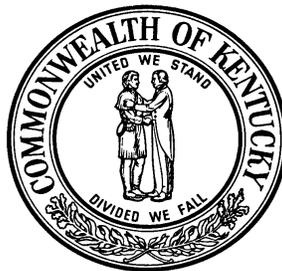


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME I

**For the Year Ended
June 30, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2015

Background

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

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

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

Comprehensive Annual Financial Report

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

The scope of the CAFR audit included:

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

**THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY VOLUME I
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Schedule of Expenditures of Federal Awards

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

For the Fiscal Year (FY) ended June 30, 2015, the total federal dollars expended by the Commonwealth of Kentucky was \$11,050,032,000 in cash awards and \$1,223,364,213 in noncash awards. For FY 2015, the total federal cash expenditures as reported on the SEFA increased by \$2,249,660,868 in comparison with the total for FY 2014.

Component Units

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

February 4, 2016

Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the Fiscal Year ended June 30, 2015. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

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

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

Respectfully Submitted,

Mike Harmon
Auditor of Public Accounts



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated December 11, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Opinion

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

Emphasis of Matter

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

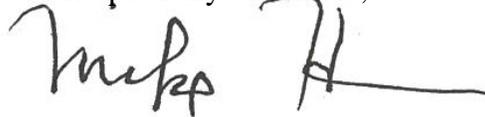


Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

Other Information

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

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 11, 2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	AGR	\$ 575,417	\$	\$
		F&W			
10.072	Wetlands Reserve Program	F&W	349,176		
10.093	Voluntary Public Access and Habitat Incentive Program (Note 14)	F&W			
10.102	Emergency Forest Restoration Program	EEC	59,173		
10.103	2009 Aquaculture Grant Program (Note 14)	ADB			
10.153	Market News	AGR	1,176		
10.156	Federal-State Marketing Improvement Program	AGR	750		
10.162	Inspection Grading and Standardization (Note 14)	AGR			
10.163	Market Protection and Promotion	AGR	33,611		
10.170	Specialty Crop Block Grant Program-Farm Bill	AGR	281,289		
Supplemental Nutrition Assistance Program Cluster:					
10.551	Supplemental Nutrition Assistance Program (Note 2) (Note 10)	CHFS		1,137,600,739	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2)	CHFS	52,793,139		7,731,258
Child Nutrition Cluster:					
10.553	School Breakfast Program (Note 2)	EDU	76,495,402		76,495,402
		JUV			
10.555	National School Lunch Program (Note 2) (Note 10)	EDU	200,484,691		200,484,691
		AGR		24,414,280	
		JUV			
10.556	Special Milk Program for Children (Note 2)	EDU	37,288		37,288
10.559	Summer Food Service Program for Children (Note 2)	EDU	5,973,368		5,848,077
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	CHFS	115,938,023		23,577,150
10.558	Child and Adult Care Food Program (Note 2)	EDU	35,339,278		35,007,873
10.560	State Administrative Expenses for Child Nutrition	EDU	3,023,435		15,954
		AGR	1,097,230		
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program (Note 10)(Note 11)	AGR	1,651,562	5,719,401	
10.568	Emergency Food Assistance Program (Administrative Costs)	AGR	1,224,966		
10.569	Emergency Food Assistance Program (Food Commodities) (Note 10)	AGR		7,638,199	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	CHFS	131,030		
10.575	Farm to School Grant Program	AGR	5,884		
10.576	Senior Farmers Market Nutrition Program	AGR	282,130		
10.579	Child Nutrition Discretionary Grants Limited Availability (Note 14)	EDU			
10.582	Fresh Fruit and Vegetable Program	EDU	2,840,427		2,840,427
10.589	Child Nutrition Direct Certification Performance Awards	EDU	5,036		
10.592	Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects	CHFS	28,982		
10.596	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP	CHFS	1,212		
10.598	Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants	CHFS	148,626		
10.652	Forestry Research	EEC	249,167		
10.664	Cooperative Forestry Assistance	EEC	1,967,313		468,591
10.674	Wood Utilization Assistance	EEC	4,259		3,514
10.676	Forest Legacy Program	EEC	19,379		
10.678	Forest Stewardship Program	EEC	40,259		
10.771	Rural Cooperative Development Grants (Note 14)	AGR			
10.902	Soil and Water Conservation	F&W	57,961		
		COT	173,000		
		EEC			
10.912	Environmental Quality Incentives Program	EEC	38,140		
10.913	Farm and Ranch Lands Protection Program (Note 14)	AGR			
		F&W			
10.922	Healthy Forests Reserve Program (HFRP)	EEC	8,750		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture (Continued)					
Direct Programs (Continued):					
10.923	Emergency Watershed Protection Program	TC	26,823		
10.932	Regional Conservation Partnership Program (Note 14)	EEC			
10.NA(1)	Rural Rehabilitation Student Loan Program (Note 1) (Note 3) (Note 14)	AGR			
10.NA(2)	HWA Participating Agreement with Daniel Boone National Forest (Note 1)	EEC	48,317		
Total U.S. Department of Agriculture			<u>\$ 501,435,669</u>	<u>\$ 1,175,372,619</u>	<u>\$ 352,510,225</u>
U.S. Department of Commerce					
Direct Programs:					
Economic Development Cluster:					
11.307	Economic Adjustment Assistance	DLG MIL	\$ 70,863	\$	\$ 67,215
11.469	Congressionally Identified Awards and Projects (Note 14)	PARKS			
11.549	State and Local Implementation Grant Program	COT	378,635		
		KSP	5,232		
11.558	ARRA-State Broadband Data and Development Grant Program (Note 13)	COT	557,721		
Total U.S. Department of Commerce			<u>\$ 1,012,451</u>	<u>\$</u>	<u>\$ 67,215</u>
U.S. Department of Defense					
Direct Programs:					
12.106	Flood Control Projects	F&W	\$ 31,319	\$	\$
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	EEC	87,064		
12.217	Electronic Absentee Systems for Elections	SOS	302,975		
12.400	Military Construction, National Guard	MIL	12,025,287		
12.401	National Guard Military Operations and Maintenance (O & M) Projects	MIL	23,775,688		
12.404	National Guard ChalleNGe Program	MIL	5,025,936		
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation (Note 14)	CMA			
12.700	Donations/Loans of Obsolete DOD Property (Note 10)	KSP EEC		10,884	
12.NA(1)	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities (Note 1)	EEC	730,601		63,596
12.NA(4)	Teacher and Teacher's Aide Placement Assistance Program (Note 1)	EPSB	87,137		
Total U.S. Department of Defense			<u>\$ 42,066,007</u>	<u>\$ 10,884</u>	<u>\$ 63,596</u>
U.S. Department of Housing and Urban Development					
Direct Programs:					
Community Development Block Grants-State-Administered Small Cities Program					
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Note 8)	DLG MIL	\$ 28,378,704	\$	\$ 27,623,969
14.251	Economic Development Initiative -Special Project, Neighborhood Initiative and Miscellaneous Grants (Note 14)	PARKS	5,992		
14.262	ARRA-Homeless Prevention and Rapid Re-Housing Program Technical Assistance (Note 13)	DLG	4,350,689		4,297,643
14.401	Fair Housing Assistance Program_State and Local	HRC	237,284		
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	CHFS	179,386		178,764
Total U.S. Department of Housing and Urban Development			<u>\$ 33,152,055</u>	<u>\$</u>	<u>\$ 32,100,376</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of the Interior					
Direct Programs:					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	EEC	\$ 11,192,374	\$	\$ 55,618
15.252	Abandoned Mine Land Reclamation (AMLR) Program (Note 2)	EEC	39,736,009		9,421,389
15.255	Science and Technology Projects Related to Coal Mining and Reclamation	EEC	32,433		
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration Program (Note 7)	F&W	4,943,349		
15.611	Wildlife Restoration and Basic Hunter Education (Note 9)	F&W	7,405,434		
15.608	Fish and Wildlife Management Assistance	F&W	3,205		
15.614	Coastal Wetlands Planning, Protection and Restoration Program (Note 14)	F&W			
15.615	Cooperative Endangered Species Conservation Fund (Note 7)	F&W	129,405		
		EEC	258,456		226,263
15.616	Clean Vessel Act Program (Note 14)	F&W			
15.622	Sportfishing and Boating Safety Act (Note 14)	F&W			
15.632	Conservation Grants Private Stewardship for Imperiled Species	F&W	41,246		
		EEC	22,500		
15.633	Landowner Incentive Program (Note 14)	F&W			
15.634	State Wildlife Grants (Note 7)	F&W	713,779		
15.656	ARRA-Recovery Act Funds-Habitat Enhancement, Restoration and Improvement (Note 13) (Note 14)	F&W			
15.657	Endangered Species Conservation - Recovery Implementation Funds	F&W	21,533		
		EEC			
15.808	U.S. Geological Survey_Research and Data Collection	EEC	2,638		
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	COT	250,000		
15.904	Historic Preservation Fund Grants-In-Aid	KHC	804,266		86,300
15.916	Outdoor Recreation_Acquisition, Development and Planning (Note 6)	DLG	361,422		361,422
15.945	Cooperative Research and Training Programs-Resources of the National Park System	EEC	6,885		
Total U.S. Department of the Interior			\$ 65,924,934	\$	\$ 10,150,992
U.S. Department of Justice					
Direct Programs:					
16.013	Violence Against Women Act Court Training and Improvement Grants	AOC	\$ 25,744	\$	\$
16.017	Sexual Assault Services Formula Program	JUST	284,761		284,761
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	CORR	599,717		
16.203	Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program (Note 14)	CORR			
16.523	Juvenile Accountability Block Grants	JUV	268,525		226,722
		UPS			
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	JUV	375,267		297,523
16.543	Missing Children's Assistance	KSP	427,073		
16.548	Title V_Delinquency Prevention Program	JUV	8,897		8,897
16.550	State Justice Statistics Program for Statistical Analysis Centers	JUST	86,582		
16.554	National Criminal History Improvement Program (NCHIP)	KSP	138,986		
		JUST			
		KOHS			
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	KSP	30,681		
		JUST	24,000		
16.575	Crime Victim Assistance	JUST	5,484,061		5,200,896
16.576	Crime Victim Compensation	PPC	450,000		
		UPS	394,664		
		CORR			
		KSP			
		JUV			
		PUBAD			
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	CHFS	181,284		
		CORR	133,908		
		JUST			
16.582	Crime Victim Assistance/Discretionary Grants	JUST	26,281		23,109
16.585	Drug Court Discretionary Grant Program (Note 7)	AOC	791,177		
		CHFS			

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.588	Violence Against Women Formula Grants	JUST UPS AOC OAG KSP DCJT CHFS	1,827,550 129,709 60,719 45,691 17,501 7,977		1,605,583
16.588	ARRA-Violence Against Women Formula Grants (Note 13) (Note 14)	KSP			
16.593	Residential Substance Abuse Treatment for State Prisoners	JUST CORR JUV	171,430 4,704		
16.606	State Criminal Alien Assistance Program	JUST CORR	73,577		
16.607	Bulletproof Vest Partnership Program (Note 14)	CORR JUST KSP			
16.609	Project Safe Neighborhoods (Note 14)	KSP UPS			
16.610	Regional Information Sharing Systems (Note 14)	COT			
16.710	Public Safety Partnership and Community Policing Grants (Note 14)	KSP			
16.727	Enforcing Underage Drinking Laws Program	KSP	43,833		8,272
16.728	Drug Prevention Program (Note 14)	TC			
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	CORR JUV JUST	347,188 61,840 36,102		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	JUST KSP CORR PUBAD DCJT	1,719,183 535,062 76,020		1,519,432
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	CORR	68,884		
16.741	DNA Backlog Reduction Program	KSP	452,436		
16.743	Forensic Casework DNA Backlog Reduction Program (Note 14)	JUST PUBAD			
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program (Note 7)	AOC	15,286		
16.746	Capital Case Litigation Initiative	JUST OAG PUBAD	28,415 26,847 15,147		
16.750	Support for Adam Walsh Act Implementation Grant Program	KSP	386,164		
16.751	Edward Byrne Memorial Competitive Grant Program (Note 14)	CORR			
16.800	ARRA-Recovery Act-Internet Crimes Against Children Task Force Program (ICAC) (Note 13) (Note 14)	KSP			
16.801	ARRA-Recovery Act-State Victim Assistance Formula Grant Program (Note 13) (Note 14)	JUST			
16.803	ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories (Note 13) (Note 14)	JUST F&W PUBAD			
16.804	ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government (Note 13)(Note 14)	DCJT			
16.808	ARRA-Recovery Act-Edward Byrne Memorial Competitive Grant Program (Note 13) (Note 14)	KSP			
16.810	ARRA-Recovery Act-Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program (Note 13) (Note 14)	OAG			
16.812	Second Chance Act Reentry Initiative	CORR	255,578		
16.813	NICS Act Record Improvement Program	KSP	65,233		
16.NA(1)	Drug Enforcement Administration (Note 1)	KSP	1,862,681		
16.NA(2)	Federal Bureau of Investigation (Note 1)	KSP	101,370		
16.NA(4)	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program (Note 1)	KSP	24,354		
16.NA(6)	District Fugitive Task Force (Note 1)	KSP	17,110		
16.NA(7)	Equitable Sharing-Asset Forfeiture (Note 1)	KSP	1,226,032		
Total U.S. Department of Justice			\$ 19,435,231	\$	\$ 9,175,195

