separated or adequate compensating controls should be implemented.
- There is no independent documented review of the Center's bank reconciliations. Although the bank reconciliations are completed on a monthly basis, the reconciliations should be reviewed by either a supervisor or someone not involved in the routine daily operations. Independent reviews are a key component of good internal controls. While the current DJJ "Policy 315, IV-G." only calls for a quarterly review of the deposits and disbursements, we believe a monthly reconciliation and review is necessary. Further, bank statements are being received by the individual receiving funds, depositing funds, making expenditures and recording transactions to the ledger or eMARS.

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

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

DJJ's policy 114 part IV states "3. Any money collected shall be turned into the Business office daily and kept in a secured, locked box until such time as it is deposited or forwarded to the fiscal branch. The business office shall forward a check or money order to the fiscal branch of the DJJ Central Office at least monthly." The policy makes no mention of performing any kind of reconciliation of the cash collected or how such reconciliation should be performed nor is there mention of any need to segregate duties related to these funds.

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-024: Department Of Juvenile Justice Facilities Do Not Have Adequate Segregation Of Duties Over Cash Accounts (Continued)

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

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

- Authorization of transactions
- Custody of assets
- Recording or reporting of transactions
- Performing reconciliations.

Adequate segregation of duties reduces the likelihood that errors, either intentional or unintentional, will remain undetected. This is carried out by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. Other options include the development of procedures that provide compensating controls over these funds to ensure adequate oversight.

DJJ Policy 315 – Use of Non-Governmental Funds and Youth Activity Funds (4) g, says the following, “The primary trustee of each fund shall review the account at least quarterly and certify the accuracy of the deposits and disbursements.” We encourage DJJ to improve this policy to ensure that the reconciliations are performed and reviewed monthly.

Recommendation

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

- Provide training, guidance, and management oversight to assist the facilities with their fiscal management responsibilities.
- Develop fiscal policies requiring facilities to reconcile and review all accounts on a monthly basis; the reviewer should be independent of the person performing the reconciliation.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-024: Department Of Juvenile Justice Facilities Do Not Have Adequate Segregation Of Duties Over Cash Accounts (Continued)

Recommendation (Continued)

- Evaluate the fiscal manager's office responsibilities at these facilities to ensure that duties are appropriately divided among the available staff. Money counts could be performed by administrative staff other than the fiscal manager and should always be performed by two staff persons and their presence should be documented by signing count sheets or deposit records.

Management's Response and Corrective Action Plan

The Department provides annual training to the fiscal managers and appropriate administrative staff wherein fiscal policies and procedures are discussed. This annual training began in FY 14. This training is administered by the Fiscal Branch Manager and oversight of the training is provided by the Administrative Services Division Director. The fiscal branch is available to the facility personnel for management oversight.

The Department has approved Policy 315 effective 12/05/14 which outlines the management of the Youth Activity Fund and Non-Governmental Funds. The policy requires monthly reviews and reconciliation of the Youth Activity Fund with an independent employee certifying, reviewing and signing the reconciliation. The applicable sections of the policy are as follows:

IV. PROCEDURES

- A. *DJJ facilities shall establish a youth activity account fund, where funds are earned through allowance and work experience as well as funds collected through work projects, sales of articles produced by youth, and private donations. DJJ facilities may establish a special account for staff meals and KECC donations. Specific accounting procedures shall be maintained and detailed by the facility. Staff flower, coffee, and water funds shall be in private accounts not tracked or maintained by the Department.*
- G. *The Superintendent shall serve as primary trustee of all non-governmental funds and accounts. The facility fiscal manager or officer shall be the secondary trustee of all non-governmental accounts. A third trustee for all non-governmental accounts may be designated by the Superintendent. The final trustee, for all accounts, shall be the non-governmental accounts contact person in the Fiscal Branch.*
- H. *All checks written from the non-governmental accounts shall require two signatures from the trustees.*
- I. *Bank statements for each account shall be reconciled monthly by facility fiscal manager or officer.*
- J. *The Superintendent shall:*
 - 1. *Review the accounts monthly,*
 - 2. *Certify the accuracy of the deposits along with the disbursements, and*
 - 3. *Review and sign the monthly account reconciliations.*

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-024: Department Of Juvenile Justice Facilities Do Not Have Adequate Segregation Of Duties Over Cash Accounts (Continued)**

Management's Response and Corrective Action Plan (Continued)

The Department is evaluating the fiscal duties and the available staff in our facility locations. Separation of duties within the facility is limited due to resources and staff available within a facility type. There are at minimum 2 employees verifying all incoming funds and disbursements from non-governmental funds. Governmental funds have the same protocol. These type funds collected in the facility are documented on a receipt ledger and placed in a locked box at the point of sale. This transaction is observed and recorded by an employee other than the fiscal manager. The reconciliation of the receipt ledger and the locked box is performed by the fiscal manager/administrative staff and an additional employee together.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-025: Department Of Juvenile Justice Employees Used Department Provided Vehicles Inappropriately For Commuting To Work**

During the 2014 Department of Juvenile Justice (DJJ) audit, mileage logs and other documents were reviewed related to the usage of vehicles leased by the department from FAC for department use. During the course of these reviews our testing noted that four vehicles were identified as being used primarily by DJJ staff to commute from their home county to work county. The specific vehicles were KB33056 issued to the Commissioner, KB0007 issued to the Deputy Commissioner, KB1130 issued to a department dentist, and KB1822 issued to a group home superintendent. None of these vehicles were approved as take home vehicles, yet mileage logs indicate these vehicles may have been treated as take home vehicles. The driving record for KB1822 clearly indicates that the vehicle is parked between shifts at the home address and is driven from the home address to the group home for work.

Testing also noted that the mileage logs for the four vehicles requested were missing or destroyed for all or portions of the time period requested and the records of three vehicles were mostly illegible. Many of the logs did not contain starting points of travel, or describe the purpose of the trips. Due to the limitations of the information provided we were not able to determine that all travel trips reported were for the benefit of the Commonwealth.

The primary use of the four department vehicles was determined to be for the employees' convenience and commuting to their work place and not to benefit the Commonwealth. DJJ spent \$36,804 in overage charges, in addition to the lease cost of \$13,107 for the four vehicles specified.

Because of the state of some of the records or lack of records there were at least seven vehicles for which a determination of business or personal use could not be made.

FAC's Agency Guide for the Commonwealth's Vehicles and Driver's Guide specify that:

- 1) Commonwealth of KY vehicles are for official business of the Commonwealth only. Personal use or convenience travel is prohibited.
- 2) Division of Fleet Management's policy/procedure as outlined in their Agency and Driver's Guides Procedures outline the process for approving vehicles as take home.
- 3) Take home vehicles can be authorized for some commuting miles, however this should not be the primary purpose of the vehicle's assignment and should not be the primary use of the vehicle. Specifically Fleet Management requires that official use of take home vehicles exceed 10,000 miles not including commuting miles.
- 4) Commuting use of vehicles is a taxable benefit to the employee and is required to be reported to the IRS.
- 5) Agency-assigned vehicles shall be parked on state property each night.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-025: Department Of Juvenile Justice Employees Used Department Provided Vehicles Inappropriately For Commuting To Work (Continued)**

Recommendation

DJJ should immediately review their practice of assigning vehicles and ensure that only staff with FAC approved take home vehicles are being permitted to drive vehicles from their homes. Any commuting use of these vehicles should be properly recorded and reported to the IRS as personal use. This should include retroactive reporting of calendar year 2013 and any previous years that can be documented to meet IRS reporting requirements.

DJJ should also implement procedures to ensure that documentation of all travel is properly maintained and stored. The information recorded should be adequate to determine the nature and business purpose of each trip. Further, consideration should be made to add GPS capability to at least some of their leased vehicles as vehicles are replaced. Currently DJJ does not have this technology available in any of their vehicles.

Management's Response and Corrective Action Plan

The Department of Juvenile Justice will review the practices of assigning vehicles and will ensure that only staff with FAC approved take home vehicles are being permitted to drive vehicles from their homes. Any commuting use of these vehicles will be properly recorded and reported to the IRS as "personal use". Retroactive reporting of calendar year 2013 and any previous years that can be documented to meet IRS reporting requirements will be addressed.

DJJ will review procedures to ensure that documentation of all travel is properly maintained and stored. Instructions will be provided to insure that travel information is recorded at an adequate level to determine the nature and business purpose of each trip. As leased vehicles are replaced, the agency will request a GPS capability option be provided on some if not all of our replacement vehicles.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-026: The Department Of Juvenile Justice Does Not Have Policies In Place To Determine, Document, And Review The Assignment Of Appropriate Employee Workstations

During the 2014 Department of Juvenile Justice (DJJ) audit, testing included a review of the agency's travel policies. Based on the review DJJ does not have policies in place to determine and document an employee's work station. In addition, there is no policy in place to re-evaluate the work station assignment due to temporary circumstances that would necessitate a temporary re-assignment.

Two situations were encountered where this lack of any policy was evidenced:

First, a DJJ Deputy Commissioner was frequently asked to spend week-long periods, which included overnight travel, in Frankfort working at DJJ's Central Office location reportedly to provide supervision coverage at the office due to the Commissioner's absence during these periods. DJJ's Central Office location is more than 50 miles from the Deputy Commissioner's Home/Work station (Jefferson) and the addresses for both. While this meets the standard of travel more than 40 miles from the employees workstation per 200 KAR 2:006 and does not require additional justification per FAC travel regulations for overnight travel, it does not take into account the appearance that this situation may be perceived as an extra benefit for the employee in question.

From the documentation provided it did not appear that consideration was made as to the cost/benefit of overnight stays versus mileage/time costs for travel between Louisville and Frankfort. However, given the frequency and length of these overnight stays, it appears that DJJ should have considered both the appropriateness of overnight travel and whether a change in work county was needed due to the length of time documented that the employee worked in a different location. All considerations and decisions should have been adequately documented.

Numerous state employees commute daily to Franklin County from Jefferson County/Louisville to work at various state agencies without payment for travel or compensation for the expense of this travel or payment for their travel time because their work county is Franklin. While occasional trips to Frankfort would not necessitate a change or consideration of changing an employee's work county, there were periods of time when the Deputy Commissioner spent consecutive weeks working in Frankfort and staying overnight at the agency's expense. During the first seven months of calendar year 2013 there were periods with 2-3 weeks of overnight travel in Frankfort. Without a policy in place or documentation of why the agency determined these costs would be reimbursed or were beneficial to the agency, it leaves at least the impression that this was allowed due to favoritism/the high ranking position of the individual involved.

