

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

VOLUME II

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



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

March 26, 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 the Commonwealth of Kentucky-Volume II for the year ended June 30, 2014. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133*, federal award findings and questioned costs identified during our audit, and the summary schedule of prior audit findings.

The Auditor of Public Accounts also calculates a dollar threshold, based on OMB Circular A-133 guidance, to determine the federal programs to be audited for internal controls and compliance. For FY 2014, the threshold for auditing federal programs was \$30,000,000.

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

Respectfully submitted,

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

Adam H. Edelen
Auditor of Public Accounts



CONTENTS

Page

Introduction.....	1
Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance In Accordance With OMB Circular A-133	5
Schedule of Findings And Questioned Costs	
Section 1 – Summary of Auditor’s Results	11
Section 2 – Financial Statement Findings	14
Section 3 – Federal Award Findings And Questioned Costs	15
Material Weaknesses Relating to Internal Controls and/or Noncompliances	
<u>FINDING 2014-050</u> : 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	15
Significant Deficiencies Relating to Internal Controls and/or Noncompliances	
<u>FINDING 2014-051</u> : The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program	16
<u>FINDING 2014-052</u> : The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System.....	20
<u>FINDING 2014-053</u> : The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations	22
<u>FINDING 2014-054</u> : The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program And The Adoption Assistance Program.....	25
<u>FINDING 2014-055</u> : The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance for Needy Families Program.....	28
<u>FINDING 2014-056</u> : The Cabinet For Health and Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting Procedures	33
<u>FINDING 2014-057</u> : The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations	36
<u>FINDING 2014-058</u> : The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely	39

Contents (Continued)

Section 3 – Federal Award Findings And Questioned Costs (Continued)

Significant Deficiencies Relating to Internal Controls and/or Noncompliances (Continued)

FINDING 2014-059: The Department Of Local Government Did Not Ensure The Audits Of Three Subrecipients Were Submitted Within Nine Months Of The End Of The Fiscal Year As Required By OMB Circular A-13343

FINDING 2014-060: The Department Of Military Affairs’ Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed.....48

FINDING 2014-061: The Department Of Military Affairs’ Work Order System Is Not Functioning Properly54

FINDING 2014-062: The Department Of Military Affairs Did Not Use The AGO Installation Contingency Fund Bank Account For Its Intended Purpose58

FINDING 2014-063: The Department For Workforce Investment Failed To Return Refunded Overpayments To The Federal Government Timely61

FINDING 2014-064: The Department For Workforce Investment Failed To Implement Adequate Internal Controls Over The Approval And Maintenance Of Timesheets64

FINDING 2014-065: The Department For Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place To Monitor Subrecipients And Communicate Identified Instances Of Non-Compliance.....65

FINDING 2014-066: The Kentucky Transportation Cabinet Failed To Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations.....69

FINDING 2014-067: The Kentucky Transportation Cabinet Failed To Perform Quality Assurance Reviews Of Each District Offices’ Procedures For Property Acquisitions72

FINDING 2014-068: The Kentucky Transportation Cabinet Did Not Comply With Davis-Bacon Act Requirements74

FINDING 2014-069: The Kentucky Transportation Cabinet Failed To Ensure The Required Contractor Performance Reports Were Completed And Maintained76

Summary Schedule Of Prior Audit Findings 81

Appendix..... 93

INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2014**

Single Audit

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

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

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

Schedule of Findings and Questioned Costs

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

Summary Schedule of Prior Audit Findings

Audit findings related to federal awards reported in the Schedule of Findings and Questioned Costs for FY 2013, as well as any previous federal awards findings that have not been resolved in the past three fiscal years, are reported in the Summary Schedule of Prior Audit Findings for FY 2014.

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

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

Audit Approach

The scope of the statewide single audit for FY 2014 included:

Financial

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

Federal Awards

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

Component Units

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending federal awards. The Commonwealth has elected to exclude component units from the statewide single audit, except as part of the audit of the basic financial statements. Thus, component units are not included in the report on compliance and internal control and corresponding Schedule of Findings and Questioned Costs. It should be noted, however, that these entities are still required to have audits performed in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, if applicable.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of Kentucky's (Commonwealth) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2014. The Commonwealth's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



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

Opinion on Each Major Federal Program

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-050, 2014-051, 2014-052, 2014-053, 2014-054, 2014-055, 2014-056, 2014-057, 2014-058, 2014-059, 2014-063, 2014-065, 2014-066, 2014-067, 2014-068, and 2014-069. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

The Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commonwealth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal

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

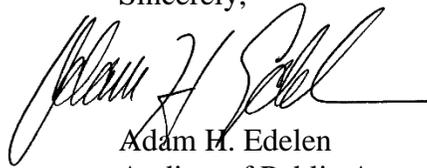
program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-050 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items, 2014-051, 2014-052, 2014-053, 2014-054, 2014-055, 2014-056, 2014-057, 2014-058, 2014-059, 2014-060, 2014-061, 2014-062, 2014-063, 2014-064, 2014-065, 2014-066, 2014-067, 2014-068, and 2014-069 to be significant deficiencies.

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

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

Sincerely,



Adam H. Edelen
Auditor of Public Accounts

March 11, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Financial Statements: We issued unmodified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2014.

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

Internal Control Over Financial Reporting: Our consideration of the Commonwealth's internal control over financial reporting disclosed three material weaknesses and 46 significant deficiencies.

Federal Awards

Compliance: We issued an unmodified opinion on the Commonwealth's compliance with major federal programs. The results of our auditing procedures disclosed 16 instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance: Our consideration of the Commonwealth's internal control over compliance disclosed 19 significant deficiencies and one material weakness.

Identification of Major Programs

The Commonwealth identified clusters by gray shading.

Major Type A programs

CFDA Program Title

Supplemental Nutrition Assistance Program Cluster:

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

Child Nutrition Cluster:

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

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
--------	---

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

CFDA	Program Title
15.252	Abandoned Mine Land Reclamation (AMLR) Program
17.225	Unemployment Insurance
Highway Planning and Construction Cluster:	
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
84.010	Title I Grants to Local Educational Agencies
Special Education Cluster:	
84.027	Special Education _Grants to States
84.173	Special Education _Preschool Grants
84.367	Improving Teacher Quality State Grants
93.268	Immunization Cooperative Agreements
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchange
Temporary Assistance for Needy Families Cluster:	
93.558	Temporary Assistance for Needy Families
Child Care and Development Block Grant Cluster:	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care_Title IV-E
93.659	Adoption Assistance
93.767	Children's Health Insurance Program
Medicaid Cluster:	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)

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

12.401 National Guard Military Operations and Maintenance

CDBG- State-Administered CDBG Cluster

14.228 Community Development Block Grants/State's Program

14.255 Community Development Block Grants/State's Program - ARRA

Fish and Wildlife Cluster:

15.605 Sport Fish Restoration Program

15.611 Wildlife Restoration and Basic Hunter Education

Employment Service Cluster:

17.207 Employment Service/Wagner-Peyser Funded Activities

17.801 Disabled Veterans' Outreach Program

17.804 Local Veterans; Employment Representative Program

20.509 Formula Grants for Other Than Urbanized Areas

97.039 Hazardous Mitigation Grant

97.040 Chemical Stockpile Emergency Preparedness

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

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$30,000,000.

Auditee Risk

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

SECTION 2 - FINANCIAL STATEMENT FINDINGS

See SSWAK Volume I for the FY 2014 Financial Statement Findings 2014-001 through 2014-049.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2014-050: 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**

State Agency: Department for Workforce Investment

Federal Program: CFDA 17.207 – Employment Services/Wagner-Peyser Funded Activities

CFDA 17.801 – Disabled Veterans’ Outreach Program (DVOP)

CFDA 17.804 – Local Veterans’ Employment Representative Program

CFDA 17.225 – Unemployment Insurance

CFDA 17.225 – ARRA - Unemployment Insurance

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

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

Amount of Questioned Costs: \$3,428

This finding is a material weakness in internal control over financial reporting and internal control over compliance. To read the original finding in its entirety, see Finding 2014-002 in the SSWAK, Volume 1. Management’s response and corrective action plan acknowledged the incorrect utilization of \$3,428 of Wagner-Peyser funds to cover employee payroll related to the Jobs for Veterans State Grant (JVSG) due to a shortfall in available federal funding. Management identified it would seek non-federal funds in the amount of \$3,428 to cover this expenditure.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-051: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program**

State Agency: Department for Community Based Services

Federal Program: CFDA 10.551 – Supplemental Nutrition Assistance Program

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

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests & Provisions

Amount of Questioned Costs: \$0

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

In fiscal year 2014 compliance with the EBT card security was tested in fourteen locations within thirteen counties to ensure proper security was maintained, proper issuance was performed, periodic balancing of EBT cards was completed, and proper destruction was performed. Each location tested had inadequate EBT security and were not following proper procedures implemented by DCBS. We noted the following exceptions:

- Seven out of 14 locations failed to properly secure EBT cards by not completing proper documentation.
- Six out of 14 locations failed to follow proper issuance procedures.
- Thirteen out of 14 locations failed to perform all required control procedures monthly to confirm the count of cards remaining in the office.
- Ten out of 14 locations failed to properly destroy EBT Cards by ensuring the cards were destroyed timely and/or proper documentation was completed and maintained.
- One out of 14 locations could not present an EBT-5 for the month of January 2014.

This has been an ongoing problem since 2006.

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

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-051: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

7 CFR section 274.5(c) states:

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

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

The DCBS Operation Manual MS 0290 states:

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

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

A. The Field Services Supervisor (FSS):

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

B. Employee A:

1. Has responsibility for receiving and securing EBT cards;
2. Ensures that the EBT cards are logged on form EBT-2 as received;
3. Obtains a card from the secure location and releases the card to Employee B at the time a recipient comes in to pick up the EBT card;
4. Records the release of each EBT card to Employee B on form EBT-2 daily; and
5. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-051: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

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

Recommendation

We recommend CHFS DCBS:

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

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-051: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

Management's Response and Corrective Action Plan

The EBT-2 and EBT-5 forms will be integrated into the new eligibility system scheduled to go into production in December 2015. As a result of the new system, offices will no longer have to designate Employee A to log in cards and Employee B to distribute cards. The separation of these duties will be done on a case-by-case basis instead of at a county level. There will be an EBT card maintenance screen on each case which will track and separate cards being sent to each local office electronically as follows:

- *Employee A will request the card*
- *Employee B will change the status of the card to In-Office (date will be specified)*
- *Employee C will change the status to Active (which signifies that card has been hand-delivered to client), specify the date and capture client's signature on signature pad.*

There will be controls in the system that will prevent statuses from being changed by the same employee or employees. For instance, if Employee A checks the box on Case 1 saying the card is in the office, the system will not allow Employee A to be the person to check the box saying that the card has been given to the client on Case 1. Another worker in the office will be responsible for making the change in the system.

Additionally, there will be a task created for the Supervisor on the 30th day after the card is logged into the local office for the card to be destroyed if the card status in the automated system has not been changed to "given to client".

The new automated procedures will go live with the new system and will automate all the current error-prone paper processes currently in place.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-052: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System**

State Agency: Department for Community Based Services

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

CFDA 93.659 – Adoption Assistance

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

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$0

The Title IV-E Adoption Assistance and Foster Care programs operated by The Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have adequate internal controls in place for The Workers Information System (TWIST). During the audit we reviewed case files for both programs for the fiscal year ending June 30, 2014, and noted the following exceptions.

Foster Care case files:

- Four missing Social Security Numbers (SSN) in TWIST.
- Five differences between the name in the files and the name in TWIST.

Adoption Assistance case files:

- Seven missing Social Security Numbers (SSN) in TWIST.
- Twenty-nine differences between the name in the files and the name in TWIST.

Cases are not being adequately updated when there are changes to the case file. DCBS relies on TWIST for information on individuals in the Foster Care and Adoption Assistance programs, making payments, and reporting to the Federal government. Failure to include all relevant information by updating the files and keeping them current creates difficulty in finding physical files as well as finding cases in TWIST, creates the possibility of file mix-ups, and allows for the use of inaccurate information. A large number of manual corrections are made to reports generated in TWIST before reports are submitted to the Federal government because of the inaccuracies in the system. Because personnel have to manually correct the amounts and the eligibility determinations, the risk for errors and omissions increases without all relevant information.

As stipulated in 2 CFR Part 215, “The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.”

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-052: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System (Continued)**

Recommendation

It is recommended that CHFS DCBS:

- Develop internal control procedures to ensure accurate, reliable, and complete information is input into TWIST and included in the physical case files.
- Ensure that cases are being updated in TWIST when there are changes, which would significantly decrease the need for manual corrections/changes.
- Consider procedures to include periodic reviews to ensure the accuracy of information in the TWIST system.

Management's Response and Corrective Action Plan

DCBS agrees with the audit findings and has initiated the following corrective action plans:

- 1) *Name Changes for Adoptive Children:*
Upon notification that an adoption was finalized, designated DCBS staff will enter the adoptee's new name in TWIST.
- 2) *Social Security Number changes/corrections:*
Designated DCBS staff will make necessary corrections of SSNs to the individual screen in TWIST.

Additionally, DCBS recognizes the need for periodic spot checks to ensure that data is being entered accurately. Random spot checks will be conducted for an unspecified number of cases.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-053: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations**

State Agency: Department for Community Based Services

Federal Program: CFDA 93.659 – Adoption Assistance

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

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Cost/Cost Principles and Eligibility

Amount of Questioned Costs: \$385

The Title IV-E Adoption Assistance program (Adoption Assistance) operated by The Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place for eligibility determinations and was not in compliance with federal regulations for eligibility. During our audit of Adoption Assistance for the fiscal year ending June 30, 2014, we reviewed adoption files and examined supporting documentation for these adoptions that included: Adoption Assistance Agreements, Title IV-E funding determinations, court documents, and evidence of termination of parental rights.

To ensure compliance with eligibility principles for the Adoption Assistance program was sufficiently performed, files from six regions were reviewed. In addition to eligibility testing, expenditures from the case file sample were tested for compliance in regards to allowable cost.