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	DWI	\$ 993,632	\$	\$
17.005	Compensation and Working Conditions	LABOR	181,446		
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	DWI	15,363,536		
17.801	Disabled Veterans' Outreach Program (DVOP)	DWI	1,580,301		
17.804	Local Veterans' Employment Representative Program	DWI	834,897		
17.225	Unemployment Insurance (Note 2)(Note 4)	DWI	388,915,535		
17.225	ARRA-Unemployment Insurance (Note 2)(Note 4)(Note 13)	DWI	42		
17.235	Senior Community Service Employment Program	CHFS	1,491,239		1,390,070
17.245	Trade Adjustment Assistance	DWI	6,370,453		4,505,623
Workforce Investment Act Cluster:					
17.258	WIA/WIOA Adult Program (Note 2)	DWI	12,906,658		12,326,473
		EDU			
17.259	WIA/WIOA Youth Activities (Note 2)	DWI	11,776,447		10,841,774
		EDU			
17.278	WIA/WIOA Dislocated Worker Formula Grants (Note 2)	DWI	10,769,471		9,673,531
		EDU			
17.260	WIA Dislocated Workers (Note 14)	DWI			
		EDU			
17.261	WIA/WIOA Pilots, Demonstrations, and Research Projects	DWI	32,597		
17.267	Incentive Grants-WIA Section 503	DWI	435,113		
17.268	H-1B Job Training Grants (Note 14)	DWI			
17.271	Worker Opportunity Tax Credit Program (WOTC)	DWI	258,390		
17.273	Temporary Labor Certification For Foreign Workers	DWI	410,395		
17.277	WIOA National Dislocated Workers Grants / WIA National Emergency Grants	DWI	1,035,122		831,041
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	DWI	40,000		
17.503	Occupational Safety and Health_State Program	LABOR	3,550,186		
17.505	OSHA Data Initiative (Note 14)	LABOR			
17.600	Mine Health and Safety Grants	EEC	634,622		
Total U.S. Department of Labor			<u>\$ 457,580,082</u>	<u>\$</u>	<u>\$ 39,568,512</u>
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program	TC	\$ 873,899	\$	\$
20.200	Highway Research and Development Program (Note 14)	TC			
Highway Planning and Construction Cluster:					
20.205	Highway Planning and Construction (Note 2)(Note 5)	TC	728,922,726		43,141,591
		KSP	112,374		
		DWI	108,359		
		KHS	40,127		
		PARKS	17,910		
20.205	ARRA-Highway Planning and Construction (Note 2) (Note 5) (Note 13)	TC	220,336		
		KHP			
20.219	Recreational Trails Program, Revised (Note 2) (Note 6)	DLG	865,522		829,792
		PARKS	4,160		
20.218	National Motor Carrier Safety	KSP	3,952,171		155,621
		TC	557,837		
20.231	Performance and Registration Information Systems Management	TC	505,651		
20.232	Commercial Driver's License Programs Improvement Grant	TC	519,987		
20.237	Commercial Vehicle Information Systems and Networks	TC	1,442,506		
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant (Note 14)	TC			
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	KSP	53,003		
		TC	3,530		
20.314	Railroad Development	TC	214,207		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Transportation (Continued)					
Direct Programs (Continued):					
Federal Transit Cluster:					
20.500	Federal Transit_Capital Investment Grants	TC	2,110,395		2,110,395
20.507	Federal Transit_Formula Grants	TC	1,690,305		1,690,305
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	TC	556,219		556,219
20.509	Formula Grants for Rural Areas	TC	16,200,583		15,332,216
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	TC	1,410,279		1,410,279
20.516	Job Access And Reverse Commute Program	TC	288,929		288,929
20.521	New Freedom Program (Note 14)	TC			
20.514	Public Transportation Research, Technical Assistance, and Training	TC	10,000		10,000
20.526	Bus and Bus Facilities Formula Program	TC	1,615,908		1,615,908
Highway Safety Cluster:					
20.600	State and Community Highway Safety	TC KSP OAG AOC DCJT	2,309,691 1,343,285 232,640		1,778,263
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	TC KSP DCJT	903,201 650,470 86,484		136,413
20.602	Occupant Protection Incentive Grants	KSP TC	79,010 360		
20.610	State Traffic Safety Information System Improvement Grants	KSP TC	554,386 511,110		511,110
20.612	Incentive Grant Program to Increase Motorcyclist Safety	TC	37,269		
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	KSP TC	125,785 3,993		3,993
20.616	National Priority Safety Programs	TC KSP	1,022,647 457,434		602,688
20.700	Pipeline Safety Program State Base Grant	EEC	445,046		
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	MIL	254,807		106,531
20.932	ARRA-Surface Transportation_Discretionary Grants for Capital Investment (Note 13) (Note 14)	TC			
20.933	National Infrastructure Investments	TC	1,433,172		1,433,172
Total U.S. Department of Transportation			<u>\$ 772,747,713</u>	<u>\$</u>	<u>\$ 71,713,425</u>
U.S. Department of Treasury					
Direct Programs:					
21.NA(1)	Internal Revenue Service (Note 1) (Note 14)	KSP	\$	\$	\$
21.NA(2)	Equitable Sharing-Asset Forfeiture (Note 1) (Note 14)	KSP			
21.NA(3)	State Small Business Credit Initiative (Note 1)	CED	17,904		
Total U.S. Department of Treasury			<u>\$ 17,904</u>	<u>\$</u>	<u>\$</u>
U.S. Appalachian Regional Commission					
Direct Programs:					
23.002	Appalachian Area Development	DLG TAH	\$ 1,475,913 34,000	\$	\$ 1,475,913
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	DLG	1,085,505		1,008,000
Total U.S. Appalachian Regional Commission			<u>\$ 2,595,418</u>	<u>\$</u>	<u>\$ 2,483,913</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Programs:					
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	HRC	\$ 224,144	\$	\$
30.NA(1)	Other Federal Assistance (Note 1)	HRC	30		
Total U.S. Equal Employment Opportunity Commission			\$ 224,174	\$	\$
<u>U.S. General Services Administration</u>					
Direct Programs:					
39.003	Donation of Federal Surplus Personal Property (Note 10)	FAC	\$	\$ 587,249	\$
		EEC		37,544	
39.011	Election Reform Payments (Note 7) (Note 12)	KBE	377,200		
Total U.S. General Services Administration			\$ 377,200	\$ 624,793	\$
<u>National Aeronautics and Space Administration</u>					
Direct Programs:					
43.002	Aeronautics (Note 14)	COT	\$	\$	\$
Total National Aeronautics and Space Administration			\$	\$	\$
<u>U.S. National Foundation on the Arts and the Humanities</u>					
Direct Programs:					
45.024	Promotion of the Arts_Grants to Organizations and Individuals (Note 14)	KAC	\$	\$	\$
45.025	Promotion of the Arts_Partnership Agreements	KAC	710,500		710,500
		KHS	140		
45.161	Promotion of the Humanities_Research	KHS	61,235		
45.301	Museums for America	KHS	61,794		
45.310	Grants to States	DLA	1,526,925		
Total U.S. National Foundation on the Arts and Humanities			\$ 2,360,594	\$	\$ 710,500
<u>U.S. Small Business Administration</u>					
Direct Programs:					
59.061	State Trade and Export Promotion Pilot Grant Program	CED	\$ 195,233	\$	\$
Total U.S. Small Business Administration			\$ 195,233	\$	\$
<u>U.S. Department of Veterans Affairs</u>					
Direct Programs:					
64.005	Grants to States for Construction of State Home Facilities	VA	\$ 10,895,024	\$	\$
64.015	Veterans State Nursing Home Care	VA	25,188,741		
64.101	Burial Expenses Allowance for Veterans	VA	560,115		
Total U.S. Department of Veterans Affairs			\$ 36,643,880	\$	\$

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Environmental Protection Agency					
Direct Programs:					
66.032	State Indoor Radon Grants	CHFS	\$ 287,350	\$	\$ 202,948
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Note 10)	EEC	682,979	87,343	
66.040	State Clean Diesel Grant Program	EEC	95,438		95,438
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	EEC	192,451		8,969
66.454	Water Quality Management Planning	EEC	170,000		
Clean Water State Revolving Fund Cluster:					
66.458	Capitalization Grants for Clean Water State Revolving Funds	EEC PARKS	876,520		
66.460	Nonpoint Source Implementation Grants	EEC	2,096,643		1,916,394
66.461	Regional Wetland Program Development Grants	EEC	166,529		114,133
Drinking Water State Revolving Fund Cluster:					
66.468	Capitalization Grants for Drinking Water State Revolving Funds	EEC	3,724,015		58,059
66.474	Water Protection Grants to the States (Note 14)	COT			
66.605	Performance Partnership Grants (Note 10)	EEC AGR	8,385,446 573,824	359,239	184,669
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	EEC	113,099		
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	CHFS	164,966		33,821
66.717	Source Reduction Assistance	EEC	17,726		
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	EEC	43,662		
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	EEC	543,338		
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	EEC	1,283,731		
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	EEC	33,421		
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	EEC	49,000		49,000
Total U.S. Environmental Protection Agency			<u>\$ 19,500,138</u>	<u>\$ 446,582</u>	<u>\$ 2,663,431</u>
U.S. Department of Energy					
Direct Programs:					
81.041	State Energy Program	EEC	\$ 747,284	\$	\$ 106,480
81.042	Weatherization Assistance for Low-Income Persons (Note 14)	FAC			
81.042	ARRA-Weatherization Assistance for Low-Income Persons (Note 13)(Note 14)	FAC			
81.086	ARRA-Conservation Research and Development (Note 13) (Note 14)	EDU			
81.104	Environmental Remediation and Waste Processing and Disposal	EEC	737,659		
		CHFS	463,763		238,399
81.119	State Energy Program Special Projects	DLG	170,788		93,786
		EEC	132,400		68,188
81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13)	DLG	100,000		100,000
		PPC			
81.138	State Heating Oil and Propane Program	EEC	9,361		
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight (Note 14)	CHFS			
Total U.S. Department of Energy			<u>\$ 2,361,255</u>	<u>\$</u>	<u>\$ 606,853</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education					
Direct Programs:					
84.010	Title I Grants to Local Educational Agencies (Note 2)	EDU	\$ 210,358,045	\$	\$ 204,213,300
84.011	Migrant Education_State Grant Program	EDU	7,444,744		7,265,813
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	JUV	810,087		624,577
		CORR	30,695		
		EDU	5,025		
Special Education Cluster:					
84.027	Special Education_Grants to States (Note 2)	EDU	151,957,492		149,871,380
84.173	Special Education_Preschool Grants (Note 2)	EDU	9,949,294		9,582,726
84.048	Career and Technical Education Basic Grants to States	EDU	17,027,466		14,945,238
		EPSB	87,163		
		CORR	58,265		
		DWI			
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States (Note 2)	DWI	52,877,558		2,188,519
84.128	Rehabilitation Services_Service Projects (Note 14)	DWI			
84.144	Migrant Education_Coordination Program	EDU	51,985		13,945
84.161	Rehabilitation Services_Client Assistance Program	DWI	145,780		
84.169	Independent Living_State Grants	DWI	140,862		124,771
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	DWI	277,781		
84.181	Special Education-Grants for Infants and Families	CHFS	5,832,276		
84.184	Safe and Drug-Free Schools and Communities_National Programs	EDU	1,277		
84.186	Safe and Drug-Free Schools and Communities_State Grants (Note 14)	EDU			
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	DWI	447,071		
84.196	Education for Homeless Children and Youth	EDU	898,235		873,871
84.213	Even Start_State Educational Agencies (Note 14)	EDU			
84.215	Fund for the Improvement of Education (Note 14)	KHS			
		EDU			
84.224	Assistive Technology	DWI	450,778		364,899
84.235	Rehabilitation Services Demonstration and Training Programs	DWI	160,955		36,759
84.240	Program of Protection and Advocacy of Individual Rights	PUBAD	192,276		
84.243	Tech-Prep Education (Note 14)	DWI			
		EDU			
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	DWI	238,499		
84.287	Twenty-First Century Community Learning Centers	EDU	18,717,361		18,666,803
84.298	State Grants for Innovative Programs (Note 14)	EDU			
84.318	Educational Technology State Grants (Note 14)	EDU			
84.323	Special Education-State Personnel Development	EDU	1,182,588		1,125,655
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	EDU	268,084		268,084
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	EDU	432,012		
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals (Note 14)	CORR			
84.336	Teacher Quality Partnership Grants (Note 14)	EPSB			
84.343	Assistive Technology_State Grants for Protection and Advocacy	PUBAD	92,954		
84.357	Reading First State Grants (Note 14)	EDU			
84.358	Rural Education	EDU	4,830,555		4,796,074
84.365	English Language Acquisition State Grants	EDU	3,697,123		3,566,757

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.366	Mathematics and Science Partnerships	EDU	2,111,348		1,982,568
84.367	Improving Teacher Quality State Grants (Note 2)	EDU	32,129,490		31,855,523
		EPSB	180,752		
84.369	Grants for State Assessments and Related Activities	EDU	4,362,571		
84.371	Striving Readers (Note 14)	EDU			
84.372	Statewide Longitudinal Data Systems	DWI	1,289,766		
		EDU			
School Improvement Grants Cluster:					
84.377	School Improvement Grants	EDU	7,191,080		6,636,724
84.388	ARRA-School Improvement Grants, Recovery Act (Note 13)	EDU	1,221,607		1,221,607
84.389	ARRA - Title I Grants to Local Educational Agencies, Recovery Act	EDU			
84.391	ARRA - Special Education Grants to States, Recovery Act	EDU			
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	EDU			
84.397	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act (Note 13)(Note 14)	CORR			
		FAC			
84.410	Education Jobs Fund (Note 14)	EDU			
84.412	Race to the Top-Early Learning Challenge	GOV	809,227		
		CHFS	715,448		646,101
		EDU	197,803		10,083
84.413	Race to the Top	EDU	2,676,263		2,605,399
84.416	Race to the Top-District Grants	DWI	22,612		
Total U.S. Department of Education			\$ 541,572,253	\$	\$ 463,487,176
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	DLA	\$ 7,586	\$	\$
Total U.S. National Archives and Records Administration			\$ 7,586	\$	\$
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments (Note 7)	KBE	\$ 313,255	\$	\$
Total U.S. Election Assistance Commission			\$ 313,255	\$	\$
U.S. Department of Health and Human Services					
Direct Programs:					
93.003	Public Health and Social Services Emergency Fund (Note 14)	CHFS	\$	\$	\$
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	CHFS	68,895		65,724
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	CHFS	172,986		113,213
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	CHFS	242,630		196,554
Aging Cluster:					
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	CHFS	5,080,322		4,668,564
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	CHFS	7,836,173		7,150,578
93.053	Nutrition Services Incentive Program	CHFS	1,727,354		1,630,531

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.048	Special Programs for the Aging_ Title IV_ and Title II_Discretionary Projects	CHFS	91,933		
93.051	Alzheimer's Disease Demonstration Grants to States	CHFS	223,201		213,678
93.052	National Family Caregiver Support, Title III, Part E	CHFS	1,892,948		1,626,728
93.069	Public Health Emergency Preparedness (Note 10)	CHFS	8,621,527	48,261	4,687,795
93.070	Environmental Public Health and Emergency Response	CHFS	257,151		153,836
93.071	Medicare Enrollment Assistance Program	CHFS	240,230		134,246
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)				
	Aligned Cooperative Agreements	CHFS	39,126		38,356
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	EDU	103,305		16,000
93.087	Enhance Safety of Children Affected by Substance Abuse	CHFS	517,665		259,293
93.089	Emergency System for Advance Registration of Volunteer Health Professionals	CHFS	59,318		12,226
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	CHFS	674,188		580,516
93.103	Food and Drug Administration_Research	CHFS	501,271		
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	CHFS	228,939		108,650
93.110	Maternal and Child Health Federal Consolidated Programs	CHFS	216,142		130,569
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	CHFS	442,790		225,654
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	CHFS	168,274		
93.136	Injury Prevention and Control Research and State and Community Based Programs	CHFS	491,493		491,493
93.138	Protection and Advocacy for Individuals with Mental Illness	PUBAD	373,287		
93.150	Projects for Assistance In Transition from Homelessness (PATH)	CHFS	470,249		468,707
93.217	Family Planning_Services	CHFS	5,266,609		4,713,146
93.230	Consolidated Knowledge Development and Application (KD&A) Program (Note 14)	CHFS			
93.235	Affordable Care Act (ACA) Abstinence Education Program	CHFS	687,631		570,812
93.236	Grants to States to Support Oral Health Workforce Activities (Note 14)	CHFS			
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance (Note 7)	CHFS	4,936,641		2,584,439
		AOC	1,746,028		
		CORR	398,714		
		EDU	31,975		
93.251	Universal Newborn Hearing Screening	CHFS	300,230		
93.267	State Grants for Protection and Advocacy Services	PUBAD	57,026		
93.268	Immunization Cooperative Agreements (Note 2) (Note 10)	CHFS	4,065,777	46,383,763	1,333,467
93.270	Adult Viral Hepatitis Prevention and Control	CHFS	95,453		
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	CHFS	3,338,102		2,025,937
93.292	National Public Health Improvement Initiative	CHFS	143,374		3,228
93.296	State Partnership Grant Program to Improve Minority Health	CHFS	103,266		300
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	CHFS	215,308		
93.324	State Health Insurance Assistance Program	CHFS	758,685		37,010
93.369	ACL Independent Living State Grants	DWI	90,220		88,461
93.414	ARRA-State Primary Care Offices (Note 13) (Note 14)	CHFS			
93.504	Family to Family Health Information Centers	CHFS	79,071		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	CHFS	9,023,142		7,576,793
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	CHFS	344,602		
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	PPC	485,616		
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	CHFS	259,085		192,190
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	CHFS	701,477		
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (Note 2)	CHFS	89,122,368		
		PPC			
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	CHFS	111,878		
93.556	Promoting Safe and Stable Families	CHFS	4,804,892		4,132,146