The second situation involved a DJJ Nurse Administrator who was reimbursed \$17,626 for in-state travel during FY 2014 from their home county of Warren County. Reviews of travel records for this individual indicate that this employee's actual work is being performed in Fayette, Franklin, and Jefferson counties and this employee spent more than 50% of their work time in Fayette and surrounding counties including frequent trips from the employee's home county of Warren to Fayette county for overnight travel. Having the employee's work station, Warren County, provides an appearance that this work station assignment was more of a benefit to the employee than to the Commonwealth.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-026: The Department Of Juvenile Justice Does Not Have Policies In Place To Determine, Document, And Review The Assignment Of Appropriate Employee Workstations (Continued)**

Further, KHRIS indicates that this employee's work station is Franklin County, which would preclude travel reimbursements for travel from Warren County. Discussions with DJJ Human Resources indicates that KHRIS is in error and the work station should be Warren. However, documentation provided regarding the correct work station for this employee was not specific to this employee and was not conclusive as to how or why it was determined that Warren County would be the work location for this position. Even if this change in work station was intended by DJJ it appears that this employee's work actually is happening much closer to Franklin County, which is the work station on record for FY 2014 and brings into question the appropriateness of the work station assignment in Warren County.

DJJ does not have agency specific guidelines for the reimbursement of overnight travel that go beyond FAC requirements. FAC's requirements do not take into account the specific needs and responsibilities of all state agencies and it is left to each agency to work within these guidelines to address the specific issues that impact their agency such as the need to address adequate supervision and coverage at facilities and offices located throughout the state.

Good internal controls dictate that an agency should have written policies in place to ensure that adequate and fair travel policies and work station assignments are in place to cover the agency's needs. These policies should be enforced consistently so as to alleviate any appearance of impropriety in their application.

Kentucky Administrative Regulations stipulate the considerations that should be made related to any work station assignment, specifically 101 KAR 2.055 states:

Section 3. Work Station and Temporary Assignment

- (1) Each employee shall be assigned a work station by the appointing authority.
- (2) A work station may be changed to better meet the needs of the agency.
- (3) An employee may be temporarily assigned to a different work station in a different county.
 - (a) If an employee is temporarily assigned to a different work station in a different county, the assignment shall not last more than sixty (60) calendar days.
 - (b) Temporary assignment may be renewed with the approval of the Secretary of Personnel.
 - (c) A temporarily reassigned employee shall be reimbursed for travel expense in accordance with 200 KAR 2:006 and the appointing authority shall notify the employee in writing prior to the effective date of the action.
- (4) An appointing authority may assign an employee to work in a different site within the county of employment.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-026: The Department Of Juvenile Justice Does Not Have Policies In Place To Determine, Document, And Review The Assignment Of Appropriate Employee Workstations (Continued)**

It is incumbent on all state agencies to ensure that increasingly scarce state resources are being spent reasonably for necessary expenditures. Payment of overnight travel for such short distances should be carefully considered and the benefit/purpose to the Commonwealth adequately documented.

Recommendation

DJJ should have policies and procedures in place to dictate how work stations are assigned and when a review is necessitated due to the needs of the agency. Frequent travel of employees to certain locations due to staffing needs should trigger a review on workstation assignment and procedures should be in place to trigger such a review. These policies should ensure that these considerations and the decisions reached sufficiently document how the work county was determined for each position, and how it best serves the needs of the agency and the juveniles placed in their care.

Further, DJJ should create policies to determine when work stations will be changed due to the need to move positions to other regions or counties. This policy should address how long a temporary assignment should last before consideration of a change in work station. All deliberations and discussions should be adequately documented. Finally, additional travel policies should be written to address when overnight travel will be paid.

Management's Response and Corrective Action Plan

DJJ will review/develop policies and procedures to determine how work stations are assigned and what should trigger a review of a workstation assignment. This policy will address a justification requirement and the maximum length of a temporary assignment before a it triggers a review or reconsideration of a work station location. Travel policies will be reviewed to clarify how and when overnight travel will be authorized and paid.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-027: The Kentucky Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2014 School District SEEK Payments

During the audit of the Kentucky Department of Education's (KDE) Support Education Excellence in Kentucky (SEEK) funding program, the basis utilized in calculating school district SEEK payments for the first quarter of fiscal year (FY) 2014 was noncompliant with the calculation method required by Kentucky Revised Statute (KRS) 157.410. Consequently, nine of the school districts tested were underpaid a total of \$2,394,946 during the first quarter of FY 2014 and six of the school districts tested were overpaid by a total of \$308,336 during the first quarter of FY 2014.

However, testing supported that the school districts received the correct total of SEEK funds by the end of FY 2014, therefore no financial adjustment is necessary. Further, KDE did attempt to have legislation passed to revise the SEEK payment requirements to the payment practice currently in place with House Bill 455, however the bill did not pass in the FY14 legislative session

The first quarter of FY 2014 SEEK payments to school districts appear to have been calculated based on the FY 2014 forecasted SEEK total. Calculation of the SEEK payments for the first quarter should, however, be based upon the prior year's allotment, reduced by any capital outlays and/or the SEEK nickel state equalization. The SEEK payments for the remaining quarters should be based upon 1/12th of the current year tentative SEEK total.

As a result of the incorrect payment calculation, nine of the school districts were collectively underpaid a total of \$2,394,946 and six school districts were collectively overpaid a total of \$308,356 during the first quarter.

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

Recommendation

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

Management's Response and Corrective Action Plan

For many years, the SEEK Forecast calculation has been used to determine the payment amounts for the first three months of a fiscal year. It appears the practice was changed from utilizing the prior year's allotment in order to create more accurate payment amounts. For example, a district anticipating growth of AADA, would be able to capture that growth and the SEEK payments for the following year, using the SEEK Forecast, would more accurately reflect the actual attendance levels, rather than waiting several months to capture the updated data in the SEEK tentative calculation. The converse would also apply. The practice of utilizing the most

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-027: The Kentucky Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2014 School District SEEK Payments (Continued)**

Management's Response and Corrective Action Plan (Continued)

recent data projections minimizes the fluctuation in monthly payments between the forecast and tentative calculations and allows for a more predictable revenue stream for the districts. The difference between the two methodologies is the timing of the revenues. Each district receives the total amount of SEEK funding to which they are entitled for the year, it is merely a matter of when that revenue is received. Utilizing the SEEK forecast calculation more closely matches the revenue with actual data.

KDE does not take issue with the wording of 'incorrect payment calculation'; however, KDE's approach results in a practical payment methodology to allow school districts to operate in an efficient and effective manner throughout the year. In the subsequent three quarters of FY 2014, the aforementioned districts' payments were adjusted either upward or downward, depending on the results after all actual data was received and utilized in the SEEK calculations, and this resulted in the total annual SEEK amount distributed by the end of the year to be accurate as a whole.

Additionally, KDE proposed a change to the statute during the 2014 Regular Session of the General Assembly. House Bill 455 was passed out of the House and did not make it through the Senate due to lack of time. The bill had a wide range of supporters and KDE plans to pursue the legislation in the 2015 General Assembly.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-028: The Kentucky Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements

During our management review of Jefferson County Public Schools (JCPS), we determined Kentucky school districts were not granted authority to monitor the security implemented by the Student Information System vendor to adequately secure servers housing sensitive district student information from potential unauthorized access. Also, the Kentucky Department of Education (KDE) does not allow direct involvement of the school districts in the monitoring process used to determine whether the vendor met contractual obligations.

During this management review, information technology (IT) auditors performed a vulnerability assessment of certain devices housed at JCPS. Within our population of scanned devices, 39 were identified as being associated with the Kentucky Student Information System (KSIS) vendor. Only two of these devices housed actual student data. The remainder were identified as balancer virtual Internet Protocol (IPs), remote access cards attached to application servers, and application servers. Since our testing was conducted at the JCPS central office, the following weaknesses were available to anyone authenticated to the JCPS network:

- Thirty five of 39 devices, or 89.7 percent, could be potentially mis-configured. The devices possibly misconfigured include a balancer virtual IP, two storage devices used to house student data, 16 remote access cards attached to application servers, and 16 application servers.
- Seventeen of the 39 devices, or 43.6 percent, were found to be running outdated software with known vulnerabilities. All 17 devices are remote access cards attached to application servers.
- Nineteen of 39 devices, or 48.7 percent, allowed anonymous access through default administrator credentials. These 19 devices granted access to configuration information at the time of connection. The devices allowing anonymous access include two storage devices on which student data was housed and 17 remote access cards attached to application servers.

As noted above, auditors identified these issues through a vulnerability assessment at JCPS and not through a penetration test, which is more invasive and attempts to exploit the vulnerabilities identified on a device. Additional research revealed these default administrator credentials could potentially be used to compromise the operating system of the device to which they were attached, which could allow the opportunity for an unauthorized user to attempt to gain access to other system devices. However, the KSIS vendor has implemented other security measures that should make it more difficult for this type of activity to be accomplished.

Auditors immediately informed JCPS management of these issues; however, the school district stated that they have no monitoring authority over these devices. Therefore, we contacted KDE and they informed the vendor of the situation, who resolved the issues. We were informed that the vendor reviewed all hardware located at individual Kentucky school districts for the ability to anonymously access the KSIS devices. Beyond JCPS, another school district was found to be affected, Bullitt County Public Schools (BCPS). The vendor restricted access to devices at both school districts.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-028: The Kentucky Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)

Responsibilities associated with KSIS servers have been defined within the Support Service Level Plan (SLA). KDE and the vendor are jointly responsible for securing and maintaining these devices. KDE is responsible for providing and securing the required network infrastructure. The vendor is specifically responsible for providing application, server hardware, and server operating system (OS) level support to KDE and all Kentucky school districts. This includes providing security related OS patches and antivirus software with the most current definitions. School districts must collect the student data, but are only responsible to ensure vendor servers are physically secured. KDE and each of the 173 Kentucky school districts must also provide name and contact information of onsite representatives that can assist the vendor with technical issues at the state and local levels.

Though KDE is contractually responsible for providing school districts with a secure network, they have delegated the responsibility of network security to each school district, which has not been explicitly communicated to them. Further, school districts have no contractual responsibilities in the vendor contract and KDE has not provided the districts the ability to manage or monitor the security established over these servers.

KDE has servers at the state level dedicated to housing student data submitted by the Kentucky school districts. KDE has assigned the vendor an IP range within their Vendor Services Demilitarized Zone (DMZ) to use as needed; however, they were unable to provide auditors with a list of specific IP Addresses associated with KSIS servers housed at the Commonwealth Office of Technology's (COT) Commonwealth Data Center (CDC). KDE acknowledged that they rely on the vendor to determine what services are enabled and running on these and school district devices. Therefore, it appears that neither KDE nor any of the Kentucky school districts are actively monitoring security measures enabled by the vendor on the servers located at the CDC.

KDE is also responsible for monitoring vendor performance based on metrics defined within the SLA. KDE and school districts are responsible for identifying and reporting case issues associated with the application to the vendor. The vendor provides KDE with a daily detailed case report showing all cases submitted by KDE or a Kentucky school district, excluding cases with a closed status and date resolved greater than 24 months prior to the current date. A KDE staff member reviews the report each day and shares information with appropriate Enterprise Data team members to determine the follow up required. Based on a review of this report, the auditor could not determine how the reported cases were resolved. A resolution date is provided, but adequate detail was not documented explaining what actions were taken by the vendor to resolve the reported issue. Furthermore, there was not sufficient detail explaining how KDE determined whether the actions taken by the vendor were compliant with the metrics established in the SLA.