The following exceptions were noted:

- Four files were missing an updated signed Adoption Assistance agreement (DPP-1258 form).
- One state funded adoption subsidy was claimed as Title IV-E for reimbursement from the federal government. Expenditure testing revealed that the state funded payment \$551 (\$385 federal share) was incorrectly reimbursed using Title IV-E funds. It's estimated that since the adoption was claimed as Title IV-E on July 1, 2007, subsidies in the amount of 46,284 (\$33,650 federal share) have been paid out using Title IV-E funds.

Cases are not being entered into TWIST completely and accurately. As a result, one state funded adoption was incorrectly classified as Title IV-E reimbursable on the report submitted to the federal government, leading to the adoptions being incorrectly reimbursed by the federal government with Title IV-E funds. Inconsistent filing practices at the regional level may lead to missing documentation within Title IV-E child files. This can also lead to the possibility of difficulty locating documents and lost documents.

42 USC 673 states:

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

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-053: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations (Continued)

(1) *Categorical Eligibility*

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

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-053: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations (Continued)**

As stated in 2 CFR Part 215:

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

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

Recommendation

We recommend CHFS DCBS:

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

Management’s Response and Corrective Action Plan

Revisions will be made to the Adoption Assistance Standards of Practice which clearly delineate the documentation required in each adoption subsidy case file and specifically requires the adoption worker to verify that IV-E eligibility is accurately documented on the DPP-1258. The content of the revised Standards of Practice will be developed by the Adoptions Branch within the Division of Protection and Permanency by April 30, 2015 for issuance the following month.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-054: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program And The Adoption Assistance Program**

State Agency: Department for Community Based Services

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

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

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$2,005,374

The Title IV-E Adoption Assistance and Foster Care programs operated by The Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place and was not compliant with federal regulations for allowable costs. During the audit, to ensure compliance for Adoption Assistance and Foster Care for the fiscal year ending June 30, 2014, we reviewed correcting journal entries (JVs). Supporting documentation was examined for those transactions that included: adoption assistance agreements, invoices from foster parents, and reports and screenshots from TWIST, the main computer system for Adoption Assistance/Foster Care.

Results of testing included the following exceptions for Adoption Assistance:

- Two JV's totaling \$548,064 did not have adequate supporting documentation.

Results of testing included the following exceptions for Foster Care:

- Four JV's totaling \$1,457,310 did not have adequate supporting documentation

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

Pursuant to 2 CFR Part 215, The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-054: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program And The Adoption Assistance Program (Continued)**

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

Recommendation

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

Management's Response and Corrective Action Plan

There may be a misunderstanding of the documentation provided. DCBS provided documentation to support allowable IV-E claims including federal-based Online Data Collection (OLDC) copies of DCBS quarterly CB-496 reports. DCBS also provided eMARS expenditure reports to support allowable claims as well as documentation to support Random Moment Sampling calculations as evidenced in eMARS expenditure reports and quarterly CB-496 reports. The APA stated that use of JVs should be limited and should follow the same approval process as other expenditure documents at DCBS. DCBS is required, by federal mandate, to perform Random Moment Sampling and to use those results to adjust personnel costs to reflect a more statistically valid measurement of costs and to avoid the biases of self-reporting by individual workers. DCBS is also required, by federal mandate (and preferred practice), to reconcile eMARS to federal reports. The JVs in question simply provide a mechanism to accomplish that reconciliation.

In conjunction with all CHFS agencies, DCBS will work with CHFS Division of Accounting and Procurement Services to make certain JVs are formatted in a manner that is easily interpreted.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-054: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program And The Adoption Assistance Program (Continued)**

Auditor's Reply

We reviewed the spreadsheets and the Title IV-E reports CHFS provided during the course of our audit and were unable to determine that the amounts for the JVs were allowable. The JVs for the differences in original reports and eMARS are made so that eMARS agrees to the Title IV-E reports submitted to the federal government. Although the supporting documentation sent from DCBS correctly shows the amounts reconciled, the information supporting these amounts lacks sufficient detail in order to validate such transactions as allowable under the Foster Care and Adoption Assistance programs. Further, while the agency suggests that calculations are made for reconciling purposes, those reconciling items should be traceable to evidential items to support the corrections, rather than system accounting adjustments designed to force eMARS report totals to match the Title IV-E report totals. Therefore, we were unable to determine whether or not adjustments to the original report were made accurately.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-055: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program

State Agency: Department for Community Based Services

Federal Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF)

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

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$0

During the audit of the Cabinet for Health and Family Services (CHFS) Temporary Assistance for Needy Families (TANF) Program, member eligibility testing was performed. The TANF program is comprised of six federal assistance programs: Kentucky Transitional Assistance Program (K-TAP), Kentucky Works Program (KWP), Kinship Care Program (KC), Family Alternatives Diversion Program (FAD), WIN Program (Work Incentive), and Safety Net. CHFS Department of Community Based Services (DCBS) determines eligibility for each of these programs. As a part of TANF eligibility testing, the 60 month life time benefits rule for eligibility was also included in testing.

To ensure compliance with eligibility for the TANF program case files in 13 counties across five DCBS regions were selected for testing. Testing results indicated CHFS failed to be in compliance with federal regulations regarding member eligibility requirement. Furthermore, CHFS didn't maintain proper supporting documentation or authorizations at the local DCBS offices and/or Electronic Case File (ECF) system; thus no assurance can be achieved as to the adherence to proper eligibility determination by DCBS personnel. Testing results noted the following exceptions:

K-TAP - Two exceptions were noted due to missing documentation:

- Fayette Co: One was missing KIM 125 form.
- Hancock Co: One was missing updated signed KIM 125 form.

KWP - One exception was noted due to missing documentation:

- Jefferson Co: One participant was missing signed TAA form.

KC - Ten exceptions were noted due to missing documentation:

- Allen Co: One was missing Permanent Custody Order form.
- Fayette Co: Two were missing KIM-78KC forms, two were missing KC-01 forms, and one was missing Assignment of Rights form.
- Knox Co: One was missing KIM-125 form (not signed by worker), and one was missing permanent custody order form.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-055: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)

- Mercer Co: One was missing permanent custody order form.
- Ohio Co: One was missing Assignment of Rights form.

FAD - Three exceptions were noted due to missing documentation:

- McCracken Co: One participant's FA-01 form was not signed by the Supervisor.
- Wayne Co: Two participant's FA-01 form was not signed by the Supervisor.

WIN - Twelve exceptions were noted due to missing documentations:

- Casey Co: Two participants did not report employment information within required time period.
- Fayette Co: Three participants did not report employment information within required time period.
- Jefferson Co: Three participants did not report employment information within required time period, one was missing WIN form.
- Knox Co: One participant did not report employment information within required time period.
- McCracken Co: One was not eligible for WIN Case.
- Mercer Co: One was not eligible for WIN benefit.

60 Month life time Benefit - Eleven exceptions were noted due to missing documentation:

- Fayette Co: Five case files were missing review documentation before discontinued from K- TAP case after 60 month life time limit.
- Jefferson Co: Three case files were missing review documentation before discontinued from K- TAP case after 60 month life time limit.
- Knox Co: One case file was missing review documentation before discontinued from K- TAP case after 60 month life time limit.
- McCracken Co: Two case files were missing review documentation before discontinued from K- TAP case after 60 month life time limit.

CHFS failed to keep the required documentation to support and verify eligibility for individual TANF recipients. CHFS also failed to follow its rules and procedures outlined in the DCBS Operational Manual Volume I.

If DCBS does not maintain adequate case file documentation it cannot determine if recipients were eligible to receive benefit payments, in accordance with Federal regulations. Inadequate case documentation and improper eligibility determination procedures can lead to an increased risk of improper benefits being issued to ineligible recipients. There is an increased risk that errors or fraud may have occurred. The risk for fraud within these programs is significant because eligible recipients can receive cash assistance.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-055: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

In addition to the increased risk of fraud within the program, there is also the concern that recipients could get additional benefits that they are no longer eligible to receive. When case file documentation is missing there is a risk that individuals could reapply for benefits either before the required 24 month waiting period expires or apply for benefits more than twice in the beneficiary's lifetime.

As stipulated in 2 CFR Part 215, "The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements."

Federal Register ((64 FR 17825), 45 CFR section 263.2(b)(3)) states: Only a financially needy family that consists of, at a minimum, a minor child living with a parent or other caretaker relative, or a pregnant woman may receive TANF "assistance"... needy family or a needy parent is one who is financially eligible according to the State's quantified financial eligibility criteria (income and resource (if applicable) standards.

According to CHFS,DCBS Operational Manual Volume I:

The case record is the official document of the Department that establishes accountability for the expenditure of state and federal funds. Local management staff is responsible for ensuring case records are properly maintained, purged of obsolete material, and accessible to staff." Section MS 0030.

Hardcopy case records are required to be retained for a length of time specified by each program. With the implementation of the Electronic Case File (ECF), existing hardcopy case records are retained following normal purging procedures. Any form or verification scanned into ECF will become a permanent record Section MS 0040.

TANF has a required record retention of five years.

Recommendation

We recommend CHFS DCBS ensure all documentation required to support member eligibility determinations is obtained and maintained on file. Further, we recommend DCBS properly train staff to ensure eligibility determinations for TANF members are verified and substantiated by adequate supporting documentation.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-055: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)

Management’s Response and Corrective Action Plan

The Department for Community Based Services (DCBS) has reviewed the list of exceptions noted by the APA. The results of the review are as follows:

K-TAP – *DCBS disagrees with the exception for Fayette County, the case noted as missing a KIM-125 is a “W” case in which a KIM-125 is not required. A “W” case is a case in which both parents are in the home. Form KIM-125, NCP Fact/Information Sheet and Assignment of Rights (attached), is used to explain the Child Support Enforcement Program (CSE) rights and responsibilities of parents who apply for or receive Kentucky Transitional Assistance Program (K-TAP) benefits. The form is also used to assign the parent’s child support rights to the Cabinet. This form is only completed for absent parents so it is not necessary for “W” cases. We agree with the exception for Hancock County and are working with field staff to have the document signed and filed appropriately.*

KWP - *DCBS agrees with this exception. The case is currently inactive. Should the client be reapproved and again determined to be work eligible, a KW-202, Transitional Assistance Agreement (TAA) will be signed and filed appropriately.*

KC – *DCBS agrees with the exceptions noted and continues to work with field staff to locate the missing documentation or obtain updated documentation to scan into the Electronic Case File system (ECF). It should be noted that some of the missing documentation identified in this exception pre-dates the Department’s change to ECF. Not all historic eligibility documents could be scanned, and as such are kept in paper files in the county of application for the duration of the records retention period.*

FAD - *DCBS agrees with the McCracken and Wayne County exceptions noted regarding the unsigned FA-1s and are working with field staff to have the necessary documentation scanned into ECF.*

WIN - *DCBS agrees with the exceptions noted and are working with field staff to determine if a claim has been established or is needed on each of these cases.*

60 Month lifetime benefit - *DCBS agrees with the exceptions noted and are working with field staff to ensure the cases were reviewed properly and that the documentation is scanned into ECF.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-055: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

Management's Response and Corrective Action Plan (Continued)

The Division of Family Support (DFS) will work with the Division of Service Regions (DSR) and the regional Public Assistance Program Specialists to ensure that the exceptions identified are corrected and that the appropriate policy is reviewed with staff.

DFS issues instructional material to local field staff on a regular, on-going basis. Tips are posted weekly on the Kentucky Automated Management Eligibility System (KAMES) on various topics related to the proper application of policy and procedures. DFS has developed and will issue tips on a quarterly basis to remind staff of procedures outlined in Volume I, MS 0030 and MS 0040 to ensure information is available on proper maintenance of case files. Additionally, a Family Support Memorandum (FSM) is issued annually which provides information for properly maintaining case records.

DCBS is in the process of developing a new eligibility system. The TANF programs included in this review will be moved to this new eligibility system which, combined with the electronic case files, will help ensure that documentation is obtained and filed properly. DCBS anticipates applications to begin being processed on the new system in January of 2016.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-056: The Cabinet For Health and Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting Procedures

State Agency: Department for Community Based Services

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

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

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$0

The Title IV-E Foster Care and Adoption Assistance programs, operated by the Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS), did not have proper internal controls in place for reporting. Furthermore, the Foster Care and Adoption Assistance programs were not compliant with Federal Reporting guidelines. During the audit of both Foster Care and Adoption Assistance for the fiscal year ending June 30, 2014, Title IV-E Reports for the quarters ending 9/30/2013, 12/31/2013, 3/31/2014, and 6/30/2014 submitted to the federal government were reviewed.

The following exceptions were noted during review of the CB-496 Foster Care and Adoption Assistance report:

- Title IV-E report QE 9/30/2013 was not submitted timely to the federal government. The report was submitted on 11/12/2013, 12 days past the submission date.
- Title IV-E report QE 3/31/2014 was not submitted timely to the federal government. The report was submitted on 7/3/2014, 94 days past the submission date.
- Title IV-E report QE 6/30/2014 was not submitted timely to the federal government. The report was submitted on 8/5/2014, five days past the submission date.

DCBS employees responsible for preparing the CB-496 report for Foster Care and Adoption Assistance failed to report Title IV-E expenditures to the US Department of Health and Human Services in a timely fashion, thus increasing the risk of misstatements due to timing issues.

OMB No. 0970-0205 states:

This form must be submitted quarterly within 30 days of the end of each fiscal quarter, i.e., no later than January 30, April 30, July 30 and October 30, respectively. This report must be signed – either by hand or with an approved electronic signature - and dated at the end of Part 1 by the State or Tribe official responsible for the administration of the title IV-E program or other official responsible for the financial administration of these programs. The individual signing this report is certifying to the correctness and accuracy of the information on all Parts of this reporting form and on any accompanying documents and is certifying that any amount shown as the Tribe/State share of expenditures is or will be available to meet the non-Federal share of expenditures for the quarter indicated as prescribed by law.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-056: The Cabinet For Health and Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting Procedures (Continued)**

Good internal controls dictate that procedures are established to ensure that reports are submitted to the federal reporting entity accurately, and within required reporting deadlines. Personnel responsible for preparing and submitting the required federal reports should be knowledgeable of the deadlines and make every effort to comply with those deadlines.