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
Temporary Assistance for Needy Families Cluster:					
93.558	Temporary Assistance for Needy Families (Note 2)	CHFS	153,479,125		26,606,734
93.563	Child Support Enforcement (Note 2)	CHFS AOC	37,769,146 35,017		20,589,849
93.564	Child Support Enforcement Research (Note 14)	CHFS			
93.568	Low-Income Home Energy Assistance (Note 2)	CHFS	46,720,489		46,633,998
93.569	Community Services Block Grant	CHFS	10,555,267		10,454,503
Child Care and Development Block Grant Cluster:					
93.575	Child Care and Development Block Grant (Note 2)	CHFS	24,320,931		7,474,928
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	CHFS	24,882,008		602,994
93.586	State Court Improvement Program	AOC	497,336		
93.590	Community-Based Child Abuse Prevention Grants	CHFS	2,627,036		2,446,652
93.597	Grants to States for Access and Visitation Programs	CHFS	76,895		75,903
93.599	Chafee Education and Training Vouchers Program (ETV)	CHFS	519,002		
93.600	Head Start	GOV EDU	170,284		
93.603	Adoption and Legal Guardianship Incentive Payments	CHFS	986,725		986,725
93.617	Voting Access for Individuals with Disabilities_Grants To States (Note 7)	KBE	103,443		
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	PUBAD	134,940		
93.624	ACA-State Innovation Models: Funding for Model Design and Model Testing Assistance	CHFS	88,524		
93.627	Affordable Care Act: Testing Experience and Functional Assessment Tools	CHFS	195,428		
93.630	Developmental Disabilities Basic Support and Advocacy Grants	CHFS	1,093,750		
93.643	Children's Justice Grants to States	PUBAD CHFS OAG	554,624 331,740		
93.645	Stephanie Tubbs Jones Child Welfare Services Program	CHFS	4,264,967		
93.647	Social Services Research and Demonstration (Note 14)	CHFS			
93.658	Foster Care_Title IV-E (Note 2)	CHFS JUV AOC	46,694,361 2,229,736 395,432		3,397,131
93.658	ARRA-Foster Care_Title IV-E (Note 13) (Note 14)	CHFS			
93.659	Adoption Assistance (Note 2)	CHFS	43,733,920		
93.659	ARRA-Adoption Assistance (Note 13) (Note 14)	CHFS			
93.667	Social Services Block Grant	CHFS JUV FAC	16,082,663 8,640,945		40,739
93.667	ARRA-Social Services Block Grant (Note 13)(Note 14)	CHFS			
93.669	Child Abuse and Neglect State Grants	CHFS	410,821		210,078
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	CHFS	1,505,962		1,503,446
93.674	Chafee Foster Care Independence Program	CHFS	2,315,580		1,369,026
93.705	ARRA-Aging Home-Delivered Nutrition Services for States (Note 13) (Note 14)	CHFS			
93.707	ARRA-Aging Congregate Nutrition Services for States (Note 13) (Note 14)	CHFS			
93.708	ARRA-Head Start (Note 13) (Note 14)	GOV EDU			
93.719	ARRA- Advance Interoperable Health Information Technology Services to Support Health Information Exchange (Note 13) (Note 14)	CHFS			
93.723	ARRA-Prevention and Wellness-State, Territories and Pacific Islands (Note 13) (Note 14)	CHFS			
93.725	ARRA-Communities Putting Prevention to Work: Chronic Disease Self-Management Program (Note 13) (Note 14)	CHFS			
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF)	CHFS	431,383		

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Diseases Self-Management Education Programs-financed by Prevention and Public Health Funds (PPHF)	CHFS	179,981		41,308
93.735	State Public Health Approaches for Ensuring Quitline Capacity-Funded in part by Prevention and Public Health Funds (PPHF)	CHFS	236,032		
93.744	PPHF:Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by Prevention and Public Health Funds (Note 14)	CHFS			
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	CHFS	216,343		156,032
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	CHFS	1,213,699		838,882
93.767	Children's Health Insurance Program (Note 2)	CHFS	111,856,935		
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units (Note 2)	OAG	2,355,578		
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2)	CHFS	8,121,884		
93.778	Medical Assistance Program (Note 2)	CHFS	7,621,823,735		45,740
93.778	ARRA-Medical Assistance Program (Note 2)(Note 13)	CHFS	33,484,795		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	CHFS	6,331,692		519,029
93.780	Grants to States for Operation of Qualified High-Risk Pools	CHFS	440,525		
93.793	Medicaid Transformation Grants (Note 14)	CHFS			
93.889	National Bioterrorism Hospital Preparedness Program	CHFS MIL	2,832,912 94,870		1,875,442 5,226
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	DW1	80,980		17,335
93.917	HIV Care Formula Grants	CHFS	6,784,488		6,530,455
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	EDU CHFS			
93.940	HIV Prevention Activities_Health Department Based	CHFS	1,546,584		720,640
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	CHFS	393,618		127,686
93.945	Assistance Programs for Chronic Disease Prevention and Control	CHFS EDU	922,853 397,198		240,648 39,738
93.958	Block Grants for Community Mental Health Services	CHFS CORR DWI	5,498,588 51,500 12		4,592,929
93.959	Block Grants for Prevention and Treatment of Substance Abuse	CHFS KSP JUST	19,400,833		17,741,803
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants (Note 10)	CHFS	555,502	477,311	139,387
93.991	Preventive Health and Health Services Block Grant	CHFS	912,740		563,810
93.994	Maternal and Child Health Services Block Grant to the States	CHFS	11,854,951		4,468,385
93.NA(1)	Other Federal Assistance (Note 1)	CHFS KSP	283,551 19,877		
93.NA(2)	Medicare Nursing Home Care (Note 1)	VA	2,721,151		
Total U.S. Department of Health and Human Services			\$ 8,430,369,454	\$ 46,909,335	\$ 207,288,021
U.S. Corporation for National and Community Service					
Direct Programs:					
94.003	State Commissions	CHFS	\$ 279,984	\$	\$
94.004	Learn and Serve America_School and Community Based Programs (Note 14)	EDU CORR			
94.006	AmeriCorps	CHFS	4,507,251		4,507,251
94.007	Program Development and Innovation Grants (Note 14)	CHFS			
94.009	Training and Technical Assistance	CHFS	55		
Foster Grandparent/Senior Companion Cluster:					
94.011	Foster Grandparent Program	CHFS	533,730		
Total U.S. Corporation for National and Community Service			\$ 5,321,020	\$	\$ 4,507,251

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Office of National Drug Control Policy					
Direct Program:					
95.001	High Intensity Drug Trafficking Areas Program	KSP OAG	\$ 1,243,522 18,053	\$	\$
Total U.S. Office of National Drug Control Policy			\$ 1,261,575	\$	\$
U.S. Social Security Administration					
Direct Programs:					
Disability Insurance/Supplemental Security Income Cluster:					
96.001	Social Security_Disability Insurance (Note 2)	CHFS OAG	\$ 44,852,113 330,159	\$	\$
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	PUBAD	180,600		
Total U.S. Social Security Administration			\$ 45,362,872	\$	\$
U. S. Department of Homeland Security					
Direct Programs:					
97.012	Boating Safety Financial Assistance	F&W	\$ 1,088,742	\$	\$
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	EEC	220,566		
97.029	Flood Mitigation Assistance	MIL TC	152,937		152,937
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	MIL TC PARKS DWI KSP	13,415,461 69,244 29,022		10,141,601
97.039	Hazard Mitigation Grant	MIL	16,261,403		15,756,544
97.040	Chemical Stockpile Emergency Preparedness Program	MIL	21,914,326		18,742,861
97.041	National Dam Safety Program	EEC	237,662		
97.042	Emergency Management Performance Grants	MIL	4,825,487		2,534,191
97.045	Cooperating Technical Partners	EEC	2,569,192		
97.047	Pre-Disaster Mitigation	MIL	1,603,272		1,603,272
97.056	Port Security Grant Program	F&W KSP	444,498		
97.067	Homeland Security Grant Program	KOHS KSP TC PPC KVE COT	4,255,143 162		3,322,497
97.077	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection (Note 14)	TC			
97.078	Buffer Zone Protection Program (BZPP) (Note 14)	F&W			
97.088	Disaster Assistance Projects	CHFS			
97.089	Driver's License Security Grant Program	TC	1,038,473		
97.107	National Incident Management System (NIMS) (Note 14)	MIL			
97.110	Severe Repetitive Loss Program	MIL	68,457		
Total U.S. Department of Homeland Security			\$ 68,194,047	\$	\$ 52,253,903
Other Federal Assistance					
Direct Programs:					
NA(1)	Tennessee Valley Authority (Note 1) (Note 14)	F&W	\$	\$	\$
Total Other Federal Assistance			\$	\$	\$
Total All State Agencies			\$ 11,050,032,000	\$ 1,223,364,213	\$ 1,249,350,584

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Note 1 - Purpose of the Schedule and Significant Accounting Policies

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

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

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

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2015. The noncash expenditures presented on this schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

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

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

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

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

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

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

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

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

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$30,000,000 for FY 2015. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 15, some of which were administered by more than one state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA	Program Title	Expenditures
Supplemental Nutrition Assistance Program Cluster		
10.551	Supplemental Nutrition Assistance Program	\$ 1,137,600,739
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	52,793,139
Child Nutrition Cluster		
10.553	School Breakfast Program	76,495,402
10.555	National School Lunch Program	224,898,971
10.556	Special Milk Program for Children	37,288
10.559	Summer Food Service Program for Children	5,973,368

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	115,938,023
10.558	Child and Adult Care Food Program	35,339,278
15.252	Abandoned Mine Land Reclamation (AMLR) Program	39,736,009
17.225	Unemployment Insurance	388,915,535
Workforce Investment Act Cluster		
17.258	WIA/WIOA Adult Program	12,906,658
17.259	WIA/WIOA Youth Activities	11,776,447
17.278	WIA/WIOA Dislocated Worker Formula Grants	10,769,471
Highway Planning and Construction Cluster		
20.205	Highway Planning and Construction	729,201,496
20.205	ARRA-Highway Planning and Construction	220,336
20.219	Recreational Trails Program	869,682
84.010	Title 1 Grants to Local Educational Agencies	210,358,045
Special Education Cluster		
84.027	Special Education_Grants to States	151,957,492
84.173	Special Education_Preschool Grants	9,949,294
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	52,877,558
84.367	Improving Teacher Quality State Grants	32,129,490
93.268	Immunization Cooperative Agreements	50,449,540

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	89,122,368
Temporary Assistance for Needy Families Cluster		
93.558	Temporary Assistance for Needy Families	153,479,125
93.563	Child Support Enforcement	37,804,163
93.568	Low-Income Home Energy Assistance	46,720,489
Child Care Cluster		
93.575	Child Care and Development Block Grant	24,320,931
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	24,882,008
93.658	Foster Care_Title IV-E	49,319,529
93.659	Adoption Assistance	43,733,920
93.767	Children's Health Insurance Program	111,856,935
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	2,355,578
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	8,121,884
93.778	Medical Assistance Program	7,621,823,735
93.778	ARRA-Medical Assistance Program	33,484,795
Disability Insurance/Supplemental Security Income Cluster		
96.001	Social Security_Disability Insurance	45,182,272
Total Type A Programs		\$ 11,643,400,993

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

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

The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U. S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments administered by the Office of Financial Management. The Department of Agriculture is no longer in the business of making student loans and reassigned all loans in payment compliance to the Kentucky Higher Education Assistance Authority (KHEAA). The Department of Agriculture retained only those loans that had a delinquent payment history. This program is currently in phase-out status, with authorization from the U. S. Department of Agriculture (USDA) to eliminate the principal through issuance of specific grants and scholarships. All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2015 outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY15.

Note 4 - Unemployment Insurance (CFDA 17.225)

The Commonwealth paid out \$355,032,901 in benefits in FY 2015. The amounts shown on the accompanying schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$33,882,676 of federal funds expended for administration of the program, resulting in a combined total of \$388,915,577 in federal expenditures. Included in this amount is \$42 in benefit payments funded by the American Recovery and Reinvestment Act (ARRA).

Note 5 - Highway Planning and Construction (CFDA 20.205)

The information reported for this 20.205 Highway Planning and Construction program represents the activity of all open projects during FY 2015. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration.