The KSIS vendor has also provided KDE with access to a dashboard monitoring tool that would allow monitoring of services provided by the vendor to ensure they are fulfilling their contractual obligations. However, KDE management does not routinely use or monitor this dashboard, preferring to directly communicate with the KSIS vendor help desk, account representative, or other vendor management.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-028: The Kentucky Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)**

In addition, KDE meets with the vendor in June every year to discuss and agree to defined metrics based on prior year cases reported by KDE and school districts. During this meeting, KDE and the vendor also agree to any credits to be granted to KDE for non-compliance by the vendor. Kentucky school districts were not given the authority or opportunity to be involved in the monitoring process to ensure the vendor managing their KSIS servers is compliant with established metrics and terms of the contract. The auditor verified there were no issues of non-compliance for FY 2014. Also, KDE stated that the security weaknesses identified at JCPS, as previously discussed, do not fit the definition of what is covered in the SLA. Therefore, in this situation, neither the vendor nor KDE is accountable for student data that could potentially be at risk of unauthorized access.

Finally, since the KSIS vendor houses data for KDE, they are considered a service organization. Although the Statement on Standards for Attestation Engagements 16 (SSAE16) has no set requirements for the frequency or period to be covered by a single review, depending on the needs of their client, a Service Organization Control (SOC) report is typically conducted one or two times a year. However, KDE did not obtain a copy of any external audits performed of this vendor during the audit period. Therefore, we cannot substantiate whether they were audited as required by standards. Furthermore, there is not an audit clause within the contract between KDE and the KSIS vendor that would require annual audits to be performed and provided to KDE or permit reviews, investigations, or audits of the vendor's records or other data, at the discretion of KDE.

KDE is entirely reliant on the KSIS vendor to properly secure hardware housing critical student information located at the vendor's data center, the CDC, and various school districts. This vendor is solely responsible for determining what services are enabled and running on these devices. However, KDE holds each Kentucky school district responsible for security over their network.

Inconsistent application of formalized contract monitoring procedures increases the possibility of KDE not obtaining adequate value for the contract services being provided. Furthermore, improperly secured services could allow unauthorized access to sensitive or critical system resources.

Good management practices minimize risks through planning. Formal procedures provide a framework to educate management and users of their responsibilities for contractor oversight. Consistent application of formal procedures provides continuity for implementation and sets the tone of management's concern for strong oversight practices. SOC reports are internal control reports associated with the services provided by a service organization. Service organizations can obtain a SOC engagement to provide their customers with assurance on the controls established by a vendor.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-028: The Kentucky Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)

Recommendation

We recommend KDE develop and implement within its written vendor contract the requirement for a monitoring process to ensure the vendor is held accountable for contract terms and metrics established. The monitoring process should clearly show resolution actions taken by the vendor and the dates these actions were performed. Furthermore, KDE should document whether actions taken involving the reported cases are compliant with the defined contract metrics. As part of this process, each of the 173 Kentucky school districts should be informed of issues related to vendor contractual obligations.

We also recommend KDE determine the process that will be followed to implement and monitor network and application security and ensure the SLA is updated to document this responsibility. Given Kentucky school district's anticipated shared responsibility for this security, KDE should provide the districts with the necessary resources and authority to ensure this function and monitoring can be performed. In addition, we recommend KDE take a more active role in monitoring services made available and running on KSIS servers at both the local school district and state levels to ensure these devices are properly configured by the vendor.

In addition, we recommend KDE update their contract to include an audit clause that would require the KSIS vendor to provide an annual review of controls and allow KDE to obtain and review applicable external audits performed. Further, the clause should permit KDE to review, investigate, or audit pertinent vendor's records or other data, if findings are issued that affect KDE or Kentucky school districts. Any follow up performed should be documented to show the actions taken by the vendor to address any issues identified.

Management's Response and Corrective Action Plan

KDE appreciates the feedback provided through this finding. We have great confidence in the industry-level security provided by our cloud service vendors, but recognize that there is always opportunity for improvement. As noted above, the particular item which was identified during the vulnerability assessment was addressed fully and completely within 24 hours of notification in December 2013. Additionally, because of the capabilities of the cloud, the vendor was able to verify, within that same time 24 hour time period in December 2013, the status of every installation across the state. KDE will also review the recommendations relating to contract management and vigilant monitoring as well as implementation of changes where practical and appropriate in order to facilitate continuous improvement.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-029: The Kentucky Horse Park Did Not Pay All Invoices Timely

During the Fiscal Year 2014 Kentucky Horse Park (KHP) audit, a sample of invoices was tested to verify that controls were in place and to ensure accuracy and completeness of KHP expenditures. Based on the evidence provided for the sample items tested, test results indicated that 40 out of 60 invoices were not paid in a timely manner and one transaction did not have adequate supporting documentation. Additionally, KHP paid \$216 in late fees during fiscal year 2014. Based on test calculations, the amount owed to vendors as an interest penalty, per KRS 45.454, for the late payments should have been \$2,222. Late payments have been a recurring problem for KHP since the Fiscal Year 2007 audit, and the results this year indicate a significant increase in the number of late payments.

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

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

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

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

Recommendation

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

Management's Response and Corrective Action Plan

The management of the Kentucky Horse Park acknowledges the issue of payments not being processed in a timely manner. This is the result of a lack of staffing in the business office, along with a lack of training with respect to the employees in the various functional areas of the park. The management of the Kentucky Horse Park is working with the management of the Tourism, Arts and Heritage Cabinet to correct this issue. This includes trying to increase the staffing in the business office, along with implementing procedures and controls which include the use of time stamps to properly record when the vendor invoices are received on the park property.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-030: The Kentucky Horse Park Did Not Provide Adequate Supporting Documentation For All Pro-Card Expenditures.

As part of the audit of the Kentucky Horse Park, procurement card expenditures were reviewed to determine that adequate supporting documentation existed to support the procurement card purchases and that the KHP followed compliance requirements for use of the procurement card. A sample of transactions was selected for review, with the results of testing indicating the following instances of noncompliance:

- The KHP did not provide adequate supporting documentation for four transactions. Two of the sales receipts reviewed did not identify the actual items purchased and two transactions did not have a receipt. All four transactions did not appear to have a clear business purpose.

Ineffective internal controls or a lack of familiarity with requirements related to procurement card spending could result in the misuse of taxpayer funds through the purchase of unnecessary items. Ineffective internal controls also permit spending which is noncompliant with agreed upon guidelines for procurement card utilization between the KHP and the Finance and Administration Cabinet.

The Kentucky Administrative Regulations 200 KAR 5:021 incorporates by reference the Finance and Administration Cabinet Policies and Procedures which includes policies related to procurement card utilization.

- Section 6 of FAP 111-58-00 (c) states “An agency shall maintain the documentation for all transactions in accordance with the General Schedule for state Agencies, FAP 111-28-00 and FAP 120-21-00. Receipts for source documentation shall include the vendor’s name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or card number. Purchasing items from the internet or telephone does not negate the need for keeping supporting documentation.”
- Section 8 of FAP 111-58-00 (b) states “Emphasize that the Commonwealth is a tax-exempt institution. If the supplier requests the Commonwealth’s Kentucky State Sales and Tax Exemption Number, please provide the supplier with the tax number shown on the front of the PCard. A copy of the State Sales Tax Exemption form, on file in each Department’s fiscal section, may be faxed to the supplier as proof of the Commonwealth’s tax-exempt status.
- Section 5 of FAP 111-58-00 states “Purchases shall be for the use of the Commonwealth. No personal purchases shall be allowed.”

Recommendation

The following recommendations should be considered to ensure compliance with procurement card usage:

- Establishment of agency requirements for cardholder submission of receipts, and maintenance of all original supporting documentation in order to determine the necessity of the items purchased as required by FAP 111-58-00.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-030: The Kentucky Horse Park Did Not Provide Adequate Supporting Documentation For All Pro-Card Expenditures (Continued)**

Recommendation (Continued)

- Procurement Card transactions need to be reviewed closely in order to ensure that state sales taxes are not being paid. If sales taxes are paid, the cardholder should request a refund of the tax from the vendor.
- Periodic training for agency employees on all regulatory requirements governing procurement card usage.

Management's Response and Corrective Action Plan

The management of the Kentucky Horse Park acknowledges the issue of a lack of sufficient supporting documentation for Pro-Card transactions. Steps have already been taken to address the first two recommendations. With regard to the third recommendation of periodic training of employees on the proper use of the Pro-Card, the management of the Kentucky Horse Park has issued a formal Pro-Card policy and reduced the number of Pro-Cards available on the Park. Currently, there are only two Pro-Cards in use on the park, both of which are custodian cards.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-031: The Kentucky Horse Park Lacked Sufficient Controls to Ensure Duplicating Payments Did Not Occur

During the Fiscal Year 2014 Kentucky Horse Park (KHP) audit, a sample of invoices was tested to determine whether duplicate payments were made to vendors. Based on the evidence provided for the sample items tested, the results indicated that three invoices were paid twice for a total of \$327. While the amount of overpayment is not significant, this is a recurring problem at KHP, and the risk of higher amounts exists as the controls in place are not working effectively to ensure duplicate payments are not made.

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

The lack of effective internal controls caused duplicate invoices to be entered into eMARS resulting in an overpayment to vendors of \$327 during FY2014. Thus the lack of controls may create the possibility of further overpayments in the future.

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

Recommendation

KHP should consider policies and procedures for ensuring that prompt payments are made to valid customers and those procedures are in place to assure payments are not duplicated. Further KHP should implement a plan for improving processes in the business office to ensure that invoices are correctly and timely entered into eMARS to prevent further overpayments to vendors. Finally, adequate reviews by appropriate supervisory personnel should be performed to limit the risk of further duplicate payments.

Management's Response and Corrective Action Plan

The management of the Kentucky Horse Park acknowledges the processing of duplicate payments. This is partially due to a lack of staffing in the business office. The management of the Kentucky Horse Park is working with the management of the Tourism, Arts and Heritage Cabinet to correct the staffing issue. Also, policies and procedures are being developed in an attempt to prevent duplicate payments going forward. This includes proper training of existing staff, with the assistance of the Office of the Secretary in the Tourism, Arts and Heritage Cabinet.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-032: The Kentucky Horse Park Did Not Reconcile Bank Statements Consistently And Ensure Reconciliations Were Reviewed Promptly

During the Fiscal Year 2014 audit of the Kentucky Horse Park, controls over bank reconciliations were reviewed to ensure they were being performed in a timely manner, were reviewed by appropriate supervisory personnel, and any errors or unusual reconciling items were followed up on and explained and/or corrected. All available bank statements and completed reconciliations for the receipt account and the charge card account for the fiscal year under audit were reviewed. At the time of our audit, each account had 12 completed reconciliations for the fiscal year 2014 statements. However, the following issues were noted with the reconciliation process including:

For the Receipt Account:

- Eight out of the 12 bank statements were reconciled late. (e.g., the August 2013 statement was reconciled six months late)
- Three reconciliations were reviewed late. (e.g., the August 2013 statement was reviewed seven months late)
- Seven reconciliations were not reviewed.
- The person reconciling some of the bank statements was not independent of the process.