Recommendation

We recommend CHFS DCBS review the reporting guidelines stated in OMB No. 0970-0205, making sure that all reports prepared by DCBS staff are reviewed and submitted in the required reporting time frame.

Management's Response and Corrective Action Plan

DCBS concurs that the reports that are in question were not timely. This was largely due to events (other than the biennial budget request preparation) that are non-recurring in nature, so this condition is not expected to recur. The September 2013 report was not timely due to preparation of the biennial budget request which involves the same staff ; the report for the subsequent quarter (December 2013) report was submitted timely.

With regard to the original March 2014 report, the adoption portion was timely but the Foster Care portion of the report was late due to DCBS staff awaiting guidance from the US Department of Health and Human Services in Atlanta on how to accurately report the disallowed costs from the Title IV-E review. Subsequently, the March 2014 reports were revised at the end of June; the US Department of Health and Human Services had to wait until the 7/1/2014 awards posted in order to enter the revised reports.

Finally, the June 2014 reports were not timely because DCBS DAFM staff had to revise seven prior quarters instead of reporting the prior quarter only. As a result of the adoption assistance finding from the SFY 2013 APA audit, DCBS completed a statewide review/cleanup of the eligibility for all adoptions subsidies. Prior to applying for a Title IV-E Waiver, it was necessary for DCBS to maximize the historical foster claiming. DCBS reviewed the eligibility determination practices to determine whether there were missing elements. DCBS then reviewed the non-eligible foster care cases to determine if any should have been eligible. Both the adoption and the foster care projects necessitated that all seven prior quarters be adjusted on the June 2014 federal reports.

In summary, DCBS concurs that three foster care and two adoption reports were not submitted timely. However, it should be noted that in each instance when a report was not going to be filed timely – and prior to the due date – DCBS staff notified the US

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-056: The Cabinet For Health and Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting Procedures (Continued)**

Management's Response and Corrective Action Plan (Continued)

Department of Health and Human Services when submission of a report was going to be delayed. The federal auditors in Atlanta understood the delay since DCBS staff made every effort to comply with the deadlines but circumstances beyond staff's control delayed the actual submission.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-057: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations

State Agency: Department for Medicaid Services

Federal Program: 93.767 – Children’s Health Insurance Program

93.775 – State Medicaid Fraud Control Units

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

93.778 – Medical Assistance Program

93.778 – ARRA – Medical Assistance Program

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

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$0

During the audit of the Cabinet for Health and Family Services (CHFS), member eligibility was tested for the Kentucky Children’s Health Insurance Program (KCHIP) and the Medical Assistance Program (MAP). The Department for Community Based Services (DCBS) has the responsibility for determining recipient eligibility, pursuant to the agreement with the Department for Medicaid Services (DMS).

To ensure compliance was achieved with respect to member eligibility guidelines, case files for KCHIP and MAP were examined. Testing determined that CHFS was not in compliance with federal regulations for member eligibility. Results of testing indicated case files did not contain sufficient supporting documentation for member eligibility performed by DCBS personnel. The following exceptions were noted:

MAP:

Twelve case files contained exceptions:

- Six case files did not have MA-2 forms and no signed applications on file for applicants applying via online.
- Two case files did not have documentation to support income verification.
- Two did not contain signed applications
- One case files did not have support for social security on file.
- One case file did not contain evidence to establish citizenship.

KCHIP:

Eleven case files contained exceptions:

- Each case file contained exceptions with sufficient documentation to support the member’s eligibility (did not have MA-2 forms)

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-057: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations (Continued)**

The MA-2 form is a critical component of the eligibility requirements member applicants are required to submit prior to receiving Medicaid or MAP assistance. The MA-2 spells out the penalties for providing false information to obtain Medicaid or KCHIP assistance. During the examination, it was noted that the MA-2 form was not available for online applicants/applicants using the portal. To be consistent and protect the Medicaid program, the MA-2 form should be available to all applicants regardless of the methods of applying for benefits.

DCBS did not provide online applicants the opportunity to complete the MA-2 Form, which warns applicants and spells out the penalties for knowingly providing false information to obtain Medicaid benefits.

In addition, the procedure for maintaining sufficient supporting eligibility determination and documentation was not adequately adhered to.

Failure to follow the procedure for maintaining sufficient supporting eligibility determinations and case documentation leads to ineffective internal control and non-compliance. Inadequate documentation procedures will subsequently, lead to an increased risk that benefits are being issued to ineligible recipients.

Further, failure to provide online/portal applicants the opportunity to complete the MA-2 Form, creates inconsistency and potentially affects the integrity of the Medicaid program.

42 CFR § 435.913 Case documentation states:

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

Good internal controls dictate that procedures are established to ensure that sufficient documentation is maintained in the case files to support eligibility decisions and assure compliance with eligibility requirements.

Recommendation

We recommend case files be maintained to adequately support applications, eligibility determination and case decisions. CHFS should work with DCBS staff to assist them in developing and maintaining an adequate file system.

Further, we recommend CHFS ensure all applicants for Medicaid/KCHIP are given the opportunity to complete the MA-2 Forms to protect the integrity of the Medicaid program.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-057: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations (Continued)**

Management's Response and Corrective Action Plan

Management agrees that all cases should contain sufficient documentation to establish eligibility. MA-2 issues are addressed below. As for the remaining missing documentation, the Department for Medicaid Services (DMS) will assist DCBS by reviewing all relevant policies for missing or incorrect information. DMS will also assist by developing a case audit plan performed by the DMS Eligibility Policy Branch. This plan will include at least quarterly meetings to discuss any findings or recommendations.

Management agrees that a signed MA-2 is important documentation. During the transition to on-line application capacity via KYNECT, DMS made every attempt to reduce hard copy forms. The MA-2 form is signed and present in all cases processed through the DCBS Worker Portal (WP) although the MA-2 form language was mistakenly left off of the self-service portal. This is being addressed utilizing a system fix and will be in place for Release 5 scheduled for release January 1, 2016. Until that time, DCBS will obtain a MA-2 using a manual process.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-058: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely**

State Agency: Department for Medicaid Services

Federal Program: 93.775 – Medicaid Fraud Control Units

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

93.778 – Medical Assistance Program

93.778-ARRA – Medical Assistance Program

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

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$0

The Kentucky Cabinet for Health and Family Services (CHFS) Department for Medicaid Services (DMS) did not comply with Federal regulations governing drug rebates. DMS provided drug utilization data including balances for both current and prior quarters to manufacturers as prescribed in Federal regulations; however, payment was not remitted to DMS by the pharmaceutical companies within the federally mandated time frame. This is a recurring finding

In a sample of ten pharmaceutical companies, six companies did not remit payment within 30 days as required. As of 02/24/15, DMS has not received rebate payments from these six pharmaceutical companies and are now 430 days overdue. It was noted that four companies remitted payment within two weeks of the allowable deadline.

If companies do not remit payment before the allowable deadline, a written notice of disputed items not paid as a result of discrepancies found is to be submitted. No written notices of disputed items were submitted by the six pharmaceutical companies.

Pharmaceutical companies did not follow the Federal regulations for the payment of rebates and submission of written disputes.

Failure of the pharmaceutical companies to remit Drug Rebate payments and/or written disputes in a timely manner caused the Commonwealth not to receive funds that was legally due and entitled by law. Without timely payment or written notice of disputed items, accounts receivable balances could potentially be inaccurately reported.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-058: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

42 USC 1396r-8 states:

Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to CMS of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on these data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data, including drug utilization data of those Medicaid beneficiaries enrolled in managed care organizations. Within 30 days of receipt of the utilization data from the State, the manufacturers are required to pay the rebate or provide the State with written notice of disputed items not paid because of discrepancies found.

Recommendation

We recommend DMS continue to submit drug utilization data to manufacturers as prescribed in Federal regulations and continue all efforts to pursue timely collection of drug rebates due to the Medicaid program. DMS may consider proposing as appropriate late fee/charges to influence the pharmaceutical companies to make timely payments. In addition, consideration should be given to include penalties/sanctions for non-compliance by pharmaceutical companies that fail to comply with this provision in the next contract.

Management's Response and Corrective Action Plan

The Department for Medicaid Services (DMS) continues to submit drug utilization data to manufacturers and to CMS, and pursues all reasonable efforts to pursue timely collection of drug rebates, as well as any applicable interest, through the DMS Pharmacy Benefit Management contractor.

Manufacturers are permitted 38 days from the invoice postmark date to postmark their payment to the Commonwealth. This allows them to have 30 days, accounting for mail time of the invoice. On day 39 the manufacturer becomes responsible for calculating interest and to pay that interest along with the principal amount due. However, late payments may not reflect interest due. When this is the case, interest as calculated is reported to the manufacturer through subsequent reports and prior quarter invoice statements.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-058: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

Management's Response and Corrective Action Plan (Continued)

The manufacturer may dispute all or some part of the invoiced amount. In this case, the manufacturer will notify the DMS pharmacy benefit manager (PBM) along with their payment or will advise the PBM if disputing the entire invoiced amount. Disputes of the entire invoice rarely occur regarding Fee-for-Service utilization. Once received, the PBM captures the number of disputed units per NDC (year quarter) as reported by the manufacturer for the purpose of reflecting this information in reports regarding outstanding balances, as well as, being reflected in prior period adjustment statements that go out with future invoices. A high percentage of manufacturers are registered with the PBM for use of the electronic invoice web solution. Through this web based system invoices can be retrieved and claim detail is provided. This allows manufacturers to load claim detail along with the invoice and run dispute unit algorithms.

By following the CMS best practice guidelines for dispute resolution, Kentucky's PBM works diligently to ensure invoices are as accurate as possible. The PBM also: (a) systematically converts billing units to rebate units using Point of Sale (POS) edits on quantities so that providers cannot bill for inaccurate or non-decimal units; (b) loads drug file updates bi-monthly to apply the most accurate information; (c) systematically removes non-rebateable products and claims from 340B providers; and (d) presents dispute findings to manufacturers in a timely fashion. However, despite all of this effort, it does not always translate to a manufacturer issuing a check to the Commonwealth.

All disputes as well as unpaid balances and applicable interest are reported to manufacturers quarterly on prior period adjustments. This information is delivered along with rate and utilization changes that result in open units or rebate over/underpayment. When disputes are received, the PBM will follow up with the manufacturer to work the dispute. This process involves providing claims and requesting the manufacturer identify those claims that they do not believe are valid. Using the manufacturer's provided documentation allows the rebate analysts to perform additional research, and after proper review make a determination of whether the manufacturer's concern is valid. If adjustments are warranted, the PBM will make those adjustments and the next prior period adjustments will reflect the change. If no change is warranted, the PBM will alert the manufacturer to the validity of the invoice and request submittal of payment in full.

In regards to late payments, interest is applied to disputed or unpaid amounts and late rebate payments. Interest begins accruing on disputed or unpaid amounts on the 39th calendar day from the postmark date of the invoice and utilization data. Unfortunately, states are largely at the mercy of the labelers who cannot be forced to pay. KY's PBM provides a recurring report to DMS on the 30th day after the invoices were postmarked to reflect manufacturers that have paid, those that have not, and the rebate dollars that have been collected. A report is also submitted to CMS indicating any labeler who has not submitted payment at all for two consecutive quarters.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-058: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

Management's Response and Corrective Action Plan (Continued)

The auditor recommends that DMS consider late fees, penalties, or other sanctions to influence manufacturers to make timely payments. However, the drug rebate program is administered by the Centers for Medicare & Medicaid Services', Center for Medicaid and State Operations (CMSO). The Medicaid Drug Rebate Program requires a drug manufacturer to enter into and have in effect a national rebate agreement with the Secretary of the Department of HHS. DMS is not a party to this agreement, and as such, has no authority to seek the addition of contractual language changes regarding penalties or sanctions. The only enforceable penalty at this time is the calculation of interest on late payments; and with the Treasury bill rates so low, this interest penalty does very little to encourage manufacturers to pay timely. Additional authority from HHS would be necessary to allow DMS to implement this recommendation.

However, in response to the concerns raised by the APA, DMS is prepared to explore options through the PBM to increase collection attempts on behalf of the Commonwealth; including: (a) sending additional late payment notices to manufacturers (although additional penalties cannot be included); (b) increasing the frequency of notices submitted to CMS regarding manufacturers that do not submit payment timely (quarterly); and (c) initiating requests for state hearings as allowed in the National Rebate Agreement. However, with respect to this last action, it should be approached with caution as it could result in hundreds of hearings for each invoice cycle; it cannot be initiated until payment is 60 days overdue; and, it does nothing to assure future compliance with the initial 30 day payment period.

DMS does enter into contractual arrangements with manufacturers through the National Medicaid Pooling Initiative (NMPI). This is a multi-state pooling agreement for the benefit of negotiating supplemental rebates. There is some provision for additional interest accrual on unpaid balances and DMS can use its discretion to either prefer or non-prefer products from manufacturers with a poor payment track record. DMS did not provide supplemental rebate information for the purpose of this audit. Nevertheless, DMS in good faith, will review the supplemental agreement contract to explore the addition of penalties and sanctions against untimely payments from manufacturers for the next contract renewal period.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-059: The Department Of Local Government Did Not Ensure The Audits Of Three Subrecipients Were Submitted Within Nine Months Of The End Of The Fiscal Year As Required By OMB Circular A-133**

State Agency: Department for Local Government

Federal Program: CFDA 14.228 – Community Development Block Grant

CFDA 14.255- ARRA Community Development Block Grant

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

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$0

As part of the audit of the Department of Local Government (DLG), subrecipient monitoring procedures were reviewed to determine compliance with monitoring requirements. The results of testing indicated three subrecipient A-133 audits were not submitted within nine months of the end of the fiscal year as required by OMB Circular A-133.

The Department for Local Government did not fully comply with the requirements of OMB Circular A-133 because they failed to obtain the needed A-133 subrecipient audits within nine months of the fiscal year end. DLG is not closely monitoring the receipt of subrecipient audits. Even though the pass-through entity and subrecipient are equally responsible for A-133 compliance, DLG has taken a somewhat passive approach related to some monitoring aspects related to subrecipient audits. They do send the subrecipients two reminder notices each year, rather than sending reminder notices more frequently, however no other procedures are in place to ensure receipt of the audits in a timely manner.