Refunds - Expenditures for the Highway Planning and Construction Program were shown net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$190,276 for FY 2015.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

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

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

Note 7 - Research and Development Expenditures

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

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

CFDA	Program Title	State Agency	Expenditures
15.605	Sport Fish Restoration Program	F&W	\$ 499,947
15.615	Cooperative Endangered Species Conservation Service	F&W	14,285
15.634	State Wildlife Grants	F&W	712,416
16.585	Drug Court Discretionary Grant Program	AOC	113,349
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	AOC	1,128
39.011	Election Reform Payments	KBE	329,146
90.401	Help America Vote Act Requirements Payments	KBE	313,255
93.243	Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	AOC	356,719
93.617	Voting Access for Individuals With Disabilities_ Grants to States	KBE	103,443
Total Research and Development Expenditures			\$ 2,443,688

**COMMONWEALTH OF KENTUCKY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2015
 (Continued)**

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

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

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

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

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

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

Note 10 - Noncash Expenditure Programs

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

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Note 10 - Noncash Expenditure Programs (Continued)

CFDA	Program Title	Amount	Method/Basis of Valuation
10.551	Supplemental Nutrition Assistance Program	\$ 1,137,600,739	EBT Issuance
10.555	National School Lunch Program	24,414,280	Commodities issued for FY15 per WBSCM report
10.565	Commodity Supplemental Food Program	5,719,401	Commodities issued for FY15 per WBSCM report
10.569	Emergency Food Assistance Program (Food Commodities)	7,638,199	Commodities issued for FY15 per WBSCM report
12.700	Donations/Loans of Obsolete DOD Property	10,884	Acquisition Cost determined by the Department of Defense
39.003	Donation of Federal Surplus Personal Property	587,249	22.47% of federal acquisition cost (\$2,613,480)
39.003	Donation of Federal Surplus Personal Property	37,544	Determined by Federal Government
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	87,343	EPA contracts with Eastern Research Group for sample analysis
66.605	Performance Partnership Grants	359,239	In-kind services valued by the donor, the U.S. Environmental Protection Agency
93.069	Public Health Emergency Preparedness	48,261	Grant Award Document
93.268	Immunization Cooperative Agreements	46,383,763	CDC Report
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	477,311	Grant Award Document
Total Noncash Expenditures		<u>\$ 1,223,364,213</u>	

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Note 11 - Activity Occurring in Programs with Inventoriable Items

The Department of Agriculture operates a state-wide Commodity Supplemental Food Program (CFDA 10.565). The dollar value of the inventory, based on the USDA Commodity File dated June 2015 is as follows:

	Commodity Supplemental Food Program CFDA 10.565
Beginning Inventory, July 1, 2014	\$ 1,917,151
Price Adjustment	(83,209)
Adjusted Inventory, July 1, 2014	<u>1,833,942</u>
Received Commodities	5,440,651
Issued to Recipients	(5,719,401)
Net Value of Inventory Adjustments, June 30, 2015	(371,261)
Ending Inventory, June 30, 2015	<u><u>\$ 1,183,931</u></u>

Note 12 - Election Reform Payments (CFDA 39.011)

Interest earned must be used for additional program expenditures.

Note 13 - Pertaining to ARRA

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

Note 14 - Zero Expenditure Programs

These programs had no expenditures related to the respective state organization during FY 2015. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. For CFDA numbers with multiple state agencies listed, the schedule is presented in descending expenditure amount order.

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Honorable Matthew G. Bevin, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the Fiscal Year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 11, 2015. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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



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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be material weaknesses: 2015-001 and 2015-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in the accompanying schedule of financial statement findings, to be significant deficiencies: 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, 2015-008, 2015-009, 2015-010, 2015-011, 2015-012, 2015-013, 2015-014, 2015-015, 2015-016, 2015-017, 2015-018, 2015-019, 2015-020, 2015-021, 2015-022, 2015-023, 2015-024, 2015-025, 2015-026, 2015-027, 2015-028, 2015-029, 2015-030, 2015-031, 2015-032, 2015-033, 2015-034, 2015-035, 2015-036, 2015-037, 2015-038, 2015-039, 2015-040, 2015-041, 2015-042, 2015-043, 2015-044, 2015-045.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of a noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of financial statement findings as item 2015-001. Additionally, we noted certain matters that we reported to management in separate letters.

Management's Response to Findings

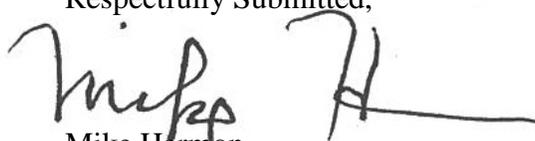
Management's responses to the findings identified in our audit are described in the accompanying schedule of financial statement findings. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Purpose of this Report

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

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 11, 2015

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations

The Department for Workforce Investment (DWI) failed to clearly establish a commitment to ensuring compliance with state and federal regulations over achieving financial goals and objectives. Transactions processed by DWI management, performed outside of established policies and procedures, resulted in a material noncompliance with state law. Additionally, interviews and correspondence revealed DWI management's intent to conduct future transactions which would have been in violation of federal law if they had not been detected and prevented during the audit.

In January 2009, as a result of the 2008 recession, Kentucky's Unemployment Insurance (UI) Trust Fund was fully depleted, requiring the state to begin utilizing Federal Unemployment Account (FUA) advances, per Title XII of the Social Security Act, each month to pay unemployment insurance compensation claims. From 2009 through 2011, the Federal Government waived the interest due on the FUA advances; however, in 2012, this decision was reversed, and the interest accrued on the FUA advances was required to be tracked and paid.

In April 2012, Kentucky Revised Statute (KRS) 341.614 was enacted in order to collect and allocate additional funding to be restricted explicitly for the payment of interest on FUA advances. KRS 341.614 states, in part, "[e]ffective January 1, 2014, there shall be a surcharge upon all subject contributing employers for any year there are insufficient funds in the unemployment compensation administration fund for the payment of interest on advances under Title XII of the Social Security Act or for the repayment of money, including any interest thereon, received from any source related to the payment of interest on such advances."

In May 2015, DWI management directed personnel, contrary to established policy, that they were not to transfer surcharge or surcharge interest proceeds to the interest payment fund, and to allow these funds to be wired to the federal UI Trust Fund. This transaction was later corrected by an approximately \$4 million transfer, as processed in June 2015, to revert "erroneously" deposited surcharge funds from the UI Trust fund back into the interest payment fund, which houses the surcharge funds.

Subsequent to June 30, 2015, DWI management once again circumvented established internal controls in an effort to ensure the UI Trust Fund had a positive balance on November 10, 2015 in order to save Kentucky employers an estimated \$165 million in Federal Unemployment Tax Act (FUTA) tax credits. Correspondence from DWI management indicated:

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations (Continued)**

In order to ensure that a maximal amount of funds are on deposit with the US Treasury which will keep current and future borrowing costs, meaning any interest owed the US Treasury, as low as possible given the prior near \$1B in borrowed funds used to pay UI benefits for the prior 7 years as a result of the economic recession of 2008, Kentucky currently has excess unobligated surcharge proceeds that can ensure we maintain low current and future borrowing costs as well as ensure we reach November 10th without any additional borrowing if we deposit this excess for a small period of time with the US Treasury. This is statutorily supported by KRS 341.296, specifically, that the Secretary may prescribe and direct with discretion, such amounts.

The review identified that KRS 341.296 was misinterpreted and did not provide DWI authorization to transfer surcharge funds into the UI Trust Fund.

On August 26, 2015, DWI transferred \$20 million of recognized surcharge funds to the federal UI Trust Fund, with management identifying this transfer as an “investment”. This transfer was executed and approved by DWI management outside of the established control structure, policies, and procedures and without the immediate knowledge of personnel who are assigned to oversee and manage the federal UI Trust Fund activity. Interviews with DWI management indicated intent to recover these funds after the November 10 snapshot date revealed a positive UI Trust Fund balance that would secure Kentucky businesses significant tax savings. Discussions with DWI management revealed the intent to utilize one of two possible mechanisms to recover these surcharge funds:

1. DWI would withhold future UI employer contributions and deposit those into the interest payment fund instead of transferring those contributions to the UI Trust Fund.
2. DWI would drawdown invested surcharge funds back from the UI Trust Fund.

Discussions with Department of Labor (DOL) officials identified that the federal UI Trust Fund is not to be utilized for investment purposes; therefore, DWI’s authorization to conduct the transfer in accordance with KRS 341.296 is not valid. Additionally, once money is deposited into the UI Trust Fund it is to be utilized for UI benefit payments and therefore, would not be available for the surcharge funds allowable statutory purposes. Based on this information, the following was established:

1. If the transfer of surcharge funds to the UI Trust Fund was completed in error, federal guidance indicates DWI should immediately remove that funding from the UI Trust Fund as a correction.
2. Once money is deposited into the UI trust fund it cannot be drawn back down for any other purpose other than as an expense to pay UI benefits. Additionally, improperly withholding future benefits contributions to replenish the surcharge balance would be a violation of the immediate deposit and withdrawal standards as found in Sections 3304(A)(3) and (4) of FUTA which would result in additional penalties.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations (Continued)**

Perceived political pressure surrounded the November 10 snapshot date, as Kentucky employers would save an estimated \$165 million in future FUTA tax credits if the UI Trust Fund had a positive balance on the snapshot date. In attempting to meet its financial goals and objectives concerning the solvency of the UI Trust Fund, DWI management failed to ensure compliance with KRS 341, specifically, KRS 341.296 was misinterpreted to read that the DWI Secretary can invest surcharge funds into the UI Trust Fund, which is not an appropriate investment tool. DWI management also failed to fully acknowledge the restrictions imposed on surcharge funds per KRS 341.614 and KRS 341.612.

Upon discussions with auditors, DWI management determined to reverse the transaction and remove the \$20 million from the federal UI Trust Fund on November 4, 2015. However, this activity identifies management weaknesses which could have led to material noncompliances had the transaction not been detected and corrected. Intentionally depositing restricted funds into the UI Trust Fund as an investment violated state laws restricting the use of those funds and created an inflated fund balance of the UI Trust Fund. Had the transaction not been reversed, the federal oversight authority's review of the solvency of Kentucky's UI Trust Fund at November 10 would have been based on inaccurate information. This inappropriate utilization and transfer of surplus funds has resulted in a material noncompliance with state law. Additionally, potentially significant penalties would have been imposed upon Kentucky had DWI management followed through with their intent to recover the balance of the surcharge by either withholding future UI benefit contributions in violation of the immediate deposit and withdrawal standards or drawing the funds back down from the UI Trust Fund at a later date.

The state laws related to unemployment compensation are codified in KRS chapter 341 which establishes the following:

KRS 341.614 states, in part,

- (1) Effective January 1, 2014, there shall be a surcharge upon all subject contributing employers for any year there are insufficient funds in the unemployment compensation administration fund for the payment of interest on advances under Title XII of the Social Security Act or for the repayment of money, including any interest thereon, received from any source related to the payment of interest on such advances...
- (3) The surcharge established in this section shall be due and payable at the same time and in the same manner as employer contributions. Any surcharge collected shall be deposited in the unemployment insurance interest payment fund.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations (Continued)**

KRS 341.612, related to the creation of the interest payment fund, states, in part,

- (1) There is created within the State Treasury a special fund for unemployment insurance known as the interest payment fund which shall be administered separate and apart from all public money or funds of the state.
- (2) The unemployment insurance interest payment fund shall be used exclusively for the purposes of payment of interest on advances under Title XII of the Social Security Act received from the United States Department of Labor in support of the unemployment insurance programs of the Commonwealth and repayment of money, including any interest thereon, received from any source related to the payment of interest on such advances.

KRS 341.611 states, in part,

- (1) Any interest required to be paid on advances under Title XII of the Social Security Act shall be paid in a timely manner and shall not be paid directly or indirectly, by an equivalent reduction in unemployment contributions or otherwise, by the state unemployment insurance fund.

Federal law related to UI is regulated with FUTA and the Social Security Act which establishes the following:

26 U.S.C. § 3304(a)(3) states, in part,

All money received in the unemployment fund shall (except for refunds of sums erroneously paid into such fund and except for refunds paid in accordance with the provisions of section 3305(b)) immediately upon such receipt be paid over to the Secretary of the Treasury to the credit of the Unemployment Trust Fund established by section 904 of the Social Security Act...

26 U.S.C. § 3304(a)(4) states, in part,

All money withdrawn from the unemployment fund of the State shall be used solely in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund...

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations (Continued)**

Section 503 of the Social Security Act (42 U.S.C. § 503), states, in part,

- (a) The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State, approved by the Secretary of Labor under the Federal Unemployment Tax Act, includes provision for:
 - (4) The payment of all money received in the unemployment fund of such State (except for refunds of sums erroneously paid into such fund and except for refunds paid in accordance with the provisions of section 3305(b) of the Federal Unemployment Tax Act), immediately upon such receipt to the Secretary of the Treasury to the credit of the unemployment trust fund established by section 1154 of this title; and
 - (5) Expenditure of all money withdrawn from an unemployment fund of such State, in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305(b) of the Federal Unemployment Tax Act...

Following communication of the material noncompliance identified above, DWI management responded on November 4, 2015 that “The Cabinet has initiated today a correction to have the \$20 million surcharge investment refunded from the US Treasury’s Unemployment Trust Fund.” In doing so, DWI acknowledged that the transfer of surcharge funds was completed in error, and thus followed federal guidance to rectify the deficiency.

Recommendation

We recommend DWI ensure compliance with all state and federal regulations and take appropriate action to properly research and consult with authoritative and governing bodies before proceeding with any unusual transactions outside the normal course of business. Additionally, DWI management should set the tone at the top that promotes sound financial reporting and compliance with enacted policies and procedures, as well as state and federal law. Management should not circumvent its own established policies and procedures in order to process transactions, and any circumvention of established policies and procedures should be a red flag for management of potential risks of fraud, waste, or abuse.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations (Continued)**

Management's Response and Corrective Action Plan

The Education and Workforce Development Cabinet (EWDC) disagrees with the "Record of Control Weakness" and "Record of Noncompliance" (hereinafter jointly referred to as the "Records"). As a point of clarification, the Office of Employment and Training (OET) is the only Department of Workforce Investment (DWI) office at issue in the Records.

The Records' conclusion that the "[t]ransactions processed by DWI management, performed outside of established policies and procedures, resulted in a material compliance with state law" is inaccurate. Any such OET established policies and procedures cannot override or conflict with state law or authority. The specific policies and procedures are not identified but it appears the erroneous assumption is that all UI Trust Fund activity is conducted by or under the exclusive control of certain OET staff. However, KRS 341.125(1) charges the EWDC Secretary with the overall administration of KRS Chapter 341. As an operational matter, all UI Trust Fund activity is not performed at OET as the EWDC's Office of Budget and Administration conducts activities, including but not limited to, requesting Title XII of the Social Security Act advances for the UI Trust Fund and processing interest wire transfer payments.

In addition, the incorrect state law governing the Interest Payment Fund is cited in the Records concluding "[r]eview identified that KRS 341.296 was misinterpreted and did not provide DWI authorization to transfer surcharge funds into the UI Trust Fund." KRS 341.296 deals with the unemployment compensation administration fund. KRS 341.612 authorizes the investment of the Interest Payment Fund. While KRS 341.612(1) was quoted fully in the Records, subsection (2) of the statute was only partially quoted leaving out the Secretary's authority over the Interest Payment Fund and subsection (3) dealing with investment was not quoted at all.

As a matter of law, surcharge funds collected are deposited into the Interest Payment Fund. KRS 341.614(3). KRS 341.612(2) states "[t]he secretary shall have full power, authority, and jurisdiction over the fund..." KRS 341.612(3) mandates that any money (surcharge in this matter) in the Interest Payment Fund be "invested" at interest in banks or other interest-bearing obligations of the United States of America. As a matter of policy, owing to only 1 state account being created to earn state interest, surcharge proceeds and penalty and interest proceeds are subsequently deposited into the Unemployment Compensation Administration Fund differentiated by activity code, UCAF, created by KRS 341.295; KRS 341.296 allows for the investment of these funds in the UCAF. Therefore, KRS 341.612(3) provides state authority to invest the funds in the Interest Payment Fund including into the federal UI Trust Fund and KRS 341.296 provides same to the UCAF. No state or federal law specifically prohibiting the investment in the federal UI Trust Fund has been cited.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations (Continued)

Management's Response and Corrective Action Plan (Continued)

The investment of the Interest Payment Fund money in the federal UI Trust Fund increased the rate of interest from 0.1% at the bank to 2.33%. The investment into the federal UI Trust Fund was corrected on November 4, 2015, due to an email from a United States Department of Labor official generally raising concerns about utilizing the Fund for investment purposes.