For the Credit Card Account:

- Six out of the 12 bank statements were reconciled late. (e.g., the June 2014 statement was reconciled four months late)
- Eight reconciliations were reviewed late. (e.g., the October 2013 statement was reviewed four months late)
- Two reconciliations were not reviewed.
- The person reconciling some of the bank statements was not independent of the process.

For the Online Gift Shop account:

- All 12 of the bank reconciliations were not reviewed.
- No dates were listed for completion of the reconciliations.
- The person reconciling some of the bank statements was not independent of the process.

Failure to perform reconciliations of accounts may create errors or omissions that would remain undetected and could affect the efficiency of agency operations. If the reconciliation process does not contain signatures and dates of when performed, verification that reconciliations were performed timely cannot be determined. Further, controls should be in place to ensure that duties for performing the reconciliations are appropriately segregated among staff.

Good internal controls require bank accounts to be reconciled in a timely manner. Bank reconciliations should be performed monthly to account for all activity of the organization and should contain the signatures and dates of both the preparer and reviewer. Appropriate segregation of duties should be in place to ensure that the reconciliation process is an independent process.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-032: The Kentucky Horse Park Did Not Reconcile Bank Statements Consistently And Ensure Reconciliations Were Reviewed Promptly (Continued)**

Recommendation

We recommend the KHP implement procedures to ensure bank reconciliations are performed in a timely manner and contain both the preparer's and reviewer's signature and date to evidence their work. Consideration of appropriate segregation of duties over the process should be made as well.

Management's Response and Corrective Action Plan

The management of the Kentucky Horse Park acknowledges the delinquent reconciliation of the bank statements. This is primarily due to a lack of staffing in the business office. This lack of staffing contributes to the problem in two different respects: 1) the existing staff is expected to handle the work load generated by a facility that has grown substantially since 2008, the staff size in the business office has decreased; 2) the existing staff is currently at a level that does not allow for proper segregation of duties. The management of the Kentucky Horse Park is working with the management of the Tourism, Arts and Heritage Cabinet to correct the staffing issue.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-033: The Kentucky Horse Park Did Not Have A Formal Plan To Finalize Year-End Financial Reporting In A Timely Manner

Over the past several audits of the Kentucky Horse Park, findings have addressed the timely completion of the agency data used to compile the financial statements. Each year the business office has been significantly delayed in its completion of the year-end closing package and trial balance, which has impeded the completion of the audit prior to reporting deadlines established by the Finance and Administration Cabinet. Further, the year-end reporting process responsibility has been held primarily by one person, with little information available detailing the process used in preparing the year-end reports. This has been a concern each year and has been discussed with KHP management over the past several years, and continues to be a concern.

To make matters more difficult in the current year, that key person responsible for financial reporting and the business office manager both left employment with the Horse Park before the completion of the FY 2014 financial reports, therefore leaving officials from the Tourism Cabinet to attempt to educate themselves on the reporting process and to come up with a plan to have the financial information of the Kentucky Horse Park accurately reported. Ultimately, the year-end reporting was only completed because of assistance from the Finance and Administration Cabinet. The lack of documented year-end reporting process and the lack of business office employees with any experience in the year-end process created a significant risk of material misstatement related to financial reporting.

KHP appears to be delayed in its preparation of critical year-end financial data due to inadequate staffing, poor segregation of critical duties, and an inability to prioritize these functions. Further, the failure to have a documented year-end process for finalizing reporting financial information in a timely manner not only delays the audit, but increases the risk of material misstatement in financial statements that could go undetected. Furthermore, KHP is a major enterprise fund of the Commonwealth, and delays also impact the completion of the Commonwealth's CAFR. Additionally, these delays result in higher audit costs to KHP.

A good internal control system mitigates the risk for errors, theft, and promotes processing of transactions and the creation of financial reports in a timely and effective manner. In addition to protecting the organization, internal controls are intended to protect employees in the course of performing their assigned duties. Furthermore, a description of key processes helps to mitigate risks associated with turnover of key personnel.

Recommendation

We recommend the new KHP management review and implement procedures to ensure financial related duties are adequately segregated, and that year-end financial reporting is completed in a timely manner and submitted to FAC within the scheduled deadlines. Further we strongly recommend a review of internal controls in the financial reporting area be performed to assess the need for new procedures, additional staff, assistance from other employees or even another agency. Finally, we recommend that once a plan has been developed to correct the weaknesses discussed herein, that procedures and employee responsibilities be clearly documented and distributed to all affected staff.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-033: The Kentucky Horse Park Did Not Have A Formal Plan To Finalize Year-End Financial Reporting In A Timely Manner (Continued)

Management's Response and Corrective Action Plan

The management of the Kentucky Horse Park acknowledges the issues identified related to proper financial reporting. We are working with the management of the Tourism, Arts and Heritage Cabinet to resolve the staffing issues and to develop proper policies and procedures related to segregation of duties and financial reporting.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-034: The Kentucky State Police Paid Invoices More Than 30 Business Days Following Receipt Of Invoice In Violation Of KRS 45.453

Testing for the FY 14 Kentucky State Police (KSP) audit noted issues with the timely payment of expenditures. Results of testing revealed that KSP had failed to pay six transactions in a timely manner as required by KRS 45.453 or by the stated due date on the invoice. The following errors were noted:

- Three transactions were not paid within 30 business days of the receipt of the invoice
- One transaction was not paid before the stated due date on the invoice
- One transaction invoice was for a late payment
- One procard transaction did not document a date on the invoice

KSP failed to pay all expenditures in a timely manner; this was most likely due to oversight. When KSP does not pay bills in a timely manner, there is a monetary loss to the agency through late fees and the vendor customer relationship may become strained. Furthermore, failure to record expenditures in the eMARS statewide accounting system in a timely manner could result in misstated expenditures in the financial statements.

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

KRS 45.454 Penalty for late payments states:

"An interest penalty of 1% of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after 30 days which followed the receipt of goods or services or vendor's invoice by a purchasing authority"

Recommendation

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

Management's Response and Corrective Action Plan

KSP will make more of an effort to ensure all expenditures are paid in a timely manner. KSP employees have been instructed to pay all invoices within three days of receipt.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-035: The Kentucky State Police Procurement Card Transaction Failed To Comply With FAC Procurement Card Policies

Testing for the FY 14 Kentucky State Police (KSP) audit noted several issues with the processing of Procurement card (ProCard) expenditure payments. Results of testing revealed that KSP had not consistently followed procurement card procedures as set forth by the Finance and Administration Cabinet (FAC), specifically FAP 111-58-00 Policy and Procedures for Procurement Card Program. The following errors were noted:

- Eleven transactions did not have either the cardholder name or card number documented on the invoice or receipt.
- One transaction in fund 1100 was for the purchase of food and had no justification as to its purpose, need, or benefit to the Commonwealth.
- The documentation for two transactions was not sufficient to determine if the cardholder made the purchase.
- One transaction where sales tax of \$4 was paid.

KSP employees failed to document on the documentation submitted to the central office the name of the card holder or the card holder number. KSP employees failed to submit evidence documenting the justification and benefit to the Commonwealth of the food purchase. KSP failed to ensure sales tax was not charged on a ProCard transaction.

Payments made by KSP were not in compliance with requirements set forth by the Finance and Administration Cabinet in FAP 111-58-00.

The Kentucky Administrative Regulations 200 KAR 5:021 incorporates by reference the Finance and Administration Cabinet Policies and Procedures which includes policies related to procurement card utilization.

- FAP 111-58-00 6c states:
“Receipts for source documentation shall include the vendor’s name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or card number.”
- FAP 111-58-00 8a states:
“The cardholder should not share or loan the card to any other individual.”
- FAP 111-58-00 8(b) states “Emphasize that the Commonwealth is a tax-exempt institution. If the supplier requests the Commonwealth’s Kentucky State Sales and Tax Exemption Number, please provide the supplier with the tax number shown on the front of the PCard. A copy of the State Sales Tax Exemption form, on file in each Department’s fiscal section, may be faxed to the supplier as proof of the Commonwealth’s tax-exempt status.”
- FAP 111-58-10c states:
“Purchases of food or beverages shall be accompanied by documentation explaining the reason for the purchase, justification of need, and proof that they benefited the Commonwealth.”

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-035: The Kentucky State Police Procurement Card Transaction Failed To Comply With FAC Procurement Card Policies (Continued)**

Recommendation

The following recommendations should be considered to ensure compliance with procurement card usage:

- Establish agency requirements for cardholder submission of receipts, and maintenance of all original supporting documentation in order to determine the necessity of the items purchased as required by FAP 111-58-00.
- Require all procurement card documentation to showing the card holder name or number, accompanied by documentation that clearly states what the purchase was for and that any purchase of food or beverages is accompanied by proper justification.
- Procurement Card transactions should be reviewed closely in order to ensure that state sales taxes are not being paid. If sales taxes are paid, the cardholder should request a refund of the tax from the vendor.
- Periodic training for agency employees on all regulatory requirements governing procurement card usage.

Management's Response and Corrective Action Plan

FGM is taking steps to educate all Procard holders of proper procedures required by all procard holders. A newsletter that is sent out by FGM monthly will contain a list of Do's and Don't's as well as other informational material that will assist all Procard holders.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-036: The Kentucky State Police Payroll Documents Did Not Contain Required Signatures

Testing of personnel/payroll information for the FY 2014 Kentucky State Police (KSP) audit noted issues with the processing of employee timesheets. Results of testing revealed the following exceptions:

- Two time sheets for one employee did not document a supervisor electronic signature.
- One time sheet coversheet had only the timekeeper's signature and not the post Captain's signature.
- One time sheet coversheet with a supervisor electronic signature that was not included.
- One time sheet unable to verify correct compensatory time awarded as wrong pay results report was provided.
- One time sheet unable to reconcile amount of compensatory time awarded to time sheet.
- One time sheet unable to reconcile to data entered to KHRIS.

KSP failed to document the supervisor review of four time sheets of three employees; this was most likely due to oversight. KSP also failed to verify that two time sheets reconciled to KHRIS and sufficient documentation was not provided for one time sheet. Lack of controls on personnel and timekeeping information can lead to errors and omissions of employee time records. Further, failure to accurately record payroll in the payroll and accounting systems can result in misstated reporting in the financial statements.

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

Recommendation

1. Stress to each timekeeper, employee, and supervisor the importance of following procedures consistently under any circumstance and safeguarding the employee payroll records.
2. Develop and implement procedures to ensure that all timesheets are signed by the employee and approved by a supervisor before being entered into KHRIS.
3. Develop and implement reconciliation procedures to verify all entries submitted by the timekeeper have been properly entered into KHRIS.
4. Perform proper review to check for mathematical errors and/or omissions on the timesheet.