OMB Circular A-133 (§ ____.235(C)(1), § ____.400(d) and (§ ____.235) provide guidance over subrecipient monitoring activities.

The Circular assigns, among other items, a pass-through entity the responsibility for ensuring subrecipient A-133 audits are conducted and submitted when required. A pass-through entity is responsible for ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed and submitted within nine months of the end of the subrecipient's audit period; issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate actions using sanctions.

Good internal control dictates supporting documentation should be maintained to adequately document that subrecipient audits are conducted and submitted when required. All communications of those reports to the monitored entity and any follow-up should be noted and tracked.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-059: The Department Of Local Government Did Not Ensure The Audits Of Three Subrecipients Were Submitted Within Nine Months Of The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)

Recommendation

We recommend the Department for Local Government take steps to ensure that the required A-133 audits are completed within nine months of the end of the subrecipient's audit period. To ensure compliance with OMB Circular A-133, DLG should provide better monitoring of the subrecipients to ensure that entities receiving more than \$500,000 in federal funds are notified of the audit requirements, and that the required audits are completed within nine months of the end of the subrecipient's audit period.

Management's Response and Corrective Action Plan

DLG has given due thought and consideration to the comments set forth in the Record of Control Weakness and Record of Noncompliance regarding collection of subrecipient A-133 audits. While procedures for audit tracking is set forth in our Internal Control Plan and Risk Assessment, past procedures have been focused on the education of subrecipients regarding submission requirements rather than strong ("bird dog-type") enforcement. Although staff have reached out to subrecipients twice per year with reminders in addition to general education efforts, it is apparent a small percentage of subrecipients do not submit the required audits within 9 months of the end of the fiscal year. DLG's proposed Corrective Action Plan will be aggressive not just in the collection of audits, but collection of audits based on all federal funds administered by DLG and in a timely fashion. The plan's action items are ongoing but described below in chronological order during the calendar year beginning in January.

First Step:

*The first step proposed for the Corrective Action Plan is review of the Schedule of Expenditures of Federal Awards (SEFA) in **January** of each year. The SEFA lists all distributions of federal funds administered by DLG's Office of Federal Grants (CDBG, ARC, NSP, Recreational Trails Program and Land and Water Conservation Fund). The review at this point will include 6 months of expenditures, July 1 to December 31. Staff will select from the list all subrecipients that received \$250,000 or more in the 6 month period and add them to an **Audit Tracking Spreadsheet**. The Audit Tracking Spreadsheet is available to all staff electronically, read only. A hard copy is also provided in the file room. (The \$250,000 amount may be adjusted upward for FY16 when the minimum for A-133 audits increases.)*

Second Step:

*As a result of the SEFA analysis, DLG will send a letter, also in **January**, to the respective CEO (mayor or county judge/executive) and the certified CDBG administrator handling grants identified on DLG's Audit Tracking Spreadsheet. The letter will be a notification that a considerable amount of federal funds have been disbursed by DLG in the first half of the subject fiscal year. They will be advised the combination of those funds with other federal funds will*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-059: The Department Of Local Government Did Not Ensure The Audits Of Three Subrecipients Were Submitted Within Nine Months Of The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)**

Management's Response and Corrective Action Plan (Continued)

*likely trigger an A-133 audit, and said audit will be due within 9 months of the end of the fiscal year. This will be known as the **Early Audit Notification**. An email report of this activity will be sent to all DLG project advisers letting them know the letters have gone out with the Audit Tracking Spreadsheet attached. As project advisers, they have frequent phone/email and face to face contact with subrecipients and need to be kept apprised of audit status.*

Third Step:

*The third step will occur in April. It is issuance of a probable **Delinquency Notice**. This step deals with the fiscal year that ended 9 months prior. A formal letter will be sent in April, to the respective CEO (mayor or county judge/executive) and the certified CDBG administrator handling grants identified on DLG's Audit Tracking Spreadsheet. DLG will exercise due diligence in determining if the audit has been done prior to issuing a Delinquency Notice. The Spreadsheet data will be augmented with information from DLG's City's Branch. They require submission of city audits by February 10th each year. Consequently, if DLG has not received all city audits needed, staff will check with the City's Branch and determine if an audit has been received by them. Staff will also consult the State Auditor's website for needed county audits since audits are sometimes posted there before DLG receives a copy. Staff will also consult the Federal Audit Clearinghouse website in case an audit DLG has not received is posted there. The Delinquency Notice will state DLG expected an A-133 audit by March 31 but has not received it. Subrecipients will be given the opportunity to explain why one is not required or reason for the delay. The letter will advise the subrecipients of potential sanctions that may be imposed if the audit is not received forthwith. An email report of this activity will be sent to all DLG project advisers letting them know the letters have gone out with the Audit Tracking Spreadsheet attached. As project advisers, they have frequent phone/email and face to face contact with subrecipients and need to be kept apprised of audit status.*

Fourth Step:

*Step four will be similar to the first step but 2 pronged. First prong, in **July**, the SEFA will again be reviewed but at this time, staff will be looking at the disbursements for the past full fiscal year (July 1 to June 30). Staff will select from the list all subrecipients that received \$400,000 or more in the prior fiscal year and add them to the **Audit Tracking Spreadsheet**. Some subrecipients may already be on the Spreadsheet from the January review but others will not.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-059: The Department Of Local Government Did Not Ensure The Audits Of Three Subrecipients Were Submitted Within Nine Months Of The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)**

Management's Response and Corrective Action Plan (Continued)

*Second prong, (this is currently being done) an email will be issued to all CDBG certified administrators asking them to notify all their subrecipients advising them to report to DLG whether or not they expended the minimum amount of federal funds requiring an A-133 audit in the fiscal year just ending June 30. The reporting subrecipients will also be added to the **Audit Tracking Spreadsheet**. This effort should catch any subrecipients that did not appear on the SEFA for some reason. It should also pick up the subrecipients that exceeded the minimum via expenditure of federal funds DLG does not administer.*

Fifth Step:

*This action step will be similar to the second step. A formal letter will be sent in **August/September** to the respective CEO (mayor or county judge/executive) and the certified CDBG administrator handling grants identified on DLG's Audit Tracking Spreadsheet. The letter will be a notification that according to DLG records, either: **a)** a sufficient amount of federal funds have been disbursed by DLG to require an A-133 audit or **b)** the combination of those funds with other federal funds will likely trigger an A-133 audit, and said audit will be due within 9 months of the end of the fiscal year or March 31. This will be known as the **Fiscal Year End Notification**. An email report of this activity will be sent to all DLG project advisers letting them know the letters have gone out. The latest Audit Tracking Spreadsheet will be attached. As DLG project advisers, staff have frequent phone/email and face to face contact with subrecipients/certified administrators and need to be kept apprised of audit status.*

Sixth Step:

*This action step is currently done and will be continued. The process occurs upon review of the **Program Completion Report (PCR)** that all subrecipients submit prior to closeout. The PCR includes a page which lists CDBG expenditures per year and whether the subrecipient has exceeded the minimum of all federal funds for an A-133 audit. No grant is closed out until the A-133 requirement is met. Subrecipients with outstanding audits cannot submit another application for funding until the audit(s) are received, reviewed and accepted. Subrecipients will be tracked on the Audit Tracking Spreadsheet and sent a letter once a year until the audit(s) are received. Lack of an audit is also listed on the **Open Projects List** which all staff have access to.*

This six step action plan is very proactive and focuses on timeliness and tracking of all federal sources administered by DLG. The plan will be implemented by Mark Williams, Fiscal Officer and Lee Nalley, Administrative Specialist. Oversight will be provided by Lynn Littrell, Executive Director.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-059: The Department Of Local Government Did Not Ensure The Audits Of Three Subrecipients Were Submitted Within Nine Months Of The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)**

Management's Response and Corrective Action Plan (Continued)

In addition to this action plan, DLG will continue its current efforts to notify subrecipients of their audit obligations. Those current efforts specifically include the following:

- *Training of Certified Administrators on audit requirement via Certification and Re-Certification Training. A detailed session is conducted on audit requirements and how DLG tracks them.*
- *CDBG Handbook, Chapter 3-Financial Management, 4 pages of instruction on federal audit requirements, state audit requirements, the audit process, the audit report and submission requirements.*
- *Assurances signed by the CEO when application are submitted. (Assurance state that the applicant will comply with the regulations . . . and requirements of A-133 and the Common Rule.)*
- *Housing and Community Development Preliminary Approval Letters require CEO's commitment to A-133 audit requirements. The CEO must sign and return the commitment letter to DLG to accept the grant offer.*
- *The A-133 audit requirements are referenced in the Grant Agreement Document (contract) entered between the Commonwealth and the subrecipients. Signatures of the CEO's and legal counsel are required.*
- *The A-133 audit requirements are on the Grant Agreement Conference Checklist and fully discussed with Subrecipients and Certified Administrators. The CEO is required to attend and sign the Checklist.*
- *Audits are included on the Financial Monitoring Checklist used by staff when reviewing subrecipients on site. Each subrecipient is monitored at least once. For CDBG staff, audit policies are included in the Internal Control Plan and Risk Assessment document.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-060: The Department Of Military Affairs' Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed**

State Agency: Department of Military Affairs

Federal Program: 12.401 – National Guard Military Operations and Maintenance (O&M) Projects

Federal Agency: U.S. Department of Defense

Pass-Through Agency: Not Applicable

Compliance Area: Program Income

Amount of Questioned Costs: \$0

There are 54 armory locations in Kentucky with Installation Management Fund (IMF) accounts. IMF accounts are separate bank accounts managed by the armory manager where certain revenue, generally from renting the armory for special events and vending machines, is deposited. This revenue may be expended for repair and maintenance of the armory or another non-federally reimbursed building. Several issues were noted during the audit:

1. There were no annual audits conducted of the IMF bank accounts during fiscal year 2014. DMA Regulation 210-8, Installation Management Fund, is the policy manual, which was last updated in March 2006, provided to armory managers for managing the IMF accounts. The manual states the Director of Facilities will ensure an annual audit of all IMF local bank account records.
2. When the balance in the IMF local bank account exceeds \$300, the excess is required to be transferred to an Armory Installation specific IMF State Trust Fund Account for the armory. Five armories exceeded the \$300 at the beginning and end of the fiscal year and did not transfer any funds into the State Trust Fund Account. Thus, they were not in compliance with this requirement.
3. The manual states the Division of Facilities has direct functional and financial responsibility for managing the IMF accounts. Each month, the armory managers responsible for the IMF funds are supposed to submit a monthly report by the tenth day of the following month along with copies of receipts, rental agreements, cancelled checks, and the reconciled bank statement. In addition, a year-end report is prepared. During the audit, five IMF accounts were evaluated and the following were noted:
 - Various monthly reports, bank statements, and other support were missing from the folders maintained by the Division of Facilities.
 - Monthly reports were received after the submission deadline of 10 days after the end of the month.
 - There was no formal documentation of the review of the IMF monthly reports and supporting information by Division of Facilities personnel.
4. The year-end receipts and disbursements on the annual report for one of the IMF accounts did not agree to the total receipt and expenditure amounts based on the bank statements. The access database maintained by the Division of Facilities indicated \$270 more for receipts and expenditures than the total of all the bank statements for the year. This discrepancy was not noticed by the Division of Facilities when preparing the annual report.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-060: The Department Of Military Affairs' Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed (Continued)**

5. One IMF fund had a negative balance at June 30, 2014 due to an \$85 overdraft fee. Overdraft fees are not an allowable expense for IMF accounts. Also, any expenditure over \$50 requires prior approval from the adjutant general or his designated representative. The Division of Facilities did not address the overdraft charge or the lack of prior approval (the expenditure was over \$50) until January 2015. Since then, DMA has requested the IMF bank account at the armory be closed.

The Division of Facilities employee responsible for the IMF accounts left the position in FY 14; this resulted in other employees taking on this responsibility in addition to their other job duties.

The timing of the receipt by the armories of the bank statements may result in the delay in the preparation and submission of the monthly report, which the policy manual requires to be within 10 days, of the end of the month. The armories may not receive the statements until a week or more after the end of the month which allows little time for the report to be prepared and submitted.

The IMF account annual report from the access database and the bank statement total receipts and expenditures did not agree, three bank statements were not in the files in the Division of Facilities. The information in the access database may have been entered by an employee who left the position.

The IMF policy manual has not been updated in nine years and revisions may be needed.

Annual audits were not performed. This could result in errors and omissions occurring and remaining undetected. While not a substitute for an audit, a compensating control would be timely monthly financial reviews of the reports, bank statements, and supporting documentation. However, the Division of Facilities folders had missing reports, late reports, and missing documentation. This indicates the monthly financial reviews are not being performed timely.

Without timely monthly financial reviews, errors and omissions or even fraud could occur and remain undetected. Errors occurring and remaining undetected were noted during the audit, including the payment for an unallowable item (the bank overdraft fee) and a \$270 discrepancy between receipts and expenditures in the Division of Facilities database and the bank statements. The \$85 overdraft fee, which occurred in June 2014, was not addressed by the Division of Facilities until January 2015. The discrepancy with the year-end report was not noticed during the report preparation process.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-060: The Department Of Military Affairs' Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed (Continued)**

Further, by not indicating when the formal review of the required monthly documentation is complete, supervisory personnel and auditors cannot determine if the monthly information has been reviewed and determined to be complete and accurate by Division of Facilities personnel.

The IMF policy manual indicates transfers should be done monthly for amounts in excess of \$300. Some armories had beginning and ending balances above this amount and made no transfers to the Armory Installation specific IMF State Trust Fund Account. Thus, the armory did not comply with the policy manual and the information in the Division of Facilities files did not indicate contact with the armories regarding fund transfers.

Policy 210-8 Section II 4d. states the Facilities Director will, "Ensure all IMF Local Bank Account records be audited annually by a disinterested, qualified auditor and a record of this comprehensive audit maintained on file for statewide single audit purposes."