The Records also allege that "interviews and correspondence revealed DWI management's intent to conduct future transactions which would have been in violation of federal law if they had not been detected and prevented during the audit." Apparently, this references a proposal to withhold future contributions to recover the funds invested. It is accurate that a preliminary recommendation was made to withhold future contributions. The preliminary recommendation was immediately rejected by EWDC legal staff as not being a viable option due to the federal immediate deposit rule. Therefore, the audit did not detect and prevent the alleged future transactions.

Finally, there is no merit to the "perceived political pressure" reference in the Records as the "cause" for the investment. The EWDC's Executive Director of the Office of Budget and Administration and the Director of the Division of Administrative Services both assured the auditors that such did not occur. The OET Executive Director and Deputy Executive Director have confirmed that during audit interviews they were not questioned about "perceived political pressure." Unfortunately, the EWDC Secretary, Deputy Secretary, General Counsel, DWI Commissioner, and DWI Deputy Commissioner were not contacted or interviewed during the audit to also refute the "perceived political pressure" allegation or to clarify the other misunderstandings outlined herein.

Auditor's Reply

Stating transactions were processed "outside established policies and procedures" does not imply the auditors assumed authority rested in certain OET staff. All transactions within the Cabinet have standard procedures, which management is responsible for establishing to ensure compliance and proper controls. Transactions that circumvent established procedures for any reason are higher risk. Members of the Cabinet's senior management chose to process transactions they had little experience with in order to override staff concerns about the validity of the transactions.

The state laws and regulations referenced within and utilized during the audit were not incorrect or misinterpreted by the auditors. Although the Secretary may invest funds as prescribed in KRS 341.612, there is no authorization in federal law that permits the Federal UI Trust Fund to be used in such a manner. As noted in the finding, auditors confirmed with DOL staff that EWDC could not use the Federal UI Trust Fund for investment purposes.

FINANCIAL STATEMENT FINDINGS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2015-001: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations (Continued)**

Auditor's Reply (Continued)

Auditors inquired into management's intent which identified there were no plans to withdraw the funds from the UI Trust Fund prior to the November 10 snapshot date. Auditors notified EWDC management of its conversation with DOL and asked for its plans to remedy the inappropriate transaction. Only following the auditor's inquiry did EWDC management initiate a corrective measure to recover the deposit.

We acknowledge that while the EWDC management indicated there was no overt political pressure, it did indicate that the need to have the UI Trust Fund show a positive balance on the snapshot date was a factor. Therefore, this led to an appearance of "perceived" political pressure. There was no allegation in the report or otherwise regarding overt political pressure, so EWDC management has misinterpreted this statement.

Information surrounding the circumstances of this finding was discussed with DOL officials during the course of the audit. This material weakness will be formally referred to DOL for their review and consideration.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2015-002: The Finance Administration Cabinet Authorized And Approved A Significant Overpayment To A Vendor

As part of the audit of the Commonwealth Comprehensive Annual Financial Report, capital projects managed by the Division of Engineering & Contract Administration (DECA) are reviewed. During the FY15 audit of DECA's capital projects, an incorrect payment made to a contractor was identified. Instead of processing a payment for \$924,567 to the contractor, an employee approved and processed an incorrect payment of \$9,244,567 to the contractor.

Prior to receiving the incorrect payment, the contractor contacted DECA to inquire about the status of their payment. At that time, an employee in DECA accessed the State's financial accounting system, eMARS, and realized that the payment that had been processed and mailed to the contractor was incorrect. The employee issued a "stop-payment" on the check that was mailed to the contractor. The contractor mailed the incorrect check back to DECA. Subsequently, a correct payment was issued to the contractor.

At the time the payment document was being created in eMARS, the preparer mistakenly entered an extra "4" in the payment amount which increased the payment to the contractor from \$924,567 to \$9,244,567. Subsequently, the payment document was incorrectly approved by the Branch Manager for processing.

The document in eMARS was not thoroughly reviewed, therefore the contractor could have received \$8,320,000 more than what they were due at the time of billing.

Good internal controls dictate that transactions be properly reviewed and approved prior to being processed within eMARS. Also, amounts paid to vendors should be based on actual invoices received.

Recommendation

DECA should improve its internal control procedures related to the approval process to ensure that all amounts entered into eMARS are complete and accurate.

Management's Response and Corrective Action Plan

The Division of Engineering and Contract Administration has implemented the following procedures to address the issue. Capital construction payments now have the original invoice attached to the eMars pay document. Each document is opened and the amount is checked against the attached invoice. If the amounts match the document is approved. If there is a discrepancy the document is rejected for correction.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-003: The Cabinet For Health And Family Services Did Not Record Medicaid Expenditures To The Correct Contracts

During the FY 2014 audit the Cabinet for Health and Family Services (CHFS) had not accurately attributed expenditures to the various contracts for Managed Care Organizations (MCOs). Follow-up testing of MCO contract payments performed during FY 2015 again indicated that payments made for July 2014 and August 2014 had not been correctly attributed to separate ACA Medicaid Expansion contracts for the respective MCOs.

It should be noted that CHFS developed and implemented new procedures and MCO payments subsequent to August 2014 were charged against the correct contracts in the future.

CHFS personnel processed MCO payments in July and August 2014 in a manner that did not attribute the expenditures to the correct contract. These MCOs had extant contracts covering only Medicaid Region 3 when new contracts were created to cover the rest of the state, excluding Region 3. When new contracts were established, changes were not implemented to the payment process that would have tagged payment transactions with the new contract number reference.

Region 3 MCO contracts have expenditures incorrectly attributed to them and contracts for the rest of the state have no expenditures attributed to them for payments made in July and August 2014. When payments are not properly categorized or attributed to contracts, the agency runs the risk of over-expending established contract limits or paying for unauthorized services.

According to the Finance and Administration Cabinet Policy FAP 111-45-00 entitled Payment Documents: "An agency shall select the appropriate payment method for all goods and services... All payments referencing contracts and awards established in the state's procurement system shall be made in the state's procurement system and reference the appropriate award."

Recommendation

We recommend CHFS continue to perform the implemented policies and procedures to ensure that all expenditures are charged against the correct contracts.

Management's Response and Corrective Action Plan

In September 2014, CHFS developed and implemented new procedures to ensure all MCO payments are charged against the correct master agreement contracts. The Department of Medicaid Services sorts and approves the monthly MCO payments by master agreement contract and the Division of Accounting and Procurement Services pays accordingly.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-004: The Cabinet For Health And Family Services' Closing Package Procedures Did Not Ensure Reliable And Verifiable Methods Utilized For Estimates

As part of the audit of the Cabinet for Family and Health Services (CHFS) audit for Fiscal Year 2015, accounts receivable and accounts payable estimates, and the processes used to create them, were reviewed to determine if they were accurately calculated, could be repeated with available information, and whether they produced accurate estimates of future transactions. CHFS uses data from prior fiscal years to estimate amounts reported for accounts payable or accounts receivable when actual amounts are not known.

Results of testing noted the following errors:

- The KCHIP Medicaid benefit payable at June 30 was estimated using the actual benefit amounts paid during the three previous fiscal years for services received in prior fiscal years. To determine the reliability of this method audit tests compared the estimated payable amount to the known payable amount for FYs 2012, 2013 and 2014, and identified a large difference as noted below for prior periods:

Fiscal Year	Estimated Outstanding Accounts Payable A	Amount of Paid Claims During a FY with a date of service for Prior Periods B	Variance Between A and B B-A=C	% Variance in Estimated Accounts Payable Per FY C/A=D
2012	\$14,071,269	\$1,549,652	(\$12,521,617)	-88.99%
2013	\$9,731,404	\$951,443	(\$8,779,961)	-90.22%
2014	\$5,961,640	\$839,771	(\$5,121,869)	-85.91%

As noted in the table above, the actual paid claims for prior service periods were 85% to 90% less than estimated amounts. Because the 2015 KCHIP benefit payable amount was calculated using the same methodology and data, we anticipate that this amount is also overstated.

- CHFS also estimated the amount payable to local public health departments at June 30 based on the average of April, May, and June payments made in FY 2015. Attempts to replicate this estimate were difficult, and audit procedures were unable to identify a defined and replicable process for determining the amounts owed. Based on data provided by CHFS, testing indicated the estimated payable amount should have been \$7,269,915, while CHFS estimated the payable amount as \$6,780,800. While the difference of \$489,115 is not material, the process for determining this estimate was deficient because it could not be replicated by auditors using the data available.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-004: The Cabinet For Health And Family Services' Closing Package Procedures Did Not Ensure Reliable And Verifiable Methods Utilized For Estimates (Continued)

- CHFS overstated the accounts receivable amount due within 30 days related to expected Child Support collections because of errors made calculating the estimate. The process involves determining the actual receipts for the prior year to estimate the amount due for the first month of the new fiscal year. CHFS incorrectly reported the amount received for the entire 2015 fiscal year rather than dividing by 12 to determine the amount expected in one month. In total, \$70,945,854 was reported as receivable within 30 days, but the amount reported should have been \$8,645,121, resulting in an overstatement of \$62,300,733. The corresponding receivable over 30 days amount would then be understated by \$62,300,733. This error only impacted the time frame receivable amounts were expected and did not impact the total accounts receivable amount as reported in the CAFR.

In addition to the errors noted above, CHFS failed to submit their closing package to the Finance and Administration Cabinet (FAC) timely. FAC requested that closing schedules be submitted by August 24, 2015. Due to various reasons including the loss of essential experienced staff and the lack of an efficient process, the final submission of CHFS forms were made November 17, 2015. Failure to provide financial information timely causes difficulties in reviewing all relevant information timely, errors may go undetected, and creates inefficient processes for reporting financial information.

The data used to calculate the accounts payable amounts included fiscal years prior to the implementation of managed care in November of 2011 when all Medicaid benefits were fee-for-service. Under managed care, 90% of Kentucky's Medicaid recipients receive medical coverage from Managed Care Organizations, and CHFS is no longer making fee-for-service payments for these recipients. The use of data from fiscal years prior to implementation of Managed Care has skewed these estimates resulting in reporting incorrect estimates of future benefit amounts owed.

Processes for determining estimated amounts payable to local health departments were not adequately documented or the results adequately reviewed/compared for accuracy. The inability to replicate the estimates for public health departments results in unreliable data comparisons and increases the likelihood that the estimate does not accurately reflect the actual amount payable.

It does not appear that the Child Support amounts due within 30 days were reviewed or compared to prior years. A simple comparison with the prior year would indicate a significant variance that should be explained or verified. CHFS management was able to quickly identify this error when questions were raised about amounts during the review of the closing package.

KCHIP payable amounts were consistently and significantly overstated indicating that the estimation process does not accurately determine the payable amount. This data does not accurately reflect the current climate of Medicaid and KCHIP payments because the figures used postdate the implementation of payments to Managed Care Organizations. Therefore, fiscal year 2011-2012 data is irrelevant as it pertains to recent outstanding accounts payable.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-004: The Cabinet For Health And Family Services' Closing Package Procedures Did Not Ensure Reliable And Verifiable Methods Utilized For Estimates (Continued)

The KCHIP accounts payable estimates for fiscal years 2012, 2013, and 2014 significantly exceeded the actual outstanding amount of prior period claims paid during the subsequent fiscal years. When estimated amounts cannot be compared to actual outstanding KCHIP accounts payable, the estimate is deemed to be unreasonable.

When estimation processes are not written and/or the resulting data is not properly reassessed, estimates are generated that cannot be easily reproduced. This creates the risk that the estimates generated do not accurately reflect actual expectations, and the cabinet runs the risk of overstating/understating those accounts.

Finally, CHFS appears to be delayed in its preparation of critical year-end financial data due to loss of experienced staffing and inadequate staffing, poor segregation of critical duties, and an inability to prioritize these functions. Further, the failure to have a documented year-end process for finalizing reporting financial information timely not only delays the audit, but increases the risk of material misstatement in financial statements that could go undetected.

Good internal control dictates that CHFS management establish processes for calculating accounting estimates for accounts receivable and accounts payable that:

- Identify all factors that impact the estimate including changes in the operation of all programs;
- Accumulate data that is relevant, sufficient, and reliable for the basis of the estimate.

Further, the establishment of processes for calculating estimates should include the review and approval of accounting estimates at the appropriate levels of authority, which includes:

- Review of the sources of the data accumulated for the estimates;
- Review of the assumptions related to the estimates;
- Review of the reasonableness of the assumptions and the estimates made;
- Consideration for the use of specialists if needed;
- Consideration for when changes need to be made to previously established methods for establishing estimates.

Finally, good internal controls over the closing package forms and year-end reporting activities dictate that adequate review procedures be created and followed to ensure that the closing package submitted to FAC contains reliable, verifiable, and accurate data. In addition, proper internal controls dictate that all supporting financial data be reconciled and reported timely.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-004: The Cabinet For Health And Family Services' Closing Package Procedures Did Not Ensure Reliable And Verifiable Methods Utilized For Estimates (Continued)

Recommendation

We recommend CHFS:

- Develop reliable and verifiable accounting estimates that are supported by appropriate data that is able to be reconciled and replicated for accuracy;
- Implement policies and procedures to ensure that estimates used for financial reporting are adequately reviewed to ensure accuracy of financial reporting. Where estimates are found to be inaccurate, adjustments should be made to their estimation processes to ensure that amounts reported accurately reflect actual expectations based on relevant conditions impacting financial information;
- Review its procedures for compiling and reporting the agency financial activity related to preparation of the closing package to ensure a consistent method for reporting all financial activity. In addition, considerations should be made to ensure an adequate and thorough review of the closing package information prior to a timely submission to FAC.

The goal should be to ensure complete and accurate information is presented in the Commonwealth's financial statements.

Management's Response and Corrective Action Plan

Child Support Enforcement Response

The Child Support Enforcement year end closing procedures have been updated to reflect the necessary steps for all Accounts Receivables as it relates to agency accounts and specifically within thirty (30) days and over thirty (30) days line items. The procedures will ensure the yearly amounts received will be divided by 12 to determine the amount expected within thirty (30) days. In addition, Child Support Enforcement has included procedures to compare the current year end numbers with prior year's numbers for review of any significant variances.

Department for Public Health Response

The Department for Public Health agrees with the auditor's finding that its calculation process can not readily be duplicated. In determining estimated payables to the Local Health Department (LHDs), DPH reviews approximately 100 programs annually that receive allocated funding. This review entails analysis of all programs to include fiscal constraints such as reimbursement strategy, one-time funding availability, patient enrollment and/or participation, new and/or terminated programs, and realignment of federal funds.