Management's Response and Corrective Action Plan

When the KY Human Resource Information System (KHRIS) went live in 2011, agencies were told that an electronic timesheet would eventually be available via the internet: KHRIS Employee Self Service (ESS) and Manager Self Service (MSS) for supervisor approval. The timesheet portion of KHRIS ESS/MSS was never implemented, so agencies have had to rely on an excel document for timekeeping purposes. Since the majority of our sworn officers are out on the road and do not work in an office, they report their time by calling it in to their assigned

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-036: The Kentucky State Police Payroll Documents Did Not Contain Required Signatures (Continued)**

Management's Response and Corrective Action Plan (Continued)

Post. This undoubtedly increases the potential margin of error; however, until the technology is implemented to assist our officers with timekeeping we are forced to utilize what we have and will continue to have our sworn personnel call time in to their assigned Post.

The KSP agrees with and will implement the following recommendations:

- 1. Continue to stress to each timekeeper, employee, and supervisor the importance of following procedures consistently under any circumstance and safeguarding the employee payroll records, including conducting a mandatory refresher training for timekeepers in 2015.*

The KSP disagrees with and is unable to implement the following recommendations for the following reasons:

- 2. Develop and implement procedures to ensure that all timesheets are signed by the employee and approved by a supervisor before being entered into KHRIS.*

The timesheet excel document does not contain a true electronic signature and therefore we can't ensure that all timesheets are "signed." The agency does not have the resources to require physical signatures, as doing so would require paper, printers, cartridges and precious time that our officers do not have to spend on timesheets. It is my understanding that when KHRIS went live in 2011, the Personnel Cabinet approved our current method of timekeeping. Anything less than an internet based timekeeping system, which would include true electronic signature capability, is not sufficient for our agency.

The KSP Human Resource Branch will send out correspondence to remind supervisors and timekeepers to be sure to document their review of the timesheets on the "coversheet" and this will also be incorporated into the 2015 refresher training.

- 3. Develop and implement reconciliation procedures to verify all entries submitted by the timekeeper have been properly entered into KHRIS.*

The KSP Human Resource Branch has no way of knowing what time employees work. It is currently a requirement for the timekeepers at each post or branch to verify all entries. KSP will incorporate this reminder into the 2015 refresher training.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-036: The Kentucky State Police Payroll Documents Did Not Contain Required Signatures (Continued)**

Management's Response and Corrective Action Plan (Continued)

4. *Perform proper review to check for mathematical errors and/or omissions on the timesheet.*

The KSP currently does perform timesheet reviews. Every pay period, each timekeeper is required to run reports to ensure all time has been entered (reports that show if there is no time entry for an employee or if the required total hours for the week have not been met). The Human Resource Branch also runs these reports. The saying regarding data entry applies: "garbage in, garbage out." If the timekeepers do not enter the correct time, the system will not catch it unless it is a complete time omission error, or if they don't enter the correct total hours for the week. (For example: If an employee is on a 40 hour workweek and only 37 hours are entered, including worked time and leave time, the system will catch that error).

The KSP Human Resource Branch will continue to stress to timekeepers the importance of accurate time entry and double checking their work in e-mail correspondence and will also incorporate this reminder in the 2015 refresher training.

Auditor's Reply

Related to KSP's inability to implement procedures ensuring all timesheets are signed by the employee, we would reiterate that our testing for employee and supervisory signature or timesheet approvals took into account KSP's written process for obtaining timesheet approvals. This included what were labeled electronic signatures for approval of timesheets. For the exceptions noted, the required signature approvals (electronic or otherwise) were not documented. There are alternatives to documenting electronic approvals and we encourage KSP to explore processes of other state agencies in obtaining and documenting electronic timesheet approvals.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-037: The Kentucky State Treasury Did Not Adequately Protect Sensitive And Confidential Data

Our fiscal year 2014 audit revealed weaknesses in the Kentucky State Treasury's (Treasury) internal controls involving the security of confidential and sensitive data. While improvements were made to strengthen controls, Treasury's data was still not adequately protected from potential intentional or unintentional access or misuse of information. This issue was originally addressed with Treasury during our FY 2013 audit.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with Treasury staff.

Treasury has developed a data security plan to protect sensitive data; however, they have encountered budget constraints which has impacted the completion of the plan.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could potentially be accessed or made available to the general public, which could compromise information related to employees or vendors. This significant type of control weakness could potentially be exploited either internally or externally.

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

Recommendation

We recommend Treasury continue to address these weaknesses. Treasury management should ensure confidential and sensitive data is sufficiently protected and ensure the security of confidential and sensitive data remains a top priority. Management should dedicate sufficient resources to complete strengthening controls in a timely manner.

Management's Response and Corrective Action Plan

Like many agencies across the enterprise, the Kentucky State Treasury is systematically addressing the issues identified in 2014-037. As noted by the auditor, internal control improvements have been made. Yet, a definitive solution comprehensively implemented is (and has been) contingent upon obtaining new resources. The additional monies planned to implement solutions were not allocated during the last budget session. Like most of state government, Treasury's budget was reduced by 5 percent. Nonetheless, Treasury will employ over the next biennium diligent management practices to identify additional efficiencies and allocate available resources for continued implementation. As presented to APA, Treasury's will use a step-wise approach. Treasury looks to complete a high percentage of coverage.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-038: The Kentucky Department Of Parks Failed To Correctly Track And Account For The Acquisition, Disposal, And Transfer Of Fixed Assets**

The Kentucky Department of Parks (Parks) failed to maintain accurate inventory records of property and equipment with an historical cost between \$500 and \$5,000. In response to a prior year finding and recommendation, Parks conducted internal inventory reviews at three parks during fiscal year 2014, which identified a total of 194 items that could not be accounted for and therefore needed to be removed from the fixed asset inventory listing. Examples of items that could not be located included air conditioners, heat pumps, televisions, utility trailers, and construction equipment, with some items dating back as far as the 1960s.

Parks did not implement adequate internal controls, policies, or procedures to ensure the accuracy of the inventory listing for property and equipment that cost between \$500 and \$5,000. Additionally, the mismanagement and neglect in tracking property and equipment has allowed inventory reports to become significantly misstated.

The failure for Parks to adequately maintain updated listings of property and equipment at each park leaves Parks assets vulnerable to misappropriation due to fraud, waste, or abuse. Without knowing what property and equipment are owned, or where those items are located, Parks would be unable to identify if items were lost or stolen.

FAP 120-20-01, states, in part, "Pursuant to KRS 45.313, each budget unit shall maintain a current fixed asset record of equipment having an original cost of five hundred dollars (\$500) or more and a useful life of greater than one year." FAP 120-20-01 further identifies, in part, "A state agency shall maintain current records of physical properties and equipment and make appropriate additions and deletions to fixed asset records as property is acquired or disposed."

Additionally, Parks Property Control Records policy states "The Property Control Section will periodically conduct a property inventory at a park to test the accuracy of that park's property listing."

Recommendation

We recommend Parks implement policies, procedures, and internal controls to ensure fixed asset inventory records are complete, accurate, and up to date. Parks should continue to clean up fixed asset records and databases to ensure all property and equipment is adequately accounted for and tracked.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-038: The Kentucky Department Of Parks Failed To Correctly Track And Account For The Acquisition, Disposal, And Transfer Of Fixed Assets (Continued)**

Management's Response and Corrective Action Plan

As stated in last year's response to the APA's office, the Commissioner of Parks hired a Property Control Officer to oversee Fixed Assets so we could move toward compliance with FAP 120-20-01 and KRS 45.313. In October 2013, a 3 year plan was created, proposed and approved by the Commissioner and current APA. We continue working aggressively toward cleaning inventory \$500 and above and are now in partnership with Preventive Maintenance to issue work orders to park staff to expedite the process.

Auditor's Reply

The three year plan identified in management's response is the responsibility of Park's management. In order to remain independent in the audit process, the APA has never created, proposed, or approved a corrective action plan on behalf of an agency.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-039: The Department Of Parks Failed To Implement Adequate Internal Controls Over The Disposal Of Obsolete Equipment

The Kentucky Department of Parks (Parks) failed to implement adequate policies, procedures, and internal controls over the disposal of obsolete equipment at the local park level. When a park has property or equipment that is no longer in use it lists the property online for other parks to review. If other parks do not want the property then the park, with approval from central office, can take the property to a local salvage yard for disposal. The following deficiencies were noted:

- Park employees disposed of obsolete property and equipment at local salvage yards in exchange for cash. Documentation provided was illegible and inadequate to substantiate the items disposed of;
- Local parks were instructed to deposit the proceeds from the disposal of assets in its local bank account. Currently, a mechanism is not in place to ensure those funds are actually deposited. Furthermore, the local parks have been instructed when utilizing received monies from disposals to do repairs, purchase tools, etc., to record the revenue generated as a negative expenditure to offset the cost of the purchase on their daily business report.

Due to the decentralized location of several state parks, it's neither feasible nor efficient to relocate obsolete property and equipment to Frankfort to the Division of Surplus Property for disposal. Additionally Parks failed to implement adequate policies and procedures over the disposal process to safeguard Park assets.

The failure to implement adequate internal controls over the disposal process leaves Park assets vulnerable to loss due to fraud, theft, or misappropriation. Additionally, revenues and expenditures would be understated if income generated from disposals is inaccurately reported as a negative expenditure within the State's accounting system.

FAP 220-19-06 states:

An agency that has been delegated authority to declare and dispose of state-owned surplus personal property shall:

- a. delete surplus items from agency inventory listings;
- b. maintain records of disposal;
- c. manage the accounting of any applicable federal interest in the property;
- d. retain the proceeds from the disposal of surplus property, unless the property has been delivered to a Finance and Administration Cabinet, Division of Surplus Property warehouse; and
- e. make records of surplus property disposition available for audit by the Finance and Administration Cabinet.

Sound internal controls further dictate that adequate policies and procedures be implemented to ensure further safeguards be implemented over cash related to transactions to minimize the risk of loss due to fraud, theft, or misappropriation.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-039: The Department Of Parks Failed To Implement Adequate Internal Controls Over The Disposal Of Obsolete Equipment (Continued)**

Recommendation

We recommend Parks implement adequate policies, procedures and internal controls over the disposal of obsolete property and equipment to ensure items disposed of are properly tracked, and funds received accounted for. This includes insuring scrap tickets are complete and legible, identifying the items scrapped and the amount of funds received. When possible, Parks should prohibit property and equipment from being scrapped for cash to limit the potential for loss, theft, or misappropriation. Additionally, funds received from scrapped property and equipment should be handled and accounted for as a receipt to ensure controls established by the Kentucky State Treasury (KST) are not circumvented.

Management's Response and Corrective Action Plan

As a corrective action plan, we have recently updated our Business Policy Guidelines and created Standard Operating Procedures posted on the Parks Intranet site stressing the need for scrap tickets completed by the scrap vendors to be written out legibly. As we have no control over the scrap vendors, the detailed disposal form mentioned below may need to suffice when a vendor's ticket is not entirely legible.

Since October 2013, photographs and a detailed disposal form have been required when items are being disposed in any fashion, which we feel substantiate items being disposed. Funds received from scrap property and equipment are already handled and accounted for as a receipt in the form of a scrap ticket and copy of the check.