Overdraft fees are not allowable under KRS 36.086, which states, "The local installation management fund account shall be used for miscellaneous maintenance and repairs and other services and equipment expenses associated with routine armory operations." In addition, the IMF Policy manual Section 1 (3) (a) states "The funds received constitute Program Income under federal grant regulation 32 CFR 33 but are excepted from mandated federal procedures by Chapter 7, NGR 5-1 provided that these funds are used IAW 10 U.S.C. 18236(c) to maintain the Armory installation."

KRS 36.086 also states, "The adjutant general or his designated representative shall review at least annually each installation management fund account."

The policy manual states, "The Adjutant General (TAG), in accordance with KRS 36.086, has determined that deposited cash funds in excess of \$300 will be sent to the IMF Administrator/Financial Manager of Facilities Division, by check from the local bank account and deposited in the Armory Installation specific IMF State Trust Fund Account at the end of each calendar month."

Section VI – Reports of the policy manual states:

- a. A monthly report will be submitted to the Director of Facilities. The report will arrive no later than the tenth calendar day of the succeeding month unless otherwise approved by the Director of Facilities.
- b. The report will consist of one copy of AGO Ky Form 27-1 and supporting copies of AGO Ky Form 27-2, purchase receipts, appropriate copies of Rental Agreements, and any purchase approvals obtained. Separate copies of the 27-2 will be submitted for each transaction and entered on the AGO Ky Form 27-1. The bank statement (reconciled) for the reported period will be included along with all cancelled checks.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-060: The Department Of Military Affairs' Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed (Continued)**

- c. The Standard Voucher (AGO Ky Form 27-2) when used as a receipt record will have supporting documents attached (rental contracts, vending deposits, bank deposits, etc.). If multiple incomes make up a single deposit, each receipt must be documented separately on the AGO 27-2 Installation Management Fund Standard Voucher Form to show the makeup of the entire deposit. If supporting documentation is used in the previous report, reference only is required.
- d. The Standard Voucher (AGO Ky Form 27-2) when used as a disbursement record will have supporting documents attached (receipts, invoices, etc.). If supporting documentation used in previous report, reference only is required.

Recommendation

We recommend DMA:

- Obtain annual audits of all IMF funds or revise the policy manual which requires the audits.
- Ensure monthly review procedures include contacting armories if a balance transfer was needed and not made from the prior month. This would ensure funds above \$300 are transferred to the Armory Installation specific IMF State Trust Fund Account.
- Implement procedures to ensure monthly reports, bank statements, and other information is received timely and the review of the documentation by the Division of Facilities is performed timely. The hiring of an additional employee would assist in ensuring the responsibilities for the IMF accounts are met.
- Compare the total of the bank statements to the access database amounts during the review of the monthly report to ensure the accuracy of the year-end report.
- Review the policy manual to determine if the ten day timeframe for report submission or any other policies should be revised.
- Require the Division of Facilities personnel to sign (or initial) and date the monthly reports as evidence of review and acceptance of the report as complete, accurate, and allowable.
- Ensure the state is reimbursed for the \$85 in overdraft fees. IMF account monies are required to be used for the maintenance and repair of the armories.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-060: The Department Of Military Affairs' Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed (Continued)****Management's Response and Corrective Action Plan**

Management's goal for the internal control process within the Department of Military Affairs (DMA) for the IMF Program is to obtain reasonable assurance that program income is earned, recorded and used in accordance with KRS 36.086 and DMA Regulation 210-8. DMA concurs with the audit finding.

In 2013 and 2014, the DMA Facilities experienced the loss of three staff members who were directly involved in administration of the DMA IMF Program- the IMF Administrator, Section Supervisor and Administrative Branch Manager positions. The IMF Administrator position and Administrative Branch Manager positions have now been filled.

The recent addition of a new IMF Administrator will ensure the monthly programmatic financial review of the IMF accounts occur in a timely manner. These regular financial reviews of the IMF accounts will result in the identification/corrections of errors and identify any unusual transactions. In accordance with the auditor's recommendation DMA management is in the process of reviewing and revising DMA Regulation 210-8 which was last updated in 2006. During the 210-8 revision, the current annual audit of the all IMF accounts will be revised to an annual financial review of one-fourth of the total IMF bank accounts on a rotating basis in order to ensure all IMF accounts are reviewed on a minimum of every four years. The combination of the timely monthly programmatic financial reviews and the annual financial reviews per revised 210-8 will greatly enhance the detection of errors and omissions.

The second IMF issue concerning five armories which exceeded the \$300.00 limit for the local bank accounts at the fiscal year end resulted in part due to the year end 6/30/2014 bank statements not being received until ten days or later after the fiscal year close out of 6/30/2014. The delay in the bank statements being received did not allow time for the identification of the IMF account overages or the contact of the armory managers to request checks for the overage amounts to be deposited into the eMARS IMF accounts prior to the reporting of the state fiscal year end bank account balances. With the hiring of the new IMF Administrator, this position will ensure any overages in the local bank accounts are transferred to the state IMF Trust Fund within 15 business days from the receipt of the bank statement.

The third noted deficiency identifying that monthly IMF reports were received after the submission deadline of ten days after the end of the month was due in part as stated in the Cause and Effect section of the audit finding above that in many cases the armories did not receive their bank statements until a week or more after the end of the month. These delays in many cases do not allow time for the armory managers to create and submit the reports to DMA Facilities within the required ten days after the end of the month. In order to address this issue in

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-060: The Department Of Military Affairs' Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed (Continued)****Management's Response and Corrective Action Plan (Continued)**

the future, DMA is in the process of revising the DMA regulation 210-8 to instead require that the IMF reports be submitted by the fifteenth day of the month. DMA Facilities has implemented procedures to ensure monthly reports, bank statements and other information is received in a timely manner and the review of this documentation is performed on a timely basis. Included in these revised procedures is the requirement for the new IMF Administrator to send e-mail reminders to the armory managers when the reports are not received by the due date. DMA Facilities has ordered and received date stamps for the IMF Administrator to implement a new procedure that will document when the monthly IMF report and bank statements are received from the armory managers. Once the documentation has been reviewed and entered into the Access database they will be date stamped and initialed.

The personnel vacancies in the IMF program contributed to missing monthly reports, bank statements and other supporting documentation from the IMF folders since the e-mails and files of the IMF Administrator were no longer accessible after her departure from state government with no advance notice. Facilities' staff has been contacting armory managers to recover the missing information for the files.

The fourth issue which was identified in regards to the \$270.00 discrepancy between the IMF database and the bank statements for one IMF account was due to a data entry error by the IMF Administrator in the IMF Access database. The process of entering data into the IMF Access database has now been updated to require the IMF Administrator to notify the Administrative Branch Manager of any future discrepancies between the monthly bank statements and the Access database so errors are corrected in a timely manner. Greater oversight and monitoring of the local bank accounting transactional database will be immediately instituted by the Administrative Branch Manager along with an approval process requirement for adjustments to totals in this Access database.

The last issue regarding a negative bank balance at the state fiscal year end close and the \$85.00 overdraft fee has been addressed as DMA requiring the armory manager to submit a personal check to reimburse the IMF account for this unauthorized \$85.00 overdraft charge. A request was also sent to the armory manager to close the local IMF account due to the negative account balances and the overdraft fees.

In order to strengthen the IMF Program, DMA Facilities will send out an e-mail reminder to all of the armory managers no later than April 15 to allow for revised legislation impacting DMA Regulation 210- 8 to be passed. This e-mail will provide armory managers with a copy of the revised DMA regulation 210-8 governing the IMF Program, an updated IMF Training PowerPoint presentation and reminders of the armory manager's role in the department's policy regarding the administration and management of the IMF accounts.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-061: The Department Of Military Affairs' Work Order System Is Not Functioning Properly**

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401- National Guard Military Operations and Maintenance (O&M) Projects

Federal Agency: U.S. Department of Defense

Pass-Through Agency: Not Applicable

Compliance Area: Procurement and Suspension and Debarment

Amount of Questioned Costs: \$0

The Department for Military Affairs (DMA) uses a program known as PRIDE (Planning Resource for Infrastructure Development and Evaluation) for armories around the state to request services/projects, or work orders, for maintaining and repairing buildings, roads, and grounds at the armories. The requests can be for small items such as repair of a light, to larger projects such as installation of perimeter fencing. After a work order requesting service is submitted, a technician performs the service and submits invoices and comments on the actions taken. When authorizing the work to be performed, DMA personnel enter the appropriate funding split in PRIDE. After the work is completed, any invoices are reviewed for accuracy and correct accounting. Payment of any invoices is made through eMARS (the state's accounting system) with the work order as supporting documentation. The following issues were noted:

1. Projects were not properly recorded in PRIDE (the work order system):
 - One project was not entered into PRIDE and the cause is not known.
 - One project was completed and should have been retired in PRIDE, but was not.
 - Two projects were not entered into the PRIDE system because PRIDE was shutdown and not operating for a month. A spreadsheet was used as an alternative to record work orders during this timeframe. After PRIDE functioning was restored, the work orders on the spreadsheet could not be entered into PRIDE for tracking purposes due to system limitations. Once the work orders were completed, the spreadsheet was not maintained, so any work performed during this month cannot be verified.
2. Two projects were completed prior to being entered into PRIDE. The projects may have been related to an emergency situation; however, there is no documentation that an emergency occurred.
3. It could not be determined if projects were approved prior to the start of work.
 - There is no method to verify approvals were obtained prior to work beginning on the projects not entered into PRIDE, as described above.
 - It could not be determined if projects were approved prior to the start of work in one situation due to the work order pre-dating PRIDE. One project relating to three payments was issued under the old system. When PRIDE went into operation, work orders under the old system were lost and generally not re-entered into PRIDE. The projects done in house, not at the armories were not re-entered into PRIDE if a work order number had already been assigned under the old system.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-061: The Department Of Military Affairs' Work Order System Is Not Functioning Properly (Continued)**

4. The PRIDE system does not have a way for a supervisor to review or approve the service request. The employee responsible for entering work orders into PRIDE approves the requests either verbally or through the PRIDE system, but there is no requirement for the employee's supervisor to review or approve service requests, regardless of the estimated repair cost.

The PRIDE system does not contain all the work orders which hinders DMA's ability to monitor activities and project progress. Service requests not recorded in PRIDE, possibly started prior to approval, and lack of documentation for approval result in an inadequate and inefficient work order process. This deprives DMA of many of the potential benefits from a work order system.

Expenditures for service requests were made without the service request being entered and tracked in PRIDE. The audit trail of documentation for expenditures associated with work orders, and thus proper funding splits in PRIDE, is not complete due to the work orders not in the system.

Good internal controls dictate that all service requests should be tracked to enable DMA to monitor the progress and the overall cost of the service request. Also, a formal process of documenting the approval of projects over a certain dollar limit provides security that only appropriate service requests are approved.

Recommendation

We recommend:

- DMA proceed with the plan to replace PRIDE. If this becomes impractical, internal controls should be implemented to address the shortcomings of the system.
- DMA ensure all service requests are entered into PRIDE or tracked separately if this is not possible. If PRIDE is not functioning and a spreadsheet is used for work order approval and tracking, the spreadsheet should be maintained.
- If an emergency situation occurs and work is needed without an approval or entry into PRIDE, DMA should document the expenditure was related to an emergency on the invoice or other supporting documentation.
- Written policies be created detailing when review and approval of work orders is needed (for example, over a specified dollar level).

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-061: The Department Of Military Affairs' Work Order System Is Not Functioning Properly (Continued)**

Management's Response and Corrective Action Plan

DMA management concurs with the audit finding detailing the deficiencies within the PRIDE work order system and the need to replace this system. DMA Facilities agrees the PRIDE work order system needs to be replaced. The PRIDE system is software which is operated from a national database through the National Guard Bureau and is very cumbersome, slow in processing time and very unstable. There have been occasions in the past few years where this software has not been operational with the longest period being for a two month time frame. The Federal Maintenance and Operations Division are required to input projects into PRIDE so they can receive funding.

DMA Facilities is presently researching the implementation of a new work order system which is available through a state price contract. Currently, other Commonwealth of Kentucky state agencies are using versions of this proposed new work order system. DMA believes implementation of a new system will address all of the issues listed in this audit finding. A new work order system would enable Facilities staff to enter work orders into the system in a timely manner and also track the required approval levels along with the status of each project.

DMA Facilities agrees that there are some projects being completed before they are entered into PRIDE and it is not possible to get prior approvals. With the limited operational capability of the PRIDE system, it is not possible to enter projects in a timely manner. Budget reductions have resulted in limited staffing and minimized trips that are made to each DMA facility statewide contributes to the inability to enter all projects into PRIDE before they are performed. Facilities' management encourages the maintenance staff to repair any items that can be repaired when on site. The Armory managers are Federal employees and therefore do not see the importance of entering work order requests into PRIDE. In cases of emergency repairs which are usually HVAC or safety related repairs, it is not feasible to have a work order entered prior to the work being performed. The Facilities maintenance staff receives invoices/receipts and attaches appropriate e-mail documentation noting the emergency repairs.

The PRIDE system doesn't have a mechanism for supervisors to approve work requests. Only the following three individuals can approve the funding sources for the work orders: Director, Assistant Director and Administrative Branch Manager of the Maintenance Section. The funding approval is verbally obtained during a discussion before any work is performed to determine what budget is available. This verbal approval is given to the Work Order Administrator who approves the request in PRIDE. Any project that exceeds the estimate on the request has to have the estimated price changed prior to the start of the project. Projects are all entered in the system as unfunded requirements and as funds become available, the status of the priority projects are revised to funded requests. The maintenance staff also has a limited amount they

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-061: The Department of Military Affairs' Work Order System Is Not Functioning Properly (Continued)**

Management's Response and Corrective Action Plan (Continued)

can spend on ProCard which has to be reviewed and approved by their supervisor. All contracts and ProCard expenditures are reviewed and approved through eMARS or the J.P Morgan card management system.

Written procedures are in the process of being created to document the review and approval process. These procedures will also detail measures to be taken during system outages.