While the Department reviews the most current three months of reimbursements for these programs to determine an average estimated amount of payment, the overall estimated amount is determined through a more complex process that may not be scientifically duplicated. With consideration given to the historical average, judgments are made based on knowledge of program execution and funding availability. As a result, the estimates are not wholly scientific since individual judgments are made to ensure estimated amounts are within actual expectations of program outlays.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-004: The Cabinet For Health And Family Services' Closing Package Procedures Did Not Ensure Reliable And Verifiable Methods Utilized For Estimates (Continued)**

Management's Response and Corrective Action Plan (Continued)

With this said, the Department feels it has a very sound and reasonable process in place for determining estimated payables to the LHDs.

Division of General Accounting Response

The CHFS Closing Package takes 8-10 weeks to research and complete accurately with a full set of experienced staff. Unfortunately, this year CHFS experienced a loss of veteran staff which prevented finalizing this information in a timely manner. We did notify the APA and the Controller's Office that deadlines would be missed. Additional time was needed to ensure correct and accurate information was being reported. In addition, due to the large budget in CHFS, an extra set of checks and balances were incorporated to decrease any risk for error. CHFS is working diligently to fill the vacant positions and working on a strategic plan on how to recruit and maintain staff going forward.

Department of Medicaid Services Response

DMS agrees with the auditor that the KCHIP payable amounts were overstated resulting in the estimation process not accurately determining the amounts. The overstated amounts resulted from figures used that postdated the implementation of payments to Managed Care Organizations.

The DMS Financial Management Branch Manager is currently in the process of revising the policies and procedures for financial accounts payable reporting estimates for Medicaid and KCHIP. The revised policies and procedures will place emphasis on the criteria outlined by the auditor. DMS plans to have the revised Accounts Payable Report process in place for both Medicaid and KCHIP by January 8, 2016

Auditor's Reply

While the estimation process must be reasonable, it should also be repeatable with accuracy by those reviewing the process. The process reviewed for the FY 2015 audit could not be repeated and as a result, was found to be an unreasonable and unreliable process. We reiterate our recommendation for DPH to review and update their calculation process to create a more reliable and verifiable estimation method.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-005: The Cabinet For Health And Family Services Did Not Ensure Adequate Security Is In Place Over Information Available Through The Commonwealth's Email System

The Fiscal Year 2015 audit of the Cabinet for Health and Family Services (CHFS) identified three objects within the email system's public folders were open to anonymous viewing by any individual logged into the Commonwealth's email system. Further, the folder role for an anonymous viewer grants editing permissions and one of the objects contained entries that included sensitive information. Two of the objects, including the object containing sensitive information, was reported to the agency during the prior year.

The auditors informed agency management of these viewable objects at the time of testing. CHFS took action at that time to restrict access to the object containing sensitive information.

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

The Information Technology Infrastructure Initiative (I.3), which is consolidating the infrastructure of many agencies into the Commonwealth Office of Technology (COT), has created confusion for some regarding who is responsible for system security controls.

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

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

Recommendation

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

Management's Response and Corrective Action Plan

After reviewing the details of provided, COT was able to successful resolve 1 of 3 items. COT has developed an action plan to address the remaining items identified. COT will continue to work with CHFS on remediating the issues to ensure only the necessary users have access as needed. It is important that periodic reviews of security permissions of public folders and subfolders are conducted as requested. The remaining items are scheduled for completion by October 1, 2015.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-006: The Cabinet For Health And Family Services Did Not Fully Protect All Sensitive And Confidential Data

The Fiscal Year 2015 audit of the Cabinet for Health and Family Services (CHFS) revealed that, although policies and processes are in place, CHFS did not consistently follow policies to ensure that all sensitive and confidential data is protected. However, CHFS has taken steps to protect certain types of data.

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

Due to the complexity of this process, the project for addressing these concerns may take an extended period of time to be fully completed.

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

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

Recommendation

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

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-006: The Cabinet For Health And Family Services Did Not Fully Protect All Sensitive And Confidential Data (Continued)**

Management's Response and Corrective Action Plan

A collaborative effort is needed between CHFS and COT to classify data accordingly. CHFS has the ability to specifically speak to the level and kinds of data and the degree of sensitivity in order for COT to classify the data properly. COT's enterprise architecture standard for data classification establishes the criteria for classifying data and information into three (3) categories: non-sensitive, sensitive and confidential. There are Sensitivity Classification identified as Public, Office Use, Sensitive, Confidential, Highly Confidential, and Custom that will help place data appropriate areas for protection. CHFS is working with COT to ensure that policies are consistently followed to secure the data. Additionally, CHFS has worked with COT to define policy responsibility going forward. CHFS is in process of updating the agency policies accordingly—particularly with regard to data protection. CHFS policies are then published according to agency process.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-007: The Cabinet For Health And Family Services Did Not Ensure Encounter Data Submitted To The Kentucky Medicaid Management Information System Is Accurate And Complete

The Department for Medicaid Services (DMS) did not ensure the encounter data sent from the Managed Care Organizations (MCO) was complete or accurate. Encounter data contains contractually required data elements related to each service or item provided to a patient through the healthcare system. Similar issues have been noted since FY 2013; however, improvements have been made.

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

DMS created an Encounter Resubmission Tracking Report, which tracks the data that had to be resubmitted after correction. A set of Encounter Activity Status reports has also been developed to run weekly and monthly for each MCO. These reports are reflective of a point in time and track files by paid, denied, voided, and adjusted status. The contracts between CHFS and the MCOs state if the data is not resubmitted within 10 days of the date the records are returned, penalties will be assessed against the MCO. When asked whether all MCOs were in compliance with the 10-day deadline for resubmitting corrected encounter data, DMS staff stated they agreed to allow a 30-day deadline.

Multiple communications have been made between the MCOs and CHFS, due to the MCOs not consistently meeting the established time period for submitting data. Additionally, weekly and monthly meetings are held with the MCOs to improve the encounter submission process. Tracking of contract penalties related to encounter submissions was automated and specific penalties and withholdings are being assessed.

One withholding, Timely Resubmission of Encounters, was placed in a mock status until the contract can be amended to change the terms of this withholding. DMS determined that the original design of this particular withholding would cause the assessed amount to be too excessive. DMS intends to amend the section for the FY 2016 contracts related to this withholding to specifically focus on Federally Qualified Health Centers and Rural Health Centers and include a limit on the monthly withholding.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-007: The Cabinet For Health And Family Services Did Not Ensure Encounter Data Submitted To The Kentucky Medicaid Management Information System Is Accurate And Complete (Continued)

In addition, the following was noted regarding other penalties:

- **Timely Submission from Adjudication Date:** In practice, if an MCO fails to submit encounters within 30 days of the adjudication date, a late fee of \$500 per day will be assessed. According to DMS, this is a penalty that is not returned to the MCO. Although this fee may be found in the “Process for Assessing Encounter Withholds and Penalties” document, which was distributed to all MCOs, this is not a fee formally written in the contract. In addition, this document states this fee is a withholding that DMS will return to the MCO in the next month’s capitation cycle following the month the encounter file is submitted and accepted by DMS.
- **Threshold Error – Encounter Submission Assessment:** In practice, if the threshold error percentage is greater than five percent, the MCO is subject to a \$500 per submission per file penalty. According to DMS, this is a penalty that is not returned to the MCO. Although this fee is also included in the “Process for Assessing Encounter Withholds and Penalties” document, it is not written in the contract. In addition, this document states the fee is a withholding.
- **Submission – Rejection of Encounters:** When an MCO is subject to a withholding for failing to submit encounter data in the required form or format, the contract states that, “[t]he Department shall retain the amount withheld until the data is received and accepted by the Department less Five Hundred (\$500.00) Dollars per day for each day late.” In practice, DMS will allow the MCO to avoid the \$500 per day capitation withholding forfeiture if an attestation showing all failed files were successfully resubmitted and accepted is submitted within 30 days from the failure date. We are aware that DMS plans to change this withholding to a penalty when the contracts are renewed at the beginning of the fiscal year.

Due to MCOs not consistently submitting and correcting the encounter data within the originally required 10 day time frame, we cannot state with any certainty that the data housed within KMMIS related to the MCOs is complete and accurate.

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

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

According to the MCO contracts,

17.1 Encounter Data Submission

The Contractor shall ensure that Encounter Records are consistent with the terms of this Contract and all applicable state and federal laws.... The Contractor shall have a computer and data processing system sufficient to accurately produce the data, reports and Encounter Record set in formats and timelines prescribed by the Department as defined in the Contract.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-007: The Cabinet For Health And Family Services Did Not Ensure Encounter Data Submitted To The Kentucky Medicaid Management Information System Is Accurate And Complete (Continued)**

The system shall be capable of following or tracing an encounter within its system using a unique Encounter Record identification number for each Encounter. At a minimum, the Contractor shall be required to electronically provide Encounter Record to the Department, on a weekly schedule. Encounter Record must follow the format, data elements and method of transmission specified by the Department... The Contractor shall submit electronic test data files as required by the Department in the format referenced in this Contract and as specified by the Department. The electronic test files are subject to Department review and approval before production of data. The Department will process the Encounter Record through defined edit and audit requirements and reject Encounter Record that does not meet its requirements. Threshold and informational editing shall apply...

39.4 Health Care Data

- A. Encounter data is due on a weekly basis and shall be considered late if not received after four (4) calendar days from the weekly due date. Beginning on the fifth calendar day late, the Department shall withhold Five Hundred (\$500.00) Dollars a day for each day late from the Contractor's Capitation Payment for the month following non-submission.
- B. If the Contractor fails to submit health care data derived from processed Claims or Encounter data in the required form or format required by the terms of this Contract for one calendar month, the Department shall withhold an amount equaling five (5%) percent of the Contractor's Capitation Payment for the month following non-submission. The Department shall retain the amount withheld until the data is received and accepted by the Department less Five Hundred (\$500.00) Dollars per day for each day late.
- C. An Erred Encounter Record File shall be transmitted to the Contractor electronically on 997 acknowledgement file and 277U response file for correction and submission. The Contractor shall have ten (10) days to resubmit the corrected Encounter Record File. The Department may assess and withhold for the month following non-submission, an amount equaling one-tenth (0.1%) of a percent of the Contractor's Capitation Payment a day until the Encounter Record File is received and accepted by the Department. EPSDT Encounter Record shall be completed in accordance with EPSDT Reports and these penalties may apply...

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-007: The Cabinet For Health And Family Services Did Not Ensure Encounter Data Submitted To The Kentucky Medicaid Management Information System Is Accurate And Complete (Continued)

Recommendation

We recommend DMS continue to work toward modifying the MCO contracts to more accurately reflect the penalties and withholdings being assessed. Specifically, we recommend that DMS ensure the descriptions provided within the contracts accurately reflect the authorized process for the following penalties and withholdings:

- Timely Submission from Adjudication Date,
- Threshold Error – Encounter Submission Assessment,
- Submission – Rejection of Encounters, and
- Timely Resubmission of Encounters.

Further, we recommend DMS continue to use the Encounter Resubmission Tracking Report, along with other reports available in KMMIS, to track the submission of MCO data. If MCOs do not consistently resubmit their corrected data within the timeframe stipulated in the contract, DMS should consistently exercise contract language allowing DMS to assess penalties against the contractors.

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

Management's Response and Corrective Action Plan

Per the recommendation, beginning July 1, 2015 the new contract language (for State Fiscal Year 2016) accurately reflects the penalties being assessed.

Section 40.3 of all five contracts for each MCO states:

Penalties for Failure to Submit Reports and Encounters

A. Appendix K. Reporting Requirements and Reporting Deliverables.

The following regarding reporting requirements and deliverables as found in Appendix K. "Reporting Requirements and Reporting Deliverables" shall be considered Contract violations for which fines shall be imposed:

- 1.) *failure to provide a required report in the allotted timeframe; or*
- 2.) *submitting incomplete or incorrect reports.*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-007: The Cabinet For Health And Family Services Did Not Ensure Encounter Data Submitted To The Kentucky Medicaid Management Information System Is Accurate And Complete (Continued)

Management's Response and Corrective Action Plan (Continued)

The Department shall notify Contractor of a violation and if the violation is not remedied within 5 business days, shall fine the Contractor one hundred (\$100) dollars per day until the violation is remedied. The fines shall be deducted from the next month's Capitation Payment. This violation shall not require a Letter of Concern or a Corrective Action Plan before fines are imposed.

B. Encounter and Encounter File Submission Deadlines, Errors, and Penalties,

1. *Timely Submission of Encounter File. An Encounter File is due on a weekly basis and shall be considered late if not received after five (5) business days from the weekly submission due date. Failure of the Contractor to submit the Encounter File within five (5) business days from the scheduled submission due date shall result in an assessment of \$500.00 per day late fee.*

2. *Timely Submission of Encounters from Adjudication Date. Encounters shall be submitted within thirty (30) days of the adjudication date. Failure of the Contractor to submit an Encounter File with all of the Encounters within thirty (30) days from the adjudication date is subject to a \$500.00 late fee calculated as follows: the total number of days between adjudication and submission for all Encounters submitted in the Encounter File are averaged; 30 days are then subtracted from the average days submitted for that Encounter File. The late fee of \$500.00 is then assessed for each day over the average.*

An additional penalty for Federally Qualified Health Centers and Rural Health Centers encounters of five dollars (\$5.00) per day shall be assessed for each day greater than thirty (30) days. This assessment shall not exceed one hundred thousand dollars (\$100,000.00) per month.

3. *Threshold Error. An Encounter File that exceeds a five (5%) percent threshold error rate shall be assessed a per Encounter File error fee of \$500.00.*

4. *Submission – Rejection of Encounters. Failure of an MCO to submit encounter data in the required form or format (as required by DMS, 837, ASC X12 EDI for Electronic Data Interchange and the KY Companion Guide or current industry standard with appropriate KY Companion Guide) for one calendar month shall result in an assessment of \$25,000 per file.*

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-007: The Cabinet For Health And Family Services Did Not Ensure Encounter Data Submitted To The Kentucky Medicaid Management Information System Is Accurate And Complete (Continued)**

Management's Response and Corrective Action Plan (Continued)

5. *Failure to Submit Required Attestation. Failure of an MCO to submit the required attestation showing all failed files were successfully resubmitted and accepted within thirty (30) days of notification, shall result in an assessment of \$10,000 per file. An additional penalty of \$1,000 per each late day beyond the thirty (30) days of notification shall also be assessed.*
6. *Resubmission of Erred Encounters. Failure to resubmit erred encounter records within thirty (30) days from receipt of the 277U Erred Record Report is subject to a \$5.00 per day late fee per encounter over thirty (30) days. The penalty applied for any month shall not exceed \$100,000.*
7. *Exact Duplicates. Duplicate encounter submissions are subject to a monthly assessment of \$5.00 per duplicate not to exceed \$100,000 per month.*

If the Department elects not to exercise any of the penalty clauses herein in a particular instance, this decision shall not be construed as a waiver of the Department's right to pursue the future assessment of that performance standard requirement and associated penalties.