In order to ensure funds are actually deposited, we have added a step to the process requesting the business manager submit deposit verification for scrap proceeds. If the proceeds are to be deposited through Central Office, we will request the Account Receivables Department under Financial Operations notify Property Control that a check has been received and deposited into the park's account.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-040: The Department Of Parks Failed To Ensure Their Accounts Payable Balance Was Accurately Reported On Their Closing Package

The Kentucky Department of Parks (Parks) failed to identify and record all accounts payable on its closing package submitted to the Finance and Administration Cabinet (FAC) for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). Eight transactions were identified as being incurred during fiscal year 2014 and paid in fiscal year 2015 that were not properly identified as accounts payable on Parks fiscal year 2014 closing package.

Parks failed to implement adequate policies, procedures, and internal controls over the preparation of its closing package to ensure the accuracy and completeness of the amounts reported as accounts payable. In fiscal year 2014, the eight deficiencies identified caused expenditures and accounts payable to be understated by \$52,190.

Generally Accepted Accounting Principles (GAAP) requires expenses be recorded in the period in which they are incurred in accordance with the matching principle.

Additionally, FAC's closing package instructions state, "Accounts payable, as applied to the Commonwealth of Kentucky's GAAP reporting system, includes liabilities incurred for goods received or services performed as of June 30 for which payment has not been made. Amounts to be reported on this form should include only amounts that will be paid with "new year" funds."

Recommendation

We recommend Parks strengthen internal controls over the preparation and subsequent review of its closing package to ensure all accounts payable are properly accounted for and recorded in accordance with GAAP and FAC's closing package instructions.

Management's Response and Corrective Action Plan

The Department of Parks is in agreement with the finding. After further inquiries with the State Controller's Office, it has been determined that the expenditures in question should have been included in the CAFR as a prior year expense. The expenses noted were utility bills incurred in June, received at the end of June that would normally be paid in July. Due to budgetary reasons, these bills were not coded as prior year expenses due to the fact that Parks would post 13 utility bills in one year and 11 in the following. The Department of Parks has noted this issue and will make the necessary changes when compiling the prior year expenses for 2015.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-041: The Personnel Cabinet Did Not Adequately Protect Sensitive And Confidential Data

Our fiscal year 2014 audit of the Personnel Cabinet's (Personnel) Kentucky Human Resource Information System (KHRIS) internal controls revealed that, although policies and processes are in place, Personnel did not consistently follow policies to ensure that all sensitive and confidential data is protected. However, Personnel initiated steps to protect certain types of data.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, the auditors thoroughly discussed this issue with Personnel staff to address specific areas of concern.

Personnel did not consistently adhere to established procedures to ensure the protection of sensitive and confidential data.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors. This significant type of control weakness could potentially be exploited either internally or externally.

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

Recommendation

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

Management's Response and Corrective Action Plan

The Personnel Cabinet and Commonwealth Office of Technology (COT) appreciates the Auditor's Office's comments and recommendations to ensure confidential and sensitive data is sufficiently protected and agrees we all must ensure the maintenance of confidential and sensitive data remains a top priority. We also appreciate the recognition in this comment that Personnel and COT have policies and processes in place and have initiated steps to protect data. We also agree after reviewing the additional detailed information provided for this comment that there is an opportunity for additional safeguards to further supplement the multiple layers of controls to secure data in place today.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-041: The Personnel Cabinet Did Not Adequately Protect Sensitive And Confidential Data (Continued)**

Management's Response and Corrective Action Plan (Continued)

For the first comment and recommendation, the Personnel Cabinet is committed in partnership with COT to the review and mitigation of the logical security concern in the audit detail as provided by the APA. The Personnel Cabinet and COT will partner to address the specific issue at hand and agrees with the APA that the maintenance of confidential and sensitive data should always remain a top priority through adherence of existing policies and procedures or implementation of additional ones. The recommendation for the second comment has been resolved.

Your continued efforts to protect the Personnel Cabinet's most sensitive data are appreciated.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-042: The Department Of Revenue Did Not Adequately Protect Sensitive And Confidential Data

Our fiscal year (FY) 2014 audit of the Department of Revenue (DOR) internal controls revealed that, although policies and processes are in place, DOR did not consistently follow policies to ensure that all sensitive and confidential data is protected. We are aware DOR and the Commonwealth Office of Technology (COT) is working on a project to determine the steps necessary to address the controls over certain types of data. This issue was first addressed during our FY 2013 audit.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, the auditors thoroughly discussed this issue with DOR and COT to address specific areas of concern.

A project is underway to determine the steps necessary to address the controls over certain types of data; however, it has not been completed.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors. This significant type of control weakness could potentially be exploited either internally or externally.

Sensitive or confidential data should be protected from unauthorized internal or external users or from exposure to the general public. The National Institute of Standards and Technology Publication 800-111 states, “[m]any threats against end user devices could cause information stored on the devices to be accessed by unauthorized parties. To prevent such disclosures of information, particularly of personally identifiable information (PII) and other sensitive data, the information needs to be secured.” Further, as DOR maintains certain types of federal tax related data, federal guidelines also state that specific federal information must be protected when being stored, accessed, or transmitted electronically due to its sensitive and confidential nature.

Recommendation

We recommend DOR and COT continue to work toward the completion of the project in progress to address the controls over certain types of data. Further, DOR and COT should work together to complete the process of identifying all data types. Those types classified as confidential and sensitive should be sufficiently protected. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-042: The Department Of Revenue Did Not Adequately Protect Sensitive And Confidential Data (Continued)**

Management's Response and Corrective Action Plan*Response from DOR:*

DOR will continue to work together with COT to improve controls over confidential data. Further, DOR and COT will work together to complete the process of identifying all data types and to develop the protections needed to sufficiently protect such data.

Response from COT:

The Commonwealth Office of Technology (COT) takes the protection of sensitive information very seriously and has in place multiple layers of controls to protect any sensitive information from disclosure. COT will work closely with the agencies to employ additional controls as requested based on agency data classification, business need and/or State and Federal regulatory requirements.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-043: The Office Of The Secretary Of State Did Not Maintain Adequate Supporting Documentation For Procurement Card Expenditures

As part of our audit of the Commonwealth Comprehensive Annual Financial Report (CAFR), we review procurement card expenditures in randomly selected state agencies. We selected the Secretary of State of the Commonwealth of Kentucky (the SOS) for review to ensure that expenditures are appropriate in nature, compliant with established procurement card policies, and used for the intended purpose of expediting small purchases. We selected a sample of 40 transactions for review. In that sample, we noted the following instances of noncompliance:

Sales tax was paid on six purchases and the SOS did not seek a credit from the vendors. One of the six purchases did not have a clear business purpose and did not appear to be necessary and reasonable to carry out the function of the agency.

The SOS did not provide adequate supporting documentation for four transactions. The sales receipts reviewed by the auditor did not identify the actual items purchased. The agency noted that two purchases were for hand sanitizer and mints and the two other purchases were from a trophy store. All four transactions did not have a clear business purpose and did not appear to be necessary and reasonable to carry out the function of the agency.

Ineffective internal controls or a lack of familiarity with requirements related to procurement card spending could result in the misuse of taxpayer funds through the purchase of unnecessary items. Ineffective internal controls also permit spending which is noncompliant with agreed upon guidelines for procurement card utilization between the SOS and the Finance and Administration Cabinet.

The following are components of policies and regulations which dictate proper usage of procurement cards:

- 200 KAR 5:021 incorporates by reference the Finance and Administration Cabinet Policies and Procedures which includes policies related to procurement card utilization.
- Section 6 of FAP 111-58-00 (c) states “An agency shall maintain the documentation for all transactions in accordance with the General Schedule for state Agencies, FAP 111-28-00 and FAP 120-21-00. Receipts for source documentation shall include the vendor’s name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or card number. Purchasing items from the internet or telephone does not negate the need for keeping supporting documentation.”
- Section 8 of FAP 111-58-00 (b) states “Emphasize that the Commonwealth is a tax-exempt institution. If the supplier requests the Commonwealth’s Kentucky State Sales and Tax Exemption Number, please provide the supplier with the tax number shown on the front of the PCard. A copy of the State Sales Tax Exemption form, on file in each Department’s fiscal section, may be faxed to the supplier as proof of the Commonwealth’s tax-exempt status.
- Section 5 of FAP 111-58-00 states “Purchases shall be for the use of the Commonwealth. No personal purchases shall be allowed.”

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-043: The Office Of The Secretary Of State Did Not Maintain Adequate Supporting Documentation For Procurement Card Expenditures (Continued)**

Recommendation

- Procurement Card transactions need to be reviewed closely in order to ensure that state sales taxes are not being paid, and if sales taxes are paid, the cardholder should request a refund of the tax from the vendor.
- Establish agency requirements for cardholder submission of receipts, and maintain all original supporting documentation in order to determine the necessity and/or the items purchased as required by FAP 111-58-00.
- Train agency employees on all regulatory requirements governing procurement card usage.

Management's Response and Corrective Action Plan

On June 26, 2014, the Office of the Secretary of State received via email your findings regarding this agency's procurement card expenditure review beginning on May 5, 2014.

Per your request, our official response follows. The Office of the Secretary of State agrees in part and respectfully disagrees in part with your findings.

Section 8, FAP 111-58-00(b)—Tax Exempt Status:

As your findings accurately state, out of the forty sample transactions audited, this agency paid sales tax on six transactions. The Office of the Secretary of State recognizes its responsibility to comply with Section 8 of the Finance and Administration Cabinet Policy and Procedures ("FAP") 111-58-00(b) which sets forth the Commonwealth's state sales tax exempt status. As such, this office sought credit for the sales tax paid from each of the six vendors. In addition, and in order to ensure compliance with Section 8 of FAP 111-58-00(b), the Office of the Secretary of State has conducted an internal audit and review of all other procurement card transactions in FY 2014.

Section 6, FAP 111-58-00(c)—Adequate Supporting Documentation:

As your findings accurately state, this agency did not provide adequate supporting documentation for four of the forty audited transactions. The Office of the Secretary of State recognizes its responsibility to comply with Section 6 of FAP 111-58-00(c), which sets forth an agency's obligation to "maintain documentation for all transactions in accordance with the General Schedule for State Agencies, FAP 111-28-00 and FAP 120-21-00. Receipts for source documentation shall include the vendor's name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or cardholder number. Purchasing items from the Internet or telephone does not negate the need for keeping supporting

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-043: The Office Of The Secretary Of State Did Not Maintain Adequate Supporting Documentation For Procurement Card Expenditures (Continued)**

Management's Response and Corrective Action Plan (Continued)

documentation.” Accordingly, this office has acquired appropriate supporting documentation for the four transactions at issue.

For all future procurement card purchases, this office will continue to strengthen its internal controls and protocols as it relates to the Commonwealth's tax exempt status and maintaining adequate supporting documentation for purchases.