During system outages, a spreadsheet will be used to track date, location, POC, issue, approver and status of work orders. Information being sent via e-mail will be maintained in folders for building level tracking, progress and approvals. The spreadsheets and documentation will be maintained with the information being entered into the system once it is restored.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-062: The Department Of Military Affairs Did Not Use The AGO Installation Contingency Fund Bank Account For Its Intended Purpose**

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401- National Guard Military Operations and Maintenance (O&M) Projects

Federal Agency: U.S. Department of Defense

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed and Program Income

Amount of Questioned Costs: \$0

During the Department of Military Affairs (DMA) audit of the National Guard Military Operations and Maintenance (O&M) Projects grant, the Installation Management Fund (IMF) accounts were reviewed. IMF accounts are separate bank accounts where revenue, generally from renting the armory for special events and vending machines, is deposited. This revenue is expended for armory repair and maintenance. However, during this review another account titled the AGO (Adjutant General Organizational) Installation Contingency Fund was identified as an IMF account. According to DMA, this account only includes deposits from employee sponsored activities for the Boone National Guard Center including Christmas party, golf scramble, and fishing and dunking booth receipts.

It is difficult to determine if all of the funds in this account relate to the employee activities for the following reasons:

- Closing package form 10A Cash Worksheet Private Cash Accounts included the ending balance of \$12,989 in the AGO account to the Finance and Administration Cabinet (FAC) for inclusion in the state's Comprehensive Annual Financial Report (CAFR), thereby reporting these funds as public funds.
- Form DOA-54 Request for Approval of Bank Account was filed with the FAC in April 2005 for the AGO account. Funds for private purposes should not be maintained in state bank accounts.
- The AGO Installation Contingency Fund bank account is associated with the state's Federal Employer Identification Number (FEIN).
- The FY14 detailed list of external bank accounts maintained by FAC indicated the purpose of the AGO Installation Contingency Fund as an Installation Management Fund.
- The bank statements are received at the Boone National Guard Center location.
- The activity for this account does not run through eMARS or the State Treasury, and payments from this account are made with a separate bank account. DMA does not maintain detailed receipts and disbursement ledgers for this account, and therefore auditors were unable to verify the source and use of funds.

The purpose of the bank account was listed as an IMF account. Based on DMA's response about the usage of the account to sponsor employee events, the purpose of the account appears to have changed over time.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-062: The Department Of Military Affairs Did Not Use The AGO Installation Contingency Fund Bank Account For Its Intended Purpose (Continued)**

Public and private funds should not be commingled. As noted above, due to the lack of details available for this account, it is impossible to determine if public and private funds were commingled in this account in the past.

It is not appropriate to have a bank account using the state's FEIN and reporting the cash on the state's financial statements is a misstatement if the money does not belong to the state. Only funds belonging to the state should be reported on the CAFR. The beginning account balance was \$10,745 with \$5,612 in receipts and \$3,368 in expenditures; this leaves an ending balance of \$12,989. If the balance in this account is entirely private funds for private purposes, the state's FY14 financial statements are overstated by \$12,989. However, given the lack of sufficient details, it was not possible to determine that the ending balance is not made up in part by state funds.

There are specific regulations for state funds related to IMF accounts. Notwithstanding KRS 41.070 and 45A.655, KRS 36.086 authorizes each Armory installation to have a local bank account to receive funds from operations such as armory rentals and vending. In section 3, the KRS states, "The local installation management fund account shall be used for miscellaneous maintenance and repairs and other services and equipment expenses associated with routine armory operations." The AGO Installation Contingency Fund receipts and disbursements are not used for this purpose, thus DMA is not in compliance with the KRS.

Recommendation

- A review of the AGO Installation Contingency Fund account since inception to determine if any public and private funds were commingled.
- The current account be closed. Any private funds associated with the account should be moved to a private account, without utilizing the state's FEIN number.
- Any public funds associated with the account be moved into a valid IMF account.
- DMA should refrain from reporting any private funds in the closing package submitted to FAC for inclusion in the CAFR.

Management's Response and Corrective Action Plan

DMA concurs with the audit finding. This AGO account was inadvertently established using the state FEIN therefore resulting in reporting on the CAFR. The purpose of the account establishment was to maintain funding received from federal/state employee activities in order to sponsor federal/state employee events.

DMA Internal Auditor will do a complete financial review of this account. During this review, all funds will be analyzed to determine funding source. Once the funding source has been determined then the funds will be transferred to an appropriate account.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-062: The Department Of Military Affairs Did Not Use The AGO Installation Contingency Fund Bank Account For Its Intended Purpose (Continued)**

Management's Response and Corrective Action Plan (Continued)

Account establishment will be determined once the funding sources have been identified. Any private account established will not be associated with the state FEIN and it will be maintained by DMA Facilities staff. Written procedures are being compiled to detail the oversight of this private account. In the future, DMA will not report any account not established with the state FEIN in the closing package submitted to the Finance Cabinet for inclusion in the CAFR.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-063: The Department For Workforce Investment Failed To Return Refunded Overpayments To The Federal Government Timely**

State Agency: Department for Workforce Investment

Federal Program: CFDA 17.225 – Unemployment Insurance

CFDA 17.225 – ARRA Unemployment Insurance

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Cash Management

Amount of Questioned Costs: \$0

The Department for Workforce Investment (DWI) failed to comply with the Cash Management Improvement Act (CMIA) agreement between the Commonwealth of Kentucky and U.S. Department of the Treasury by not returning monies refunded through collection of benefit overpayments to the federal government as required. From March 2011 through July 2014, DWI collected \$3,144,791 in refunded overpayments from program recipients. Instead of being returned to the federal government, collected overpayments were tracked by the applicable federal program and deposited into the benefit account to be used to pay regular benefits. In September 2014, DWI identified they had not been reverting overpayments collected back to the federal government timely and implemented corrective action to become compliant with federal requirements.

DWI was unaware of federal requirements related to the timing of returning collected overpayments to the federal government, and operated under the belief that overpayments received would be returned once a federal program was closed and the funds were requested by the federal government.

DWI received the benefit of paying less interest by retaining the collected overpayments and borrowing fewer Federal Unemployment Account (FUA) funds. DWI submitted a spreadsheet documenting the three federal programs and the overpayments collected for each to the federal government. The federal government applied the daily FUA interest rate to these amounts as additional money would have been borrowed if these repayments for closed programs had not been available. The application of the FUA interest rate resulted in the potential for \$56,050 of interest being due to the federal government.

As of September 2014, DWI has paid both the delinquent overpayments and the interest due to FUA based on the amount of overpayments retained. Beginning in October 2014, DWI is now submitting overpayments to the federal government on a monthly basis for the three closed programs.

Per 31 CFR 205.15, (b) Refunds (1), “A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.”

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-063: The Department For Workforce Investment Failed To Return Refunded Overpayments To The Federal Government Timely (Continued)**

Per the Treasury-State Agreement, section 8.4.1, “The State shall be liable for interest on refunds from the date the refund is credited to the State account until the date the refund is debited from the State account for program purposes.”

Additionally, section 8.4.2 of the Treasury-State Agreement identifies, “For each refund, the State shall maintain information identifying: (1) date a refund is credited to a State account, (2) date of the subsequent deposit of Federal funds against which the refund is offset, (3) amount of the refund.”

Recommendation

We recommend DWI document the process for handling overpayments and continue tracking and submitting refunded overpayments to the federal government on a monthly basis for closed federal programs in order to limit the interest liability owed to the federal government.

Management’s Response and Corrective Action Plan

In August OET received an email from US DOL requesting to be carbon copied on all emails to US Treasury regarding federal overpayment recoveries that had been returned to the FAUC program. When we realized we needed to return FAUC money after closing in 2011, we also evaluated the other 2 known closed federal programs, EB and EUC08. There were multiple internal meetings as well as external conference conversations with US DOL and US Treasury to inquire about correcting the issue and the process going forward.

Within 1 month of learning of the agency federal non-compliance issue, our books were reconciled and OET sent US Treasury a spreadsheet showing daily overpayments recovered in closed federal programs for interest application. US Treasury charged interest from FFY11 through FFY13 in the amount of \$14,084.75. On the US Treasury interest spreadsheet provided to the auditors, there were 2 interest figures at the bottom, a total interest amount including FFY14 and the other excluding FFY14. The \$56,050 “Effect” amount includes all federal fiscal years HAD we been charged for FFY14, but that is not the real figure. Therefore, we were not charged interest in FFY14 because we were still in compliance with FFY14 requirements.

Going forward, after speaking to US Treasury, they expressed there isn’t consistency amongst the states in the return of federal overpayments. Some states return money monthly, quarterly, annually and some not at all. OET has chosen to use monthly reconciled figures in our federal overpayment recovery process for accuracy and timeliness of recovery returns. This process is also documented in the Trust Fund area handbook.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-063: The Department For Workforce Investment Failed To Return Refunded Overpayments To The Federal Government Timely (Continued)**

Auditor's Reply

The time period under audit included state fiscal year 2014, which runs from July 1, 2013 through June 30, 2014, and does not directly coincide with the federal fiscal year (FFY) identified in management's response. During the period under audit, DWI did accrue an interest liability due to the federal government, and as acknowledged in management's response, a federal non-compliance did occur.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-064: The Department For Workforce Investment Failed To Implement Adequate Internal Controls Over The Approval And Maintenance Of Timesheets

State Agency: Department of Workforce Investment

Federal Program: CFDA 17.225 – Unemployment Insurance

CFDA 17.225 – ARRA Unemployment Insurance

CFDA 17.207 – Employment Service/Wagner-Peyser Funded Activities

CFDA 17.801 – Disable Veterans’ Outreach Program (DVOP)

CFDA 17.804 – Local Veterans’ Employment Representative Program

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

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

Amount of Questioned Costs: \$0

The Department for Workforce Investment (DWI) failed to implement adequate internal controls over the approval and maintenance of payroll documentation. During fiscal year 2014, testing identified 11 instances where timesheets lacked a supervisor’s approval signature and one instance where the original signed timesheet could not be located.

DWI regional managers failed to return signed copies of timesheets to regional timekeepers who are responsible for entering timesheet data into the Kentucky Human Resource Information System (KHRIS). DWI does not maintain a central repository to maintain approved timesheets beyond the paper file in each regional timekeeper’s office. Additionally, when there is a change in timekeeper, there is not a policy or procedure in place to ensure all files are transferred to the new timekeeper. Failure to maintain supporting documentation and ensure timesheets are approved leaves DWI assets vulnerable to fraud, waste, and abuse as employee time is not validated to confirm completeness and accuracy.

Sound internal controls dictate charges related to time and attendance be supported by adequate documentation, including timesheets or timecards signed by the employee and supervisor, which substantiates the hours and time worked by each employee.

Recommendation

We recommend DWI review established policies and procedures and strengthen internal controls over the payroll process to ensure all timesheets are signed and approved by a supervisor to validate all payroll charges. Additionally, DWI should strengthen internal controls over the maintenance of original timesheet documentation to ensure they are not lost or misplaced in accordance with the Commonwealth’s records retention requirements.

Management’s Response and Corrective Action Plan

The Office of Employment & Training (OET) will develop and issue guidance and provide all necessary oversight to ensure that proper controls are in place for approving and signing of timesheets as well as retention of timesheets.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-065: The Department For Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place To Monitor Subrecipients And Communicate Identified Instances Of Non-Compliance

State Agency: Department for Workforce Investment

Federal Program: CFDA 17.258 – WIA Adult Program

CFDA 17.259 – WIA Youth Activities

CFDA 17.278 – WIA Dislocated Worker Formula Grants

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles and Subrecipient Monitoring

Amount of Questioned Costs: \$798

The Department for Workforce Investment (DWI) failed to ensure adequate internal controls were in place to monitor subrecipients and communicate identified instances of non-compliance. During fiscal year 2014, review of draft on-site monitoring reports identified unallowable costs at two Local Workforce Investment Area (LWIA) offices that were removed from the final draft monitoring reports without adequate justification. DWI is responsible for monitoring the LWIAs use of federal awards, conducting on-site monitoring visits to the LWIA offices, and preparing reports summarizing instances of noncompliance noted during monitoring site visits.

The following identified unallowable costs were removed from final draft on-site monitoring reports without sufficient justification:

- The Eastern Kentucky Concentrated Employment Program (EKCEP) draft on-site monitoring report dated May 15, 2014 identified, “During the review of expenditures for EKCEP, the monitors detected two (2) purchases for meals that were reimbursed through Federal funds. Supporting documentation did not indicate that these costs were incurred as a result of a conference or a meeting with the primary purpose of the dissemination of technical information. EKCEP must reimburse the grants from a non-federal source in the amount of \$473.”
- The TENCO draft on-site monitoring report dated April 2, 2014 identified, “On August 31, 2013 TENCO spent \$325 on food for the Workforce Investment Board (WIB) meeting. However, it is the stance of the monitoring team that regular board meetings do not fit into this criterion and thus this change falls into the “Entertainment” portion of the law. Meeting minutes show that a quorum was not present and the information disseminated was routine WIB business. The Buffalo Trace Area Development District must reimburse \$325 cost of the caterers from non federal funds. In the future if the WIB wants to provide food for its meetings they should seek non federal funds source to cover the costs.”

DWI deemed the utilization of federal funds to purchase food for board meetings as allowable based on 2 CFR 225, Appendix B, section 27, which states “Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-065: The Department For Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place To Monitor Subrecipients And Communicate Identified Instances Of Non-Compliance (Continued)**

This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences." Draft on-site monitoring reports explicitly indicated that these costs did not fall into this category as technical information was not disseminated and the meetings were routine in nature.

Management's decision to exclude financial findings identifying unallowable costs from final monitoring reports provides incomplete information to DWI's federal awarding agency. Failure to report valid issues discovered by local office monitors may create an environment where similar future instances are left unreported.

2 CFR 225 Appendix B, section 14 states: "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable."

20 CFR 667, Subpart D, section 400(c)(1) states: "Each recipient and subrecipient must continuously monitor grant-supported activities in accordance with the uniform administrative requirements at 29 CFR parts 95 and 97, as applicable, including the applicable cost principles indicated at 29 CFR 97.22(b) or 29 CFR 95.27, for all entities receiving WIA title I funds. For governmental units, the applicable requirements are at 29 CFR part 97."

Recommendation

DWI should maintain adequate supporting documentation and justification within its workpapers for findings initially reported yet removed from the final version of monitoring reports. Additionally, DWI should consult with its federal awarding agency in unfamiliar circumstances to determine if an activity is allowable when guidance is unclear.