The Department will work with the Contractor to resolve problems in obtaining data at all times. The Contractor acknowledges its responsibility to provide data on Members upon request.

The Department of Medicaid Services (DMS) began penalizing the MCOs effective July 1, 2015. The MCOs are notified via SharePoint of these penalties on or before the third Thursday of the month.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-008: The Cabinet For Health And Family Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation

The Department for Medicaid Services (DMS) did not maintain updated documentation of all programmed audits and edits performed during KMMIS system processing. In addition, there were instances found during testing where certain edits were not necessary. These audits and edits were applied to those transactions paid by the Commonwealth for individuals not eligible for managed care. System edits ensure the data within a transaction is complete, accurate, and formatted correctly; whereas, system audits provide a check against historical transactions to ensure the current claim is valid and allowable. Multiple instances of inactive system audits or edits continued to be identified as active within agency manuals; whereas, multiple active audits and edits were omitted from the associated documentation or listed as inactive. Similar issues were noted in the prior four audits, although many improvements have been made during FY 2015 and the KMMIS audit and edit review project was completed.

DMS uses audits and edits within the KMMIS application for quality assurance purposes. This process is intended to ensure data input is accurate and complies with Medicaid eligibility guidelines. DMS created the following three manuals to document the available KMMIS audits and edits: the KMMIS Audit Manual, the KMMIS Claim Check Manual, and the KMMIS Edit Manual.

Of the 568 programmed audits tested:

- Forty-one audits were denoted in the Audit Manual as active, but were not identified by the agency as active and open audits within KMMIS.
- Two audits were included in the active audit report generated from KMMIS, but were found only in the inactive listing at the end of the Audit Manual.
- Two audits included in the Audit Manual were listed as inactive, but were found in the active audit report generated from KMMIS.

Of the 798 programmed edits tested:

- Eighty-seven edits were included in the Edit Manual as active, but were not identified by the agency as active and open edits within KMMIS.
- Seven edits found on the active edit report generated from KMMIS were included in the Edit Manual as inactive or end-dated.
- Three edits included within the active edit report generated from KMMIS were included within the Edit Manual in the Inactive Edits section.
- Two edits were included within the Edit Manual twice. In one instance, the edits are reported as active and in another instance, they are reported as inactive. The edits were not found on the active edit report generated from KMMIS.
- One edit found within the active edit report generated from KMMIS was not found within the Edit Manual or the KMMIS Claim Check Manual.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-008: The Cabinet For Health And Family Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation (Continued)

- One edit found within the KMMIS Claim Check Manual was not listed within the active edit report generated from KMMIS.
- Four edits were found within the active edit report generated from KMMIS, which should have been, but were not, reported in the Edit Manual or the KMMIS Claim Check Manual. The edits were incorrectly placed within the Audit Manual.

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

Although DMS reviews the functionality and documentation related to all audits and edits, DMS has not consistently updated programmed audits and edits or related manuals.

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

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

Recommendation

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

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

FINDING 2015-008: The Cabinet For Health And Family Services Did Not Ensure All System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation (Continued)

Management's Response and Corrective Action Plan

The Department agrees that the MMIS Audit and Edit manuals were not updated with the above referenced details and since this finding only related to documentation no claims processing errors occurred. The Division of Medicaid Systems created a task and requested the vendor to update the edit and audit manual. This corrective action was completed on September 16, 2015 by the HP Business Analyst. The updated data has been verified by the Systems Monitoring Branch Manager in the Division of Medicaid Systems and an updated copy has been posted for internal users. The edits that were updated are listed within a spreadsheet that was provided to the auditors along with this response. No further corrective action is needed.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-009: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files

Sufficient controls were not in place within the Kentucky Health Benefits Exchange (KHBE) Worker Portal module to ensure caseworkers only merged potential duplicate case files where sufficient data was matched. Incorrectly merged cases increases the potential risk for someone other than the member to be able to view personal identifiable information (PII) through the KHBE user application, KYNECT. Although cases of incorrectly merged files were identified, there were no cases of PII being accessed by someone other than the member. This issue was first noted in FY 2014.

During FY 2015, CHFS worked with an outside vendor to review and analyze merged cases in order to determine potential issues. The vendor provided the agency with 524 cases to review. Of these cases, 344 case files, or approximately 65.6 percent, were identified as being incorrectly merged and were further investigated as possible security issues for disclosure. Upon the agency's review, no disclosures were made.

To prevent the inappropriate merger of cases in the future, in response to the prior year comment, CHFS management altered features within the system to provide CHFS employees with tools to better assess whether duplicate cases exist and need to be merged or are unique and should be maintained separately. These tools include filtering for specific data matches and additional detailed information and comparison capabilities that would allow CHFS employees to make more informed determinations. These changes were put into place in February and March 2014. In addition, business rules for the programmatic identification and merging of duplicate cases were tightened. Application changes were made to make the manual merging of cases more difficult and to require more reviews by caseworkers. Additional training was conducted and job aids were developed for caseworkers to clarify functionality and use of the KHBE system. Furthermore, an additional tool, which is monitored multiple times throughout the day, has been provided to help monitor the potential merger of cases.

Historically, individuals who are requesting eligibility determinations for service would meet with a CHFS Department of Community Based Services (DCBS) employee and provide all necessary information at that time. This direct interaction would allow the employee to better make the determination of whether there was an existing case within the system for the individual. Although direct interaction with DCBS employees is still an option, with the advent of the KHBE, individuals now also have the ability to enter their own personal information into the website. This change introduced the potential for case files to be incorrectly merged.

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

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-009: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files (Continued)**

Recommendation

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

Management's Response and Corrective Action Plan

CHFS agrees with the comment and recommendation. We continue to monitor the effectiveness of the tools put in place in 2014 and 2015 to assess whether or not cases are duplicates and need to be merged or are unique and must be maintained separately.

In March of 2014 we implemented Change Request (CR) 217 and 228 which provided more guidance to assist workers in making make accurate assessment of the potential incorrect matches, as well as system changes to mitigate improper matches. Specifically, in the self-service portal, where individuals can enter their own information, changes were made to the logic so that if a SSN is not verified by SSA, the user will have two more attempts to verify it. If a user does not provide a SSN that can be verified by SSA, a pseudo SSN will be assigned. Within the worker portal where the Department for Community Based Services (DCBS) employees enter information in conducting eligibility determinations, there were both system logic updates and screen updates made. In addition to the SSN logic, an Individual Comparison Screen was also added in order to enable the user to perform side by side comparison of two individuals. This screen assists the user in determining if the Master Client Index (MCI) has performed a proper link or auto-link. Prior to this CR, EDBC checked only KAMES for existing benefits. Now, EDBC checks both KAMES and HBE for existing benefits. Additionally, Job Aids were provided for the workers to provide clarity around system changes and guidance regarding incorrect member matches.

The tools put in place previously have been effective in reducing the number of incorrect matches however, to ensure only true duplicate cases are merged we have continued to implement system changes and promulgate guidance to further reduce incorrect matches. On June 26, 2015 guidance was released to field staff with guidelines sent out by central office focused on the prevention of incorrect member matches and member overlay errors. A copy of the June 26, 2015 memo was provided to the auditors along with this response.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-009: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files (Continued)**

Management's Response and Corrective Action Plan (Continued)

Additionally, CR 374 scheduled to go live with a release in October of 2015. A copy of the proposed release document for CR 374 was provided to the auditors along with this response. The intended functionality will prevent workers from incorrectly changing identifying information for individuals when they should be creating a new individual. For example, information will be locked down if it is verified by a listed source. There will also be a pop-up that will provide guidance to workers on creating an individual versus modifying information. Role specifications will be put in place so that only workers with appropriate roles will be to edit information that is locked. Finally, a job aid will be available to the field staff as soon as this CR goes into effect.

Moreover, CHFS designated a Security and MCI team that is dedicated to immediately addressing any incorrect member matches or member overlay issues that may occur.

CHFS understands the serious nature of the potential disclosures that may result from incorrect matches and will continue to take steps to hone the system and our processes to mitigate future incidents.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-010: The Commonwealth Office Of Technology Did Not Formalize A Policy To Govern The Security Of Oracle Production Databases And Ensure Agencies Consistently Apply The Established Procedures

Informal logical security procedures existed for granting and revoking access to the enhanced Management Administrative and Reporting System (eMARS) Oracle production databases and for establishing non-expiring passwords for specific types of accounts. However, these procedures were not written or consistently applied. This situation was also noted during the previous seven audits of the Finance and Administrative Cabinet. The Oracle databases specifically reviewed for FY 2015 were the ePayment Gateway, Finance and Administration, Vendor Self Service, and infoAdvantage production databases.

In order to request access to Oracle production databases, a COT-F181 form must be completed, authorized electronically, and emailed to the Commonwealth Service Desk for processing within the COT service tracking application. Although COT staff is responsible for the administration of these databases, the identification of those individuals no longer requiring access to the databases is the responsibility of the associated agencies. An addendum to the eMARS Security Policy was developed that states a list of user IDs that have access to the eMARS production databases will be created by the COT Database Administrator (DBA) group and provided to the eMARS team twice a year. However, according to COT staff, this report was not created during FY 2015, since it was not requested by the eMARS team.

Further, of the 125 user accounts tested to ensure users are active employees or contractors requiring access, four users, or approximately 3.2 percent of the testing population, had access that should be revoked. Additionally, COT did not have documentation on file to support the creation of one user account. The user account was established with the same access rights as a database administrator and was to be used to test credentials for the original user; however, access for this duplicate account was not deleted after testing was completed.

Finally, the following issues were noted as not complying with the CIO-072 COT Userid and Password Policy: two profiles on one or more databases had a profile setting related to failed login attempts that did not comply and all three profiles on the four databases had a profile setting related to password reuse max limits that did not comply.

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

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-010: The Commonwealth Office Of Technology Did Not Formalize A Policy To Govern The Security Of Oracle Production Databases And Ensure Agencies Consistently Apply The Established Procedures (Continued)

COT has not formalized written procedures for outside agencies to request access to databases under their administrative control. COT management also has not ensured that informal procedures were consistently complied with to restrict access to Oracle databases.

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

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

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

Recommendation

We recommend COT create written logical security procedures related to Oracle databases to ensure only authorized access is granted. Once finalized, the procedures should be distributed to applicable COT and agency staff to ensure all staff is aware of the requirements for gaining access to databases administered by COT.

We also recommend that COT review profile settings for all databases administered by COT to ensure security settings are set to comply with the COT password policy. If there are technical reasons for variances from the COT password policy, these should be approved by management and documented.

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-010: The Commonwealth Office Of Technology Did Not Formalize A Policy To Govern The Security Of Oracle Production Databases And Ensure Agencies Consistently Apply The Established Procedures (Continued)**

Management's Response and Corrective Action Plan

The Commonwealth Office of Technology agrees with the auditor's recommendation. COT will document a proactive process for reviewing database permissions on a semi-annual basis and provide notifications to agency owners with a listing of users for verification. With the feedback provided from the agency owners, COT will be able to strengthen account management and revoke access. Agency owners should initiate the access removal by sending a request to the Commonwealth Service Desk with a completed COT-F181 form and forms should be maintained for compliance review. Going forward, COT will make sure this process is enforced appropriately. COT acknowledges that database profile settings should be set to comply with the enterprise password policy unless an approved security exemption is in place. COT is looking at a tool that will help automate this process in the future. The accounts noted are being reviewed and appropriate action will be taken and documentation will be retained. This process will be implemented during the first quarter 2016.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-011: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood**

The Fiscal Year (FY) 2015 audit of the Commonwealth Office of Technology (COT) included a review of the Enterprise Application Services (EAS) domain and the Justice Cabinet (JUS) domain through Network Neighborhood. Issues noted with the EAS domain were originally identified during our FY 2009 audit of the Office of Financial Management (OFM) concerning the ability to access a machine housing the Complete Asset Management, Reporting, and Accounting (CAMRA) application. As a result of the I.3 Consolidation project, COT is now responsible for security established over Network Neighborhood and this particular application.

We tested 172 machines in the EAS domain. Of these machines, 67 machines were accessible, 53 of which had visible files and folders, and 41 had visible sub-folders. In addition, 31 machines, or 18.02 percent of the 172 machines within the EAS domain, had files and/or documents that could be viewed by the auditor. Further, three machines disclosed sensitive information such as Internet Protocol (IP) addresses, default User IDs, and passwords. These specific instances were reported to COT on August 20, 2015.

We tested 284 machines in the JUS domain. Of these machines, 17 machines were accessible. However, only two machines, or 0.7 percent of the 284 machines within the JUS domain, had files and/or documents that could be viewed by the auditor. These two machines disclosed sensitive information such as medical information claim forms, arrest warrants, and executable windows batch files. These specific instances were reported to COT on August 20, 2015.

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

COT did not properly secure machines within their oversight authority.

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

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

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-011: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood (Continued)**

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

Recommendation

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

Management's Response and Corrective Action Plan

Commonwealth Office of Technology agrees with the auditor's recommendation. Security on all network machines should be configured to properly restrict access, unless a valid business purpose is determined. COT has taken action to remediate the five machines described in the audit details and is analyzing the other machines to ensure resources are adequately secured and corrective action has been taken. This is targeted with a completion date for the first quarter of 2016. COT provides training to all COT staff on protecting sensitive information and this is strictly enforced by requiring annual training and awareness notifications.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-012: The Commonwealth Office Of Technology Did Not Properly Manage Enterprise Assets**

The Fiscal Year (FY) 2015 review of the Commonwealth Office of Technology's (COT) internal controls over Local Area Network (LAN) security revealed COT did not properly manage Enterprise assets such as desktops, laptops, and servers.

In November 2012, an Information Technology (IT) Infrastructure Initiative (I.3) began to consolidate most Executive Branch infrastructure staffing and resources under COT. As of the start of the I.3 project, COT staff took over the management of all infrastructure devices owned by specific Executive Branch agencies. Under COT's management, these devices must follow the established Enterprise-level policies.

Auditors contacted COT multiple times during fieldwork requesting a listing of machines related to specific IT systems used by consolidated agencies. Auditors planned to conduct a security vulnerability assessment on a sampling of these machines to ensure they were appropriately configured and were not running outdated software with known vulnerabilities. Auditors first requested this information on April 6, 2015. On May 19, 2015, auditors provided COT with a listing of agency liaisons that may be able to assist COT by explaining how they identified the hosts for applications prior to the I.3 consolidation. On May 22, 2015, COT staff asked for the listing of IP addresses provided in the prior audit, and the APA provided this information to COT on May 28, 2015. On July 28, 2015, COT staff stated they were continuing to work on getting the appropriate list of servers together to identify the IP addresses.

As the necessary information had not been obtained by August 12, 2015, auditors informed COT management that insufficient time remained within planned fieldwork to conduct this testing. Although in recent years the vulnerability assessment testing has not reflected significant issues, technology is always in flux and should be reviewed periodically. Therefore, as COT was not able to readily provide information on machines under their management, it appears COT is not properly managing these assets.