Section 5, FAP 111-58-00—Purchases for use of the Commonwealth:

This agency respectfully disagrees with your audit findings that four transactions—hand sanitizer, mints, and two plaques did not have a “clear business purpose.” The Secretary of State serves as the Commonwealth's Chief Advocate for Civic Engagement. This office welcomes many visitors and often initiates and participates in civic education and outreach programs. The hand sanitizer and mints purchased on January 17, 2014, and January 21, 2014, respectively, were purchases “for use of the Commonwealth,” as they are not only available for guests in our office but are also distributed at public events, such as the Kentucky State Fair. The two plaques purchased were to recognize two individuals for their civic education contribution to their communities and the Commonwealth at large.

Therefore, this office respectfully disagrees with your finding that these four transactions “did not have a clear business purpose and did not appear to be necessary and reasonable to carry out the function of the agency.” We request that you reconsider, as all four transactions were for the use of the Commonwealth to promote civic education and engagement and not for personal use.

Finally, the Office of the Secretary of State acknowledges and will comply with the recommendations included in 2014-043.

Auditor's Reply

The APA recognizes and appreciates the vital role of the Secretary of State as the Chief Advocate for Civic Engagement. This effort undoubtedly requires routine interaction with the general public. However, several agencies, including the APA, engage the public on a variety of issues without using procurement cards to purchase promotional items. We believe that foregoing the purchases in question would not hinder the mission of promoting civic education and would better comply with policies governing the intent and use of procurement cards.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-044: The Kentucky Transportation Cabinet Recorded An Accounts Receivable On Their Year-End Closing Which Was Not In Accordance With Generally Accepted Accounting Principles**

The Kentucky Transportation Cabinet's (KYTC) closing package for fiscal year 2014 identified a \$7,000,000 accounts receivable related to the anticipated recovery of damages. Documentation indicated KYTC's expectation to receive these funds was contingent on litigation and the amount of judgment was subject to change depending on external factors. The recording of this activity by KYTC on their fiscal year 2014 closing package was not in accordance with Generally Accepted Accounting Principles (GAAP), which requires revenue be realized or realizable and earned before being recorded in the accounting records.

By not adhering to GAAP, KYTC overstated both accounts receivable and revenue by \$7,000,000, which would have resulted in a misstatement on the Commonwealth's financial statements in fiscal year 2014 if an adjustment to the closing package had not been made.

The revenue recognition principle within GAAP requires revenue may not be recorded until (1) it is realized or realizable and (2) when it is earned. Additionally, the conservatism principle directs when a situation arises where there are two alternatives for reporting an item, the alternative that will result in the less net income/asset amount should be chosen. Based on conservatism, potential gains from a lawsuit should not be recorded.

Recommendation

We recommend KYTC strengthen internal controls over the preparation and review of their closing package to ensure information reported is complete, accurate, and prepared in accordance with GAAP.

Management's Response and Corrective Action Plan

We agree with your recommendation.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-045: Kentucky Transportation Cabinet Did Not Have A Process In Place For Ensuring Accurate And Complete Data Is Reported In The Year-End Closing Package Related To Contingent Liabilities

KYTC's closing package forms AFR-70A, Summary of Contingent Liabilities and Judgments, and AFR-70B, Detail of Contingent Liabilities and Judgments Paid, are prepared by the Division of Accounts (DOA) based on the information that is provided by the Office of Legal Services (OLS). During fiscal year 2014, OLS failed to provide a detailed schedule of what was incurred and paid during the year to DOA to assist in the preparation of the AFR 70 closing package forms. To ensure accurate and complete information is reported on the AFR 70 forms, OLS is required to submit a quarterly report to DOA, reporting on the status of all judgments and contingent liabilities, regardless of whether actual payments had been remitted.

KYTC failed to implement adequate internal controls and ensure effective communication between organizational units that share pertinent information necessary for financial reporting. Without detailed case information, DOA personnel who prepare the AFR 70 forms cannot ensure accurate and complete financial information is reported to the Finance and Administration Cabinet (FAC) for inclusion and disclosure in the Commonwealth's financial statements.

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

The instructions for completing the AFR 70 form states:

Enter all amounts paid during the year. This includes payments for contingent liabilities/judgments recorded at June 30, 2013 (part of beginning balance) and for contingent liabilities/judgments incurred during the year (FY 2014). The total paid amounts should match the total of all paid amounts shown on AFR 70B.

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

Recommendation

We recommend KYTC develop a process for ensuring accurate and complete data is reported in the year-end AFR 70 forms as required for inclusion in the Commonwealth's financial statements. We recommend OLS provide quarterly reports routinely and in sufficient detail to show the status of all judgments and contingencies.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-045: Kentucky Transportation Cabinet Did Not Have A Process In Place For Ensuring Accurate And Complete Data Is Reported In The Year-End Closing Package Related To Contingent Liabilities (Continued)**

Management's Response and Corrective Action Plan

KYTC Office of Legal Services (OLS) provided the Division of Accounts (Accounts) quarterly reports of judgment amounts incurred and paid during the year. Those quarterly reports provide the case number, payees name, award amount, document ID number, and other information that Accounts accepts as sufficient to enable accurate reporting of judgments. OLS will provide Accounts with backup information that supports contingent liability amounts sent to the Finance and Administration Cabinet which will include the case number, amount and likelihood for all contingent liability cases at year end.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-046: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls To Ensure Payroll Recorded In The Overhead Account By Default Is Charged To The Correct Project Code Once Known

The Kentucky Transportation Cabinet (KYTC) failed to implement adequate internal controls to ensure timesheets not identifying a program code or accounting template when initially posted in the state's accounting system (eMARS) were updated once known. When a program code is not documented on an employee's timesheet, KYTC timekeepers utilize a default accounting template to charge the time to a KYTC overhead account. Without a mechanism in place to track and update these timesheets, payroll costs are not accurately applied to the correct project or program within the state's accounting system.

KYTC Office of Human Resource Management (OHRM) failed to implement policies and procedures to ensure timesheets, which had no program codes initially identified, were updated on the back end to certify payroll costs were applied and charged to the program or project actually worked. As a result of a lack of reconciliation and review, KYTC's overhead account was overstated while the corresponding program or project codes actually worked on were understated.

Sound internal controls dictate that adequate policies and procedures be implemented to ensure payroll costs are charged to the correct program or project. Additionally reconciliations should be in place to identify and correct potential errors.

Recommendation

We recommend KYTC's OHRM implement policies and procedures to identify and reconcile employee payroll charges applied to the overhead account which should be charged to a KYTC program or project. KYTC should ensure payroll expenses incorrectly applied to the overhead account are charged to the appropriate program or project in the state's accounting system.

Management's Response and Corrective Action Plan

The Office of Human Resource Management (OHRM) currently has a process in place to address situations where time entry data input into KHRIS is found to be in error. An example could be a situation where a timesheet is reported and keyed without a template or project code identified which results in labor costs charged to the employee's default template or overhead. When such corrective actions are necessary, Districts/Divisions are required to submit form TC 12-254, Payroll or Leave Reporting Change form, found on KYTC's intranet site, requesting the change through their payroll liaison within OHRM. When a change request is for a modification to a template originally entered into KHRIS, the District/Division must also provide OHRM corrected copies of the supporting timesheets. OHRM is authorized to make template or project code changes to a timesheet in KHRIS up to the earliest retro approval date set by the Personnel Cabinet. Any changes that exceed the earliest retro date will be sent back to the District/Division and they are advised to submit a JV request to the Division of Accounts to correct the charge error.

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

FINDING 2014-046: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls To Ensure Payroll Recorded In The Overhead Account By Default Is Charged To The Correct Project Code Once Known (Continued)

Auditor's Reply

Management's response indicates a process is in place to correct instances where time entry data input into KHRIS is found in error. Although this process would ensure adequate reporting, OHRM does not have a mechanism in place to track and prompt a District/Division when employee time is charged to the overhead account by default. Without adequate tracking and reconciliation, Districts/Divisions may not be aware of instances that would require them to submit revised timesheet information to ensure employee time is charged to the correct project and not the overhead account.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-047: The Kentucky Transportation Cabinet Failed To Implement Adequate Policies And Procedures Requiring Timely Reconciliations Of Source Timekeeping Documents To The KHRIS Payroll System

The Kentucky Transportation Cabinet's (KYTC) Office of Human Resource Management (OHRM) and Office of Budget and Fiscal Management (OBFM) failed to implement adequate policies and procedures to assure that individual employee time charges reported/submitted via "Daily Attendance and Project Reports" for each pay period properly reconcile to the Kentucky Human Resource Information System (KHRIS). Failure to perform this critical reconciliation constitutes an internal control deficiency, which calls into question the accuracy, classification, and completeness of KYTC payroll charges reported in the financial statements as of June 30, 2014.

Due to the above internal control deficiency over the payroll reporting function, audit testing of payroll records and documentation sufficient to support the personnel costs was difficult, and required the additional assistance from KYTC's Office of Audits. Complex queries were formulated by the Office of Audits into a usable template in order to extract KYTC payroll-related data from KHRIS. Notwithstanding the usefulness of the template, multiple steps were still required and provided limited results in support of audit testing. Consequently, 24 of the employees selected for testing could not be completed.

A Federal Highway Administration (FHWA) report dated April 14, 2014 identified a similar finding related to KYTC payroll which indicated "[the] audit trail to supporting documentation and validation of overall payroll transaction is insufficient." In its response dated July 18, 2014 to the federal report, KYTC identified a corrective action plan to remedy the deficiency.

Additional KYTC payroll exceptions included the following:

- For one employee, a discrepancy was noted between regular hours reported on the supporting Daily Attendance and Project Reports and the hours reported for the employee within KHRIS;
- One Daily Attendance and Project Report was missing a supervisor's approval.

The failure by KYTC to ensure an adequate audit trail exists and to develop and implement policies and procedures requiring that reconciliations of source timekeeping documents and the payroll system (KHRIS) are in place may permit payroll errors and/or omissions to go undetected. Furthermore, the failure to perform the reconciliations timely may lead to material financial misstatements.

Sound internal controls over the payroll functions dictate that key reconciliations of the payroll system to underlying records be in place and performed timely. Differences discovered during the reconciliations should be researched and corrections made timely. Documentation should always be maintained to support all payroll charges, including adjustments and error corrections.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-047: The Kentucky Transportation Cabinet Failed To Implement Adequate Policies And Procedures Requiring Timely Reconciliations Of Source Timekeeping Documents To The KHRIS Payroll System (Continued)

Recommendation

We recommend KYTC implement policies and procedures requiring that reconciliations of source timekeeping documents and the payroll system (KHRIS) be performed timely. The policies and procedures should clearly identify the department/division responsible for performance of the reconciliations, the necessity for communicating noted errors and/or differences, and measures to follow for resolving issues. Additionally, KYTC should continue to implement its corrective action plan provided to FHWA to ensure an adequate audit trail is established sufficient for verifying payroll charges are complete and accurate.

Management's Response and Corrective Action Plan

The Office of Audits was happy to assist the APA in generating reports needed to complete their audit of payroll. Tracing the timesheet to KHRIS data is a complex process; however, testing the remaining 24 employees from the sample of 50 would have been possible given more time.