Management's Response and Corrective Action Plan

It is the practice of the Office of Employment and Training (OET) monitoring team while conducting a monitoring/ compliance visit to make note of items which the monitors find to be issues of concern. These issues of concern are placed into a draft monitoring report and shared with agency and Cabinet leadership. Agency and Cabinet leadership meet with the monitoring team to review and discuss the report. This review process was created and is sustained today for several reasons:

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-065: The Department For Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place To Monitor Subrecipients And Communicate Identified Instances Of Non-Compliance (Continued)**

Management's Response and Corrective Action Plan (Continued)

(1) During 2012 the agency began an overhaul of its monitoring tool. The monitoring season that occurred in fall 2012 and spring 2013 was the first period where the new tool was utilized. By meeting with agency leadership to review each monitoring report, it provided ample opportunity for continued staff development around the new tool. After the first year with the new tool, the team based approach to monitoring was viewed as a positive experience by all involved and it was decided that the approach would continue as long as it proved beneficial to the process.

(2) Consistency is promoted when a team reviews the monitoring reports.

(3) It is intended that the commitment to an informed and transparent monitoring process is evident by leadership's involvement.

(4) The Office of Employment & Training has experienced significant staff turnover on the monitoring team and, at this time, does not have the ability to replace those staff. Therefore, it is necessary from a practical standpoint that additional staff assist with monitoring efforts.

The Office of Employment & Training defines a "finding" as a violation of federal law, regulation, state law, state regulation, agency policy or local workforce investment area policy. Often there is evidence to support that a violation has occurred. In those instances where a violation has occurred, such violation is identified as a "finding" and appropriate recourse is prescribed to the local workforce investment area through the monitoring report. The report, additionally, outlines a timeframe by which the corrective action must be completed and states how the agency will review that the corrective action has occurred.

There are instances where initially it is believed that a violation has occurred, but through further research or discussion, it is deemed to not be a violation. Such a determination is never based on the opinion of any one reviewer, but is, in fact, based on the ability to identify that a law, regulation or policy has been violated. It has occurred that the monitoring process informs OET of areas where it needs to set or update policy.

It is the practice of the monitoring team to identify issues or potential issues as "discussion points" until such time as adequate research and review has occurred to, without question, identify the issue as a "finding." Such practice is documented in workpapers maintained by the monitoring team. Notes are maintained from each review meeting identifying who participated in the discussion as well as the decisions that were made. Draft versions of the report are maintained electronically and in hard copy. No document is labeled "final" until it is determined to be "final."

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-065: The Department For Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place To Monitor Subrecipients And Communicate Identified Instances Of Non-Compliance (Continued)**

Management's Response and Corrective Action Plan (Continued)

The Office of Employment & Training has taken action to train local investment workforce areas regarding the allowability (or not) of food at meetings when such food is paid with federal funds. In September 2014 we provided training regarding the rules set forth in the Omni Circular, and issued follow-up guidelines in December 2014. Moving forward, we will take action to develop and issue any additionally warranted WIOA compliant policy to the local workforce areas on this topic. Such policy will be developed and issued by July 1, 2015.

Auditor's Reply

During the audit, we requested supporting documentation to help further validate the removal of findings from draft reports; however, no further documentation was provided. We would like to reiterate that DWI ensure adequate documentation justifying the removal of findings be maintained to help support any decisions made.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-066: The Kentucky Transportation Cabinet Failed To Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning and Construction

CFDA 20.205 – ARRA- Highway Planning and Construction

CFDA 20.219 – Recreational Trails Program

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests & Provisions

Amount of Questioned Costs: \$0

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

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

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

The failure to ensure the approved VE recommendations are incorporated into the project plans, specifications, and estimates negates the purpose of the VE analyses. During the FY 2014, proposed recommendations for two of the design changes included a total of \$47,952,000 in estimated savings. Therefore, failure to monitor the approval/denial and the implementation of the VE recommendations could result in the Commonwealth of Kentucky overspending by as much as \$47,952,000 for the two projects.

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

Recommendation

KYTC should ensure the implementation of policies and procedures requiring the subsequent review and monitoring of recommendations resulting from VE analyses. The policies and procedures should include the designation of a person or committee to be responsible for the approval and monitoring of VE recommendations. The results of the VE recommendation evaluation should be formally documented. Furthermore, the responsible individual or committee should ensure that all approved VE recommendations are incorporated into project plans, specifications, and estimates.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-066: The Kentucky Transportation Cabinet Failed To Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations (Continued)**

Management's Response and Corrective Action Plan

The Office of Project Development appreciates the opportunity to find ways to improve upon our ability to deliver KYTC's Construction Program directed by the General Assembly through the biennial budget process. Value Engineering, administered through the Division of Highway Design is a tool in our process that looks for ways to improve value for the investment being made in the transportation system. After years of work by project teams, a fresh set of eyes may find improved value through cost saving measures, improvements to safety, improvements to operational needs, or even long term maintenance efficiencies as examples. The VE process recommends multiple suggestions through this quick look but only a few may be adopted for various important reasons such as a potential change in environmental impacts that may violate federal law, not meeting the purpose and need of the project, legislative mandate, or utilizing non-standard KYTC construction specifications to name a few. With those recommendations that are adopted, our Quality Assurance Branch within the Division of Highway Design has developed a new process to track the implementation of those. Below, to the left, is the previous process for post VE study monitoring. To the right is the new process that is currently being developed and implemented.

Continued on next page.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-066: The Kentucky Transportation Cabinet Failed To Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations (Continued)****Management’s Response and Corrective Action Plan (Continued)**

<i>Previous</i>	<i>New</i>
<i>Complete VE Study</i>	<i>Complete VE Study</i>
<i>Develop Punch List</i>	<i>Develop Punch List</i>
<i>Hold Implementation Meeting</i>	<i>Hold Implementation Meeting</i>
<i>Document decisions on Punch List</i>	<i>Document decisions on Punch List</i>
<i>Place Punch List in Quality Assurance PW folder</i>	<i>Place Punch List in PW project folder</i>
	<i>PM updates Punch List as items “under consideration” are</i>
	<i>VE Coordinator annual reviews Punch Lists with outstanding</i>
	<i>VE Coordinator updates VE database to reflect changes.</i>

To help accomplish this, the VE database is being modified to create a report that will help the VE Coordinator identify projects that need follow through on documenting the final decisions. Additionally, the rewrite of the Design Guidance Manual will contain language to reflect this new process. This rewrite is currently underway.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-067: The Kentucky Transportation Cabinet Failed To Perform Quality Assurance Reviews Of Each District Offices' Procedures For Property Acquisitions**

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning and Construction

CFDA 20.205 – ARRA Highway Planning and Construction

CFDA 20.219 – Recreational Trails Program

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests & Provisions

Amount of Questioned Costs: \$0

During the fiscal year (FY) 2014, the Kentucky Transportation Cabinet's (KYTC) Division of Right of Way and Utilities failed to schedule and perform the required quality assurance reviews of the various district office operating procedures. As stated in KYTC's *Right of Way Guidance Manual*, "The Central Office right-of-way staff members are to periodically review district office operating procedures to promote and ensure quality assurance of the acquisition process and compliance with *The Uniform Act*."

KYTC does not have effective internal controls in place to ensure the required quality assurance reviews are conducted in accordance with the Code of Federal Regulations (CFR), KYTC guidelines, and that the resulting review reports are submitted to the director of the Division of Right of Way and Utilities.

The failure by KYTC to conduct quality assurance reviews of right of way programs for the various district offices may lead to the oversight of established policies and procedures for right-of-way acquisitions.

In accordance with the CFR, Title 23, Part 637.207 Quality Assurance Program, each state transportation department's quality assurance program shall provide for an acceptance program and an independent assurance program, which shall consist of frequency guide schedules for verification sampling and testing which will give general guidance to personnel responsible for the program and allow adaptation to specific project conditions and needs. In addition, the independent assurance program is required to include a schedule of frequency for independent assurance evaluation.

KYTC's Right of Way Guidance Manual, section 1405 Quality Assurance Reviews (ROW-1405), mandates "The Central Office right-of-way staff members are to periodically review district office operating procedures to promote and ensure quality assurance of the acquisition process and compliance with *The Uniform Act*." Furthermore, ROW-1405 establishes "During the last quarter of each year, the Division of Right of Way and Utilities and FHWA are to select districts to be reviewed the following year."

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-067: The Kentucky Transportation Cabinet Failed To Perform Quality Assurance Reviews Of Each District Offices' Procedures For Property Acquisitions (Continued)**

Recommendation

KYTC should ensure the implementation of policies and procedures requiring the performance of quality assurance reviews of the right-of-way acquisition process. The frequency of the quality assurance reviews, test results, report preparation, report submission, and subsequent procedures, where necessary, should be monitored for verification that all federal quality assurance program requirements are satisfied.

Management's Response and Corrective Action Plan

The Division of Right of Way and Utilities recognizes the important of Quality Assurance Reviews being conducted to ensure compliance with the policies and procedures. While each appraisal, acquisition, relocation and property management parcel is thoroughly reviewed and approved by Central Office staff before any offers, payments or condemnation proceedings begin; the QAR provides the opportunity to review a project as a whole. We experienced a loss of several key management positions in 2014. As we rebuild our staff we can assure that the Division will conduct the required QAR in accordance with ROW 1405.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2014-068: The Kentucky Transportation Cabinet Did Not Comply With Davis-Bacon Act Requirements

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning and Construction

CFDA 20.205 – ARRA Highway Planning and Construction

CFDA 20.219 – Recreational Trails Program

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Davis-Bacon Act

Amount of Questioned Costs: \$0

The Kentucky Transportation Cabinet (KYTC) is required to follow the provisions of the Davis-Bacon Act on construction contracts greater than \$2,000. During fiscal year (FY) 2014, KYTC failed to ensure the timely receipt of required weekly payroll records for four prime contractors. In addition, KYTC failed to ensure that weekly payroll records for a fifth prime contractor included the required signed “Statement of Compliance.” This matter existed and was previously communicated to KYTC in FY 2013.

KYTC does not have effective internal controls in place to ensure that prime contractors submit timely the required weekly payroll records, along with a signed statement of compliance, for all weeks worked by each prime contractor.

The failure by KYTC to verify the timely submission by prime contractors of payroll records, along with the contractors’ signed statement of compliance for each week worked, increases the risk that contractors are not complying with the requirements established under the Davis-Bacon Act.

The United States Department of Labor’s (DOL) regulation 29 CFR 5.5(a)(3)(ii) includes the following requirements for construction contractors and subcontractors subject to the Davis-Bacon Act concerning payroll-related records:

- The contractor is to submit weekly payroll records, for each week in which any contract work is performed.
- The contractor or subcontractor is to submit a weekly “Statement of Compliance” (certified payrolls) signed by contractor or subcontractor, for each week contract work is performed.

KYTC’s construction manual, CST-306-1, Contractor’s Payroll, includes the following guidelines for contractor’s payroll records:

- The contractor shall submit 2 copies of the contractor’s payroll, accompanied by statements of compliance, to the SE [section engineer] within 7 days after the ending of the applicable pay period.
- Each payroll shall be submitted on a U.S. Department of Labor WH-347 form, Payroll. The prime contractor shall properly certify each payroll.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-068: The Kentucky Transportation Cabinet Did Not Comply With Davis-Bacon Act Requirements (Continued)**

Recommendation

KYTC should implement adequate internal controls to ensure compliance with internal policies and federal regulations as established under the Davis-Bacon Act.

Management's Response and Corrective Action Plan

The Division of Construction continues to instruct the field offices to monitor projects, contractors, and to have payrolls before they process payments.

The Division of Construction Procurement continues to work diligently with the Division of Construction and the District section offices to ensure payrolls are being submitted. The section offices have been instructed to ask for the certified payroll documents and they understand the importance of each payroll.

The Division of Construction Procurement has a direct link to the US Dept of labor certified payroll form posted on their website. They also have a copy of the certified payroll form that can be mailed directly to the contractor as needed.

The Division of Construction Procurement sends a form to section offices when payrolls are missing. The form includes a request that certified payrolls be submitted for a particular project and contractor, and references 29 CFR which lists appropriate procedures for submitting certified payrolls.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-069: The Kentucky Transportation Cabinet Failed To Ensure The Required Contractor Performance Reports Were Completed And Maintained**

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning and Construction

CFDA 20.205 – ARRA Highway Planning and Construction

CFDA 20.219 – Recreational Trails Program

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Procurement and Suspension and Debarment

Amount of Questioned Costs: \$0

During fiscal year (FY) 2014, the Kentucky Transportation Cabinet's (KYTC) Division of Construction Procurement failed to ensure the required contractor performance reports for 17 contractors were maintained.

Contractor performance reports are required to be completed in January for the prior calendar year for multi-year projects. For projects that are not multi-year, the contractor performance report is to be completed ten days following the project completion. This matter existed and was previously communicated to KYTC in FY10, FY11, FY12, and FY13.

KYTC does not have effective internal controls in place to ensure the required performance reports are completed and submitted timely to the Division of Construction Procurement.

The Division of Construction Procurement uses contractor performance reporting to determine an average performance rating for every prime contractor and for subcontractors whose subcontracts exceed \$50,000. The performance rating from the prior year is used in the calculation of a contractor's maximum eligibility amount. Failure to obtain the contractor's performance report directly affects the contractor's maximum eligibility amount. As a result, the contractor may not be eligible to bid on other desired projects.

49 CFR 18.40 (a) states:

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

KYTC's Instructions and Guidelines for Contractor's Performance Evaluation Policy Statement states:

The Kentucky Transportation Cabinet requires that a Contractor's Performance Report form (TC 14-19) be completed for every Prime Contractor for each project annually or at project completion. Additionally, the evaluations will be performed on the same basis for all Subcontractors performing over \$50,000 of work during the evaluation period or as requested by the subcontractor or deemed necessary by the project engineer. Evaluations shall be performed in an objective, consistent, and well documented manner.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2014-069: The Kentucky Transportation Cabinet Failed To Ensure The Required Contractor Performance Reports Were Completed And Maintained (Continued)**

The Contractor's average performance rating (weighted by dollar amount of work performed) for the previous year will be used in the calculation of the Contractor's Maximum Eligibility Amount. Utilizing the scores from the Contractor's Performance Report will provide incentive for the Contractor to consistently perform at a high level of quality.

In addition, KYTC's Instructions and Guidelines for Contractor's Performance Evaluation Policy Statement includes the following responsibilities:

A Contractor's Performance Report will be completed at the completion of every project once all work has been completed (including punch lists, final clean up, etc.), to reflect the quality of the Contractor's performance on the given project.

For projects spanning more than one calendar year, the Section Engineer must complete and submit Contractor Performance Reports for all current projects by December 31st of each calendar year.

Once an evaluation has been completed, the Section Engineer will sign and date the evaluation. A copy of the signed evaluation is then sent electronically, or in paper copy, to the evaluated contractor with an appeal application included. Copies should also be forwarded to the applicable TEBM for Project Delivery and Preservation and to the Chief District Engineer (CDE). Upon expiration of the appeal deadline, the TEBM will send a copy of the signed evaluation to the Division of Construction Procurement.

Recommendation

KYTC should ensure compliance with internal policies and federal regulations by implementing adequate internal controls to ensure contractor's performance reports are completed and submitted timely to the Division of Construction Procurement.

Management's Response and Corrective Action Plan

The internal process has been revised to ensure contractor performance reports are submitted as per the regulations. Currently, upon completion of a project, the Section Engineer requests formal acceptance of a project from the central office liaison. The central office construction liaison will now ensure a performance report(s) has (have) been submitted to central office prior to issuing formal acceptance on a project. If the report(s) has (have) not been submitted,

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2014-069: The Kentucky Transportation Cabinet Failed To Ensure The Required Contractor Performance Reports Were Completed And Maintained (Continued)**

Management's Response and Corrective Action Plan (Continued)

then the liaison will contact the section engineer. The Director of the Division of Construction communicated this new process to all staff by email on January 29, 2015. Also, the process was covered in the annual Section Engineer's meeting on February 24, 2015.

Construction Memorandum 01-2015 has removed the requirement for annual reports on multiyear and made the submittal of annual reports optional. The process for annual reports is now similar to subcontracts less than \$50,000. The section engineer may elect to submit or the contractor can request an annual performance report on multiyear projects.

It should be noted in February 2015 300 contractor performance reports were submitted to the Division of Construction Procurement. This is a good indication that the changes will be successful.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY13	13-CHFS-41	The Cabinet For Health And Family Services Department For Community Based Services Lacks Controls Over the Overall Control Environment of Its Title IV-E Foster Care and Adoption Assistance Programs	93.658 93.659	\$0	Resolved During FY14
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY13	13-CHFS-42	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program.	93.658	1,436,331	Partially Resolved See 2014-054
FY13	13-CHFS-43	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Controls In Place for Reporting and Did Not Comply with Federal Regulations for Reporting the Title IV-E Foster Care Program.	93.658	0	Partially Resolved See 2014-054
FY13	13-CHFS-44	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Did Not Comply With Federal Regulations For Allowable Costs For The Adoption Assistance Program	93.659	1,961,695	See 2014-053 and 2014-054
FY13	13-CHFS-45	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations And Did Not Comply With Federal Regulations For Eligibility For The Adoption Assistance Program	93.659	147,060	See 2014-053

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
FY13	13-CHFS-46	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Adoption Assistance Program.	93.659	\$0	See 2014-054
FY13	13-CHFS-47	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System.	93.658 93.659	0	See 2014-052

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

There were no findings to report in this category.

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

There were no findings to report in this category.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY13	13-CHFS-49	The Cabinet for Health and Family Services Did Not Properly Classify Expenditures	93.525	\$0	Resolved During FY14
FY13	13-CHFS-50	The Cabinet For Health And Family Services Did Not Maintain Documentation Required to Determine Provider Eligibility for the Medicaid Program	93.775 93.777 93.778 93.778 ARRA	0	Resolved During FY14
FY13	13-CHFS-52	The Cabinet For Health And Family Services Is Not In Compliance With Cost Report Submission Guidelines For Inpatient Hospital And Long-Term Care Facility Cost Reports	93.775 93.777 93.778 93.778 ARRA	0	Resolved During FY14
FY13	13-CHFS-53	The Cabinet for Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting	10.557 93.558 93.575 93.596 93.658 93.767 93.775 93.777 93.778 93.778 ARRA	0	Resolved During FY14
FY 12	12-CHFS-60	The Department For Medicaid Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program	93.720 93.775 93.777 93.778	0	Resolved During FY14
FY 12	12-CHFS-63	The Cabinet For Health And Family Services, And Relevant Third Parties, Are Not Performing Desk Reviews On Inpatient Hospital And Long-Term Care Cost Reports In A Timely Manner	93.720 93.775 93.777 93.778	0	Resolved During FY14

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY 12	12-CHFS-64	The Cabinet For Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting	93.558 93.714 93.563 93.568 93.575 93.596 93.658 93.659	\$0	Resolved During FY14
FY 11	11-CHFS-70	The Department For Medicaid Services Should Require Timely Submission Of Audited Cost Reports From Inpatient Hospitals	93.775 93.777 93.778	0	Resolved During FY14
FY13	13-DLG-55	DLG Did Not Maintain Adequate Documentation To Support Journal Vouchers Involving Federal Funds	14.228 14.255	132,347	Resolved During FY14
FY13	13-DLG-56	The Department For Local Government Did Not Submit An Updated Indirect Cost Proposal To Federal Cognizant Agent As Required By Regulations At 2 CFR Part 225	14.228 14.255	0	Resolved During FY14
FY13	13-DLG-57	The Department For Local Government Did Not Submit Quarterly performance Reports Timely	14.228 14.255	0	Resolved During FY14
FY13	13-DMA-58	The Department Of Military Affairs Timesheet Format Used In FY 13 Did Not Allow Employees To Document The Amount Of Time Spent On Each Federal Grant	12.401 12.404 20.703 93.889 97.036 97.039 97.040 97.042 97.047 97.082	0	Resolved During FY14

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY13	13-DMA-59	The Department Of Military Affairs Expenditures For Hosting Working Lunch Meetings At A Hotel Are Not Reasonable And Necessary For Administering A Federal Grant Program	20.703 97.040 97.042 97.047	\$0	Resolved During FY14
FY13	13-DMA-60	The Department Of Military Affairs Did Not Comply With Subrecipient Monitoring Requirements	97.036 97.039 97.040	0	Resolved During FY14
FY13	13-DMA-61	The Department Of Military Affairs Did Not Comply With Cash Management Requirements	97.036 97.039 97.040	0	Resolved During FY14
FY13	13-DMA-62	The Department Of Military Affairs Procedures Did Not Ensure The Accuracy Of Federal Financial Reports	97.036 97.039	0	Resolved During FY14
FY13	13-DMA-63	The Department Of Military Affairs Used An Excessive Number Of Journal Vouchers To Transfer Expenditures Between Federal Programs	97.036 97.039 97.040 97.042	0	Resolved During FY14
FY13	13-DMA-64	The Department Of Military Affairs Did Not Obtain Adequate Supporting Documentation From Subrecipients Requesting Expenditures Reimbursement	97.039	5,917	Resolved During FY14
FY13	13-DMA-65	The Department Of Military Affairs – Kentucky Division Of Emergency Management Did Not Correctly Report Expenditures On The SF-425 Federal Financial Reports	97.040	0	Resolved During FY14
FY13	13-DMA-66	The Department Of Military Affairs Expenditures Reported On The SEFA For The Chemical Stockpile Emergency Preparedness Program Are Understated	97.040	0	Resolved During FY14

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY13	13-DMA-67	The Department Of Military Affairs Did Not Use Proper Procurement Procedures For A Contract	20.703 97.040 97.042	\$0	Resolved During FY14
FY13	13-DMA-68	The Department Of Military Affairs Charged Expenditures To Federal Grants For The Governor's Emergency Management Workshops That Were Not Allowable Or Properly Documented	20.703 97.040 97.042	7,000	Resolved During FY14
FY 12	12-DMA-69	The Department Of Military Affairs Division Of Emergency Management Failed To Ensure Federal Reports For The Chemical Stockpile Emergency Preparedness Program And Pre-Disaster Mitigation Program Are Based On eMARS, The State's Accounting System	97.040 97.047	0	Resolved During FY14
FY12	12-DMA-71	The Department of Military Affairs – Kentucky Division Of Emergency Mangement (KYEM) Did Not Correctly Report Expenditures On The SF-425 Federal Financial Report For Disaster 1818P	97.036	1,391,683	Resolved During FY14
FY13	13-EEC-70	The Energy And Environment Cabinet Did Not Ensure All Subrecipients Obtained An A-133 Audit When Required	15.252	0	Resolved During FY14
FY13	13-KDE-71	The Kentucky Department Of Education Failed To Obtain The Required Federal Cash Request Statement Of Assurances From Some School Districts	84.010 84.367	0	Resolved During FY14
FY13	13-KDE-72	The Kentucky Department Of Education Failed To Correct A Federal Cash Drawdown	84.367	6,777	Resolved During FY14

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY13	13-KDE-73	The Kentucky Department Of Education (KDE) Failed To Verify The Reporting Of Expenditures On A Federal Cash Request Form By One School District Or Obtain Proper Justification Prior To KDE's Reimbursement To The District	84.010	\$0	Resolved During FY14
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY13	13-CHFS-48	The Cabinet for Health and Family Services Did Not Maintain Adequate Security for Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program	10.551 10.561	0	See 2014-051
FY13	13-CHFS-51	The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations	93.767 93.775 93.777 93.778 93.778 ARRA	0	See 2014-057
FY 12	12-CHFS-59	The Department For Community Based Services Did Not Maintain Supporting Documentation Required To Determine Member Eligibility For Medicaid	93.720 93.767 93.775 93.777 93.778	0	See 2014-057
FY 12	12-CHFS-66	The Cabinet For Health And Family Services Failed To Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program	10.551 10.561	0	See 2014-051
FY13	13-TC-74	The Transportation Cabinet's Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely	20.205 20.219	0	See 2014-069
FY13	13-TC-75	The Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements	20.205 20.219	0	See 2014-068

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
FY13	13-TC-76	The Transportation Cabinet Does Not Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations	20.205 20.219	\$0	See 2014-066
FY 12	12-KYTC-82	Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely	20.205 20.219	0	See 2014-069
FY 12	12-KYTC-85	The Kentucky Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements	20.205 20.219	0	See 2014-068
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings to report in this category.					
<i>(4) Audit finding no longer valid or does not warrant further action:</i>					
FY13	13-CHFS-54	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Foster Parent Eligibility And Was Not In Compliance With Federal Regulations For Parent Eligibility For The Title IV-E Foster Care Program	93.658	55,743	Due to improvements, this finding is downgraded to an informal finding for FY 15. This finding is no longer required to be reported under Government Auditing Standards.
FY 11	11-CHFS-67	The Cabinet For Health And Family Services' Department of Community Based Services Should Ensure Staff Is Knowledgeable In Ensuring Eligibility For Medicaid Members And Retain Appropriate Documentation To Support Eligibility Determinations	93.775 93.777 93.778	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(4) Audit finding no longer valid or does not warrant further action (Continued):</i>					
FY 11	11-CHFS-71	The Department For Medicaid Services Should Ensure Documentation Is Maintained To Support Provider Eligibility And Implement Formal Procedures For Re-credentialing Providers	93.775 93.777 93.778	\$0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY 11	11-CHFS-72	The Cabinet For Health And Family Services Should Improve Electronic Benefits Transfer Card Security In Local Offices	10.551 10.561	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY13	13-DMA-69	The Department Of Military Affairs Cash Management And Reporting Procedures For The Pre-Disaster Mitigation Congressional Grant Were Not Sufficient To Ensure Timely Receipt Of Reimbursements And Accurate Reporting	97.047	0	Due to improvements, this finding is downgraded to an informal finding for FY 15. This finding is no longer required to be reported under Government Auditing Standards.
FY 12	12-EEC-74	The Energy And Environment Cabinet Did Not Ensure All Subrecipients Under The Abandoned Mine Lands Reclamation Program Obtained A-133 Audits When Required	15.252	0	Due to improvements, this finding is downgraded to an informal finding for FY 15. This finding is no longer required to be reported under Government Auditing Standards.
FY11	11-KYTC-86	The Kentucky Transportation Cabinet Should Ensure Contractor Performance Reports Are Completed And Submitted To The Division Of Construction Procurement Timely	20.205	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(4) Audit finding no longer valid or does not warrant further action (Continued):</i>					
FY11	11-KYTC-87	The Kentucky Transportation Cabinet Should Ensure Compliance With Davis Bacon Act Requirements	20.205	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

APPENDIX

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

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

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

Agency	Contact
Cabinet for Health and Family Services	Kelli Hill, Assistant Director Division of General Accounting Cabinet for Families and Health Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone: (502) 564-8890
Department of Local Government	Lynn Littrell, Director Office of Federal Grants Department for Local Government 1024 Capital Center Drive, Suite 340 Frankfort, KY 40601 Phone: (502) 573-2382
Department of Military Affairs	Terry L. Moore, Chief Administrative Officer Office of Management and Administration Department of Military Affairs Boone National Guard Center 100 Minuteman Parkway, EOC Building Frankfort, KY 40601 Phone: (502) 607-1263
Education and Workforce Development Cabinet	David Morris, Director Office of Fiscal Services 500 Mero St., 2nd Floor Frankfort, KY 40601 Phone: (502) 564-2618
Energy and Environment Cabinet	Steve Hohmann, Commissioner Department of Natural Resources 2 Hudson Hollow Frankfort, KY 40601 Phone: (502) 564-6940

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

Agency	Contact
Kentucky Department of Education	Charles Harman, Director Division of Budget & Financial Management Capital Plaza Tower 500 Mero Street, 16th Floor Frankfort, KY 40601 Phone: (502) 564-2351
Kentucky Transportation Cabinet	Alice Wilson, Executive Director Office of Audits Transportation Cabinet 200 Mero Street 4E Frankfort, KY 40622 Phone: (502) 782-4041