The Office of Human Resource Management implemented mandatory supervisor training that consisted of General Time & Attendance Reporting and Modified Work & Leave Reporting. These trainings began on January 29, 2013 and were completed on June 6, 2013. OHRM also emailed a reminder to all KYTC employees addressing GAP 501 Leave Request & Time Reporting Policy with a note to share the email with those KYTC employees that do not have an email account.

In addition, OHRM implemented a recurring timesheet audit on June 23, 2014 to ensure compliance with completion of timesheets by employees as well as supervisors. OHRM randomly picks 5 audits from each crew. OHRM reviews the TC-12-261 Daily Attendance and Project Report, KHRIS Excel timesheet and any supporting documentation such as the TC 12-206E Personnel Work Schedule Agreement, TC 12-1 Application for Leave, doctor's notes, voting slips, etc. to ensure all documents match accordingly and all signatures have been obtained as required.

It is the supervisor's responsibility to ensure daily time sheets agree to excel time sheets. The timekeeper inputs time into KHRIS from the excel timesheet; therefore, we have preventative measures in place to ensure what is inputted is correct. Due to the size of our agency, preventative measures in place, and the minimal impact on funds, we assume the slight risk.

KYTC continues to work with representative from the Office of State Budget Director, Finance and Administration Cabinet – Office of the Controller, and the Department of Personnel to implement the action plans identified by the KYTC in its response to the deficiencies found in a 2013 FHWA audit of KYTC KHRIS payroll.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-047: The Kentucky Transportation Cabinet Failed To Implement Adequate Policies And Procedures Requiring Timely Reconciliations Of Source Timekeeping Documents To The KHRIS Payroll System (Continued)**

Auditor's Reply

The procedure necessary to test KYTC's payroll began in July when we requested updated narratives on the payroll process, which were not returned until October 29th. By that time, a sample of timesheets had been submitted to KYTC to move the testing process forward even without the required narratives. Additionally, a meeting was held with KYTC personnel on October 21st to communicate the overall objectives of our audit procedures in relation to payroll.

The necessity for the Office of Audits to assist with generating various payroll reports and related documentation for the audit only occurred once other avenues failed to produce the necessary information. Although the Office of Audits may have been able pull the additional reports necessary for testing the remaining 24 employees, the time required and difficulty in obtaining the essential information further supports the complexity of the process and audit trail. We would like to stress that the responsibility for maintaining the supporting documentation and performing the necessary reconciliations of detailed timesheet information to KHRIS remains with the Office of Human Resource Management.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-048: The Kentucky Transportation Cabinet Did Not Adequately Protect Sensitive And Confidential Data

Our fiscal year (FY) 2014 audit revealed weaknesses in the Kentucky Transportation Cabinet's (KYTC) internal controls involving the security of confidential and sensitive data. It was revealed that data was not adequately protected from potential intentional or unintentional access or misuse of information.

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

KYTC has not established adequate procedures to ensure the protection of sensitive and confidential data. Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors. This significant type of control weakness could potentially be exploited either internally or externally.

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

Recommendation

We recommend KYTC management ensure confidential and sensitive data is sufficiently protected. Management should ensure adequate resources are dedicated to complete this project in a timely manner and ensure the maintenance of confidential and sensitive data remains a top priority.

Management's Response and Corrective Action Plan

KYTC agrees with this audit's recommendations to ensure confidential and sensitive data are sufficiently protected and remain a top priority. Effective October 7, 2013, COT implemented the CIO-091 Policy which utilizes NIST Special Publication 800-53 as a base framework for implementing an information security model. This model will focus on overall security of information and encompass factors such as people, processes, and business strategies.

Additionally, KYTC is developing a Data Management Plan. The Data Management Plan is being derived from the DAMA/DMBOK framework and includes a Data Security Plan. Agency policies, guidelines and standards will be formulated as part of these plans. More specific to SSWAK Audit Requirements, KYTC systems and applications (current and new) will be reviewed. It should be noted that as part of the I3 initiative, COT assumed control of KYTC's Data Domain (and the infrastructure that supports it). The Data Management Plan/Data Security Plan should serve as audit points for KYTC to exercise in review of COT Data Management practices and Infrastructure Security.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-049: The Kentucky Transportation Cabinet Did Not Request The Kentucky Human Resource Information System To Equitably Allocate Paid Leave At Implementation In Compliance With Federal Standards

Our fiscal year (FY) 2014 audit of the Personnel Cabinet's (Personnel) Kentucky Human Resource Information System (KHRIS) revealed KHRIS does not comply with allocation standards established by the Federal Highway Administration (FHWA).

In our FY 2013 audit, we reported KHRIS was unable to provide sufficiently detailed information for the Kentucky Transportation Cabinet (KYTC) to perform reporting required by the Federal government. An audit completed by the FHWA, which involved KHRIS-related transactions processed by the KYTC during the period December 1, 2012 through January 31, 2013, indicated KYTC was not able to completely reconcile their payroll and time data to the reimbursements requested from the Federal government. As a result, KYTC has struggled to generate sufficient information to comply with the reporting requirements of the Federal Emergency Management Agency (FEMA) and American Recovery and Reinvestment Act (ARRA) since April 2011 when KHRIS went into production. However, Personnel has been working with the Finance Administration Cabinet (Finance) to expand personnel and payroll information available within infoAdvantage, the information reporting solution used in conjunction with the enhanced Management Administrative and Reporting System (eMARS). As a result of this expansion, most of the required information reporting is now available within infoAdvantage. Based on discussions with KYTC and through attending their payroll walk-thru trainings, we determined that KYTC has been able to use the information gathered from infoAdvantage, along with other external data, to reconcile an employee's time data from KHRIS to the federal accounting system and eMARS. However, based on the FHWA audit, allocation of leave and compensatory time taken is not being allocated equitably to State and Federal-Aid projects.

Specifically, the FHWA audit reported that allocation of leave, other forms of paid time off and compensatory time is distributed to projects worked when the leave or compensatory time is taken, which is not in compliance with the criteria in 2 CFR 225 Appendix B 8.d. Essentially, this clause requires the cost of paid leave, including compensatory leave, be allocated equitably to all related projects/activities. Therefore, leave should be allocated in a manner consistent with and in proportion to the accumulation of the respective leave.

When accrued leave is taken, it is charged in proportion to the employee's current pay period work template. Also, when additional hours worked in excess of a normal work schedule, the time is originally coded to a specific project or cost center by the employee. However, during the payroll process, these hours are accumulated in the employee's leave quota balances and held for later distribution when the time is taken, regardless of the hours charged to the initial project when the work hours were accumulated. The concern with this method is that not only is the compensatory leave not being properly accounted for by project when initially acquired, but also that compensatory leave is not being allocated equitably based on the accumulation of the leave for employees working on the FEMA and ARRA projects. However, given the current method of leave accumulation, where all leave is simply applied to employee quotas and not recorded against specific projects when the leave is earned, it

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-049: The Kentucky Transportation Cabinet Did Not Request The Kentucky Human Resource Information System To Equitably Allocate Paid Leave At Implementation In Compliance With Federal Standards (Continued)

is not possible to allocate leave in proportion to the accumulation of the leave or to equitably allocate against related projects.

It should be noted that while KHRIS is a comprehensive human resources system, it was primarily designed to process the Commonwealth's payroll, which is paid through eMARS. Personnel's Division of Employee Management is the business owner of the KHRIS payroll module. Personnel has no statutory authority or obligation to determine time allocations that are relevant to payroll. Instead, KHRIS processing, including allocation of leave, was designed and approved by KYTC, the Office of State Budget Director (OSBD), Finance and other agency stakeholders. Therefore, the current configuration and functioning of the KHRIS payroll module is appropriate as originally designed. We are aware that KYTC issued a request for a system change on September 25, 2014, and is working with OSBD to determine how to address the federal requirements and to modify the current process to allocate leave, paid time off, and compensatory time to projects.

Compensatory time accrual and usage processes were originally configured within KHRIS based on specifications and requirements identified by various state agencies, including KYTC. Specifications to comply with FHWA were not provided for the original configuration with KHRIS.

Until the requested change can be evaluated by Personnel, OSBD, and Finance and subsequently implemented, KHRIS will continue to be non-compliant with FHWA standards. If accumulation of leave and compensatory time is not allocated equitably to State and Federal-Aid projects, this results in some projects not receiving as much allocation of these employee benefit costs as they should and others receiving more than their share of the allocation.

The requirements outlined in 2 CFR Part 225 Appendix B, 8.d (2) state, "[t]he cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit."

Recommendation

We recommend KYTC continue to work with appropriate representatives from Personnel, OSBD, Finance, and FHWA to develop a plan to ensure the allocation of leave and compensatory time taken is equitably allocated to State and Federal-Aid projects. The specifications and requirements associated with a change request to address this issue should be thoroughly documented by KYTC. As a system change request has been submitted to Personnel, we recommend KYTC work closely with Personnel, Finance, and OSBD during the development and participate with testing of the planned functionality to ensure leave time is accurately allocated amongst State and Federal-Aid projects.

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

FINDING 2014-049: The Kentucky Transportation Cabinet Did Not Request The Kentucky Human Resource Information System To Equitably Allocate Paid Leave At Implementation In Compliance With Federal Standards (Continued)

Management's Response and Corrective Action Plan

We have and will continue to work with representatives from the Finance and Administration Cabinet-Office of State Controller, Office of State Budget Director, and the Personnel Cabinet to develop a coding mechanism within KHRIS and eMARS for leave costs. The Cabinet has agreed with FHWA to make leave costs nonparticipating for all future projects after we have developed a means to track these costs. This core work group plans to meet with other state agencies to discuss the planned course of action and get feedback as to how it will affect them. We plan to resolve this as quickly as possible; however, the changes being discussed are not simple and will take some time.

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APPENDIX

COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2014

This report is available on our website, www.auditor.ky.gov in PDF format. For other requests, please contact Gregory Giesler, APA's Open Records Administrator, at (502) 564-5841 or gregory.giesler@ky.gov. If copies of the CAFR for FY 14 are required, please contact Lori H. Flanery, Finance and Administration Cabinet Secretary, at (502) 564-4240 or lori.flanery@ky.gov.

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

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

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

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

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

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

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

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

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

**COMMONWEALTH OF KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

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

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

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

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

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

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

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

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

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

**COMMONWEALTH OF KENTUCKY
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(Continued)**

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

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

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

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

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

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

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

Office of Public Employees Health Insurance
State Office Building, 2nd Floor
501 High Street
Frankfort, KY 40601

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

**COMMONWEALTH OF KENTUCKY
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(Continued)**

Kentucky River Authority
70 Wilkinson Boulevard
Frankfort, KY 40601

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

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

Kentucky Artisan Center at Berea
P.O. Box 280
Berea, KY 40403

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

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

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

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

Kentucky Public Transportation Infrastructure Authority
200 Mero Street, 6th Floor East
Frankfort, Kentucky 40622