Due to the I.3 consolidation, COT has responsibility over certain agency machines; however, COT did not maintain sufficient information about these machines in order to be able to readily identify the location of specific agency IT systems.

As a result of the I.3 consolidation, critical machines once managed and maintained at the agency level were removed from their purview and placed under COT's managerial authority. Consolidated state agencies now rely on COT to appropriately manage these assets, which are used to perform daily processing. Assets not properly accounted for and managed could result in inefficiencies at the agency level. This situation could also affect the working relationship between COT and other consolidated agencies.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-012: The Commonwealth Office Of Technology Did Not Properly Manage Enterprise Assets (Continued)**

Inappropriate management of assets can lead to machines being misconfigured and outdated. System misconfigurations that allow unnecessary services can negate other security configurations established on the machine, increase potential security vulnerabilities, and provide enticements for intruders to enter the system. Improperly secured services could allow unauthorized access to sensitive or critical system resources. Further, if a machine is allowed to provide excessive information associated with the machine to an anonymous user, then an intruder could potentially use this information to attempt to gain access to the machine or network. Where there are known vulnerabilities associated with specific product versions, the risk of misuse increases.

Assets are to be managed in such a way that they are kept secure physically and logically. Information about these assets must be readily available to necessary staff and for audit purposes.

Recommendation

We recommend COT maintain documentation of all infrastructure assets that is readily available to staff responsible for the management of assets. This information should include, at a minimum, the machine name, IP address, operating system, platform, IT systems or software housed on the machine, and agency owner of the housed IT systems or software. This documentation should also be searchable in order that it can be provided to management and auditors in a timely fashion upon request.

Management's Response and Corrective Action Plan

The Commonwealth Office of Technology acknowledges the findings of the auditors and agrees that maintaining an accurate and easily accessed inventory of the infrastructure and applications is highly important. While this information is accessible and available through a number of disparate sources today, the Commonwealth Office of Technology is moving in a direction that will centralize this information and make it readily accessible to those with a defined need to know and a specific job role requiring such access. The Commonwealth Office of Technology is currently in the process of implementing a new ticketing system which incorporates a centralized Configuration Management Database that will house the details of infrastructure components as listed in the recommendations above as well as those related to the applications related to them. This project is currently moving forward with an expected completion timeframe in the second or third quarter of 2016.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-013: The Department Of Corrections Did Not Adequately Protect Sensitive And Confidential Data

The Fiscal Year (FY) 2015 audit revealed weaknesses in the Department of Corrections (DOC) procedures regarding the security of confidential and sensitive data. DOC is required to adhere to Commonwealth Office of Technology (COT) policies and standards, and there are several policies and procedures that address data protection. However, DOC has not fully protected all data. We are aware DOC is currently working with COT through the Information Technology Infrastructure Initiative (I.3) conversion process to identify a solution to this issue. This control weakness was first addressed to the agency within the FY 2014 audit.

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

Due to the complexity of this process, the project for addressing these concerns may take an extended period of time to be fully completed.

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

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

Recommendation

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

Management’s Response and Corrective Action Plan

The Department of Corrections has been pursuing information from the Commonwealth Office of Technology for the past year and a half with little help. This remains a top priority for the department.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-014: The Department For Workforce Investment Failed To Implement Adequate Internal Controls To Ensure The Correct Account Was Charged For Benefit Payments**

The Department for Workforce Investment (DWI) maintains an accounting record for employer reserve accounts and a State pooled account in relation to unemployment benefits. Contributing employers' reserve accounts are used to pay unemployment insurance claims made by former employees and to determine employers' current tax liability. The State pool account is used to pay unemployment insurance benefits which are not chargeable to any individual employers' reserve account. In two instances, DWI incorrectly charged the State pooled account after an appeal ruled the claimants were payable by the employer. These benefit payments should have been charged to an employer's reserve account.

DWI originally determined unemployment insurance benefits were not payable based on an initial investigation which revealed the former employees were discharged for misconduct connected with their work and knowingly making false statements. At this time, the employers' reserve accounts were relieved of all unemployment benefit payments already made and funds were then charged against the State pooled account set up for contributing employers according to Kentucky Revised Statute 341.550. During an appeals process, these determinations were reversed, and claimants were deemed payable by the employers. Following the appeals process, internal controls failed to detect and ensure the employers' reserve accounts were charged instead of the State pooled account. Failure to properly charge employers' reserve accounts potentially impacts their prospective tax liability and misstates the State pooled account.

KRS 341.530(2) states, in part,

[A]ll regular benefits paid to an eligible worker in accordance with KRS 341.380 plus the extended benefits paid in accordance with KRS 341.700 to 341.740, subject to the provisions of paragraphs (a) and (b) of this subsection, shall be charged against the reserve account or reimbursing employer account of his most recent employer. No employer shall be deemed to be the most recent employer unless the eligible worker to whom benefits are payable shall have worked for such employer in each of ten (10) weeks whether or not consecutive back to the beginning of the worker's base period.

Recommendation

We recommend DWI improve policies, procedures, and internal controls to ensure unemployment insurance claims are charged against the correct employer account. Policies and procedures implemented should ensure compliance with KRS 341.530. Special consideration should be given to ensure any changes affecting the account required to be charged as a result of an appeals determination are correctly applied.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-014: The Department For Workforce Investment Failed To Implement Adequate Internal Controls To Ensure The Correct Account Was Charged For Benefit Payments (Continued)**

Management's Response and Corrective Action Plan

In response to the above-mentioned reference to the two instances where the "DWI incorrectly charged the State pooled account after an appeal ruled the claimants were payable by the employer", the Appeals Branch admits that in both instances the Referee unequivocally states, "The employer's reserve account is charged with benefits paid on the claim" within the body of both decisions. However, the Referee was deficient in his failure to specifically address employer chargeability in the "Decision" section of the Referee Decision. It is noteworthy that both instances involved the same Referee.

The current decision writing process in the Appeals Branch requires the Referee to select standard language to reflect the various Statements of the Case, Issue(s), and Decisions. There are several separate and distinct variations of the standard language selections which are collectively referred to as Auto-Correct Codes. It is the Referees' responsibility to choose the pertinent Auto-Correct Code to address each specific Statement of the Case, Issue(s) and the resolution of same. Once the decision is written it goes through a proofing process to ensure the accuracy of the form and substance of the decision.

Referees have a very heavy and demanding caseload with strict time constraints. In the instant cases, the Referee chose the wrong Auto-Correct Code, i.e., human error. This issue was addressed with the Referee in question when this issue was first brought to the attention of the Appeals Branch and will be addressed with him again in reference to this Record of Control Weakness. Moreover, an email will be sent to the Referees to be vigilant in addressing chargeability in their respective decisions when chargeability is at issue. Lastly, a statement will be included in the Referee Training Manual highlighting the necessity to accurately address the issue of chargeability within the "Decision" section of the Referee Decisions.

In sum, the aforementioned instances of incorrectly charging the State pooled account appear to be isolated instances of human error involving the same Referee, rather than a procedural issue. Appropriate steps as outlined above have and will be taken to deter/prevent further occurrences.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-015: The Department For Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of Its Closing Package

The Department for Workforce Investment (DWI) failed to implement adequate internal controls over the preparation and subsequent review and monitoring of its closing package as submitted to the Finance Administration Cabinet (FAC) for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). Review of DWI's closing package identified the following exceptions:

- DWI's closing package calculated accounts receivable based on employer tax accounts that were not more than five years delinquent. DWI's determination to only use active accounts within the last five years was based on an outdated Kentucky Revised Statute (KRS) which established a five year period by which the recovery of contributions was required before the debt was cancelled. DWI failed to recognize a change in the KRS changing the five year period utilized as part of its methodology to ten years, resulting in an understatement of accounts receivable.
- DWI utilized an unsound methodology for calculating its allowance for uncollectible amount for unemployment insurance employer tax collections. DWI's current methodology took an average of the previous five years of actual write-offs, which limited the estimated uncollectable to a single year of receivables. As a result, an accurate depiction of the total accounts receivable balance deemed uncollectable was not established.
- DWI's closing package reported \$63,436,806 as tax accounts receivable for fund 6210; however, only \$63,136,806 was supported by agency documentation. An identified typo resulted in an overstatement of \$300,000 in accounts receivable on the closing package.

DWI subsequently submitted a revised closing package to FAC updating amounts reported as accounts receivable and the allowance for uncollectable amount.

DWI failed to implement adequate internal controls over the preparation and review of its closing package to ensure it was complete and accurate. Additionally, DWI failed to evaluate its methodology used in calculating its accounts receivable and allowance for uncollectable amount, which included being unaware of a change in a KRS which affected its reported account balance.

DWI's adjusted closing package prepared to address the deficiencies noted above resulted in an increase to the unemployment insurance tax accounts receivable in the amount of \$13,879,943 and an increase in the allowance for uncollectible in the amount of \$9,942,380. The net effect of these adjustments made by DWI increased the net unemployment insurance tax accounts receivable balance by \$3,937,563.

Sound internal controls dictate that adequate policies and procedures be implemented over the preparation and subsequent review of financial information to ensure it is complete, accurate, and based on a sound methodology.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-015: The Department For Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of Its Closing Package (Continued)

DWI's methodology for calculating its unemployment insurance tax accounts receivables was based on KRS 341.300(4), which states,

An action for the recovery of contributions, interest, or penalties under this section shall be barred and any lien therefor shall be canceled and extinguished unless collected or suit for collection has been filed within ten (10) years from the due date of such contributions, except, in the case of the filing of a false or fraudulent report, the contributions due shall not be barred and may at any time be collected by the methods set out in this chapter, including action in a court of competent jurisdiction.

Additionally, FAC's closing package instructions for calculating the allowance for uncollectible amount states, "Based on past experience, estimate the amount of receivables that are due but not expected to be collected. Record for each revenue source code used."

Recommendation

We noted some improvements in the preparation of DWI's closing package during Fiscal Year 2015. We recommend DWI continue to strengthen its internal controls over the closing package preparation, which includes agreeing supporting documentation to the amounts reported and ensuring the methodology for calculating estimates is reasonable. Any internal controls as well as the methodology for calculating estimates should be documented in DWI's policies and procedures for preparing the closing package.

Additionally, in order to ensure accurate reporting, DWI should re-evaluate its current methodology for calculating the allowance for uncollectible amount for both the unemployment insurance tax and benefits receivable. As detailed in FAC's closing package instructions, DWI should incorporate a methodology that takes into consideration past experiences of what will not get collected of the total receivable amount due. Typically, as accounts age their collectability decreases, so more current accounts would have a higher collection rate than older accounts.

Management's Response and Corrective Action Plan

DWI agreed with the Auditor of Public Account's recommendation regarding the Closing Package. We worked with APA as well as the Controller's Office on adding the AFR-70 for the first time this fiscal year (FY15) to show our deferred outflows (deferred revenue). We amended the FY 15 Tax Closing Package information for AFR 30, 32 and 70.

We have adjusted the methodology behind "Revenue Earned Not received" "over 30" to include 0-10 years-worth of collection information on AFR 30 ad 32. We have adjusted the methodology behind "Allowance for Uncollectible" to include all collections between 5 -10 years old on AFR 30 and 32. We will update our policy and procedures of the Closing Package to reflect these changes and we will continue to enhance our internal controls.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-016: The Department For Workforce Investment Did Not Fully Protect All Confidential And Sensitive Information

The Fiscal Year (FY) 2015 audit revealed weaknesses in the Department of Workforce Investment (DWI) had weak procedures regarding the security of confidential and sensitive data. DWI is required to adhere to Commonwealth Office of Technology (COT) policies and standards, and there are several policies and procedures that address data protection. However, DWI did not follow these policies to ensure all data was fully protected. During the last year, DWI has taken additional steps to protect certain types of data.

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

DWI is aware of COT's data protection policies; however, the consolidation efforts related to the Information Technology Infrastructure Initiative (I.3) with COT is still ongoing and roles and responsibilities of each agency have not been clearly or completely defined.

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

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

Recommendation

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

Management's Response and Corrective Action Plan

Education & Workforce Development data will be appropriately reviewed to determine its classification. This classification will be used for, but is not limited to, determining limitations on the use, protection and storage of data. If the data is commingled with other data that is classified with a higher level of sensitivity, the classification that requires the most stringent controls would be used. EDU will work with COT to establish the classification and controls required to ensure all data is sufficiently protected.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-017: The Finance Administration Cabinet Did Not Timely Close Old Year Fiscal Court Accounts**

In counties having a population of 70,000 or more, certain operating expenses are paid out of the State Treasury rather than accounts maintained by the county. These funds are collected by the counties but deposited into the State Treasury. Because of this, these counties rely on timely payments by the Division of Local Government County Fees Systems Branch (CFSB) to ensure uninterrupted continuance of county government operations. In order to facilitate this process, accounts are created annually for these counties in the State's accounting system, eMARS. These accounts are used to hold and track funds transferred between the counties and CFSB. When a new four-year term begins, old term accounts are emptied by paying remaining funds over to the fiscal court or by collecting amounts due to the State, and then closed to ensure proper tracking of funds between officials. For three counties, Bullitt, Pike, and Campbell, old term accounts were not closed, which led to funds being deposited into incorrect accounts and the fiscal court or State not receiving the amounts due to them timely.

Turnover at CFSB and delays in responding to issues raised by the counties have led to the current situation.

Not closing the old term accounts has resulted in CFSB depositing current year funds in old year accounts and required additional administrative procedures on both sides to remedy the issue and ensure the counties are left with the proper fund balances. Not closing out the old term accounts or paying the amounts owed to the fiscal courts timely causes financial strain on the counties due to expected funds not being received by the date anticipated and required. Also, for counties that ended their term in a deficit, it causes the State to cover the deficit balance longer than required.

According to KRS 64.350, at the end of the official's term, CFSB should close out the old term accounts by April 1 of the succeeding calendar year and pay any remaining balance to the fiscal court or collect amounts owed if the account has a deficit balance. Good internal controls dictate the proper tracking and reconciliation of funds. The closing of old term accounts is a vital internal control process for ensuring accurate reconciliations can be performed. Also, by closing old term accounts, the risk of incorrect transfers or account balances is reduced.

Recommendation

CFSB should close old term accounts timely so as to avoid the administrative issues currently facing the counties as a result of the these accounts remaining open and to ensure funds that are owed to the fiscal court and State are paid to them as required.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-017: The Finance Administration Cabinet Did Not Timely Close Old Year Fiscal Court Accounts (Continued)**

Management's Response and Corrective Action Plan

The Division is in agreement that the closing of the old term accounts for the fee officials in the over 70,000 counties has not been completed timely.

These delays have resulted from the turnover of staff and the hiring of a trained accountant to monitor these accounts. Additionally, there were no written procedures documented for establishing the new term accounts and eliminating the charges (or inactivating) the old term accounts. This presented a learning process within EMARS.

To eliminate these problems, Management and Staff are reviewing each old term to assure that it is properly closed. Procedures are being documented to be incorporated in the over 70,000 Manual for the closing of the Old Term and Opening of the New Term that occurs every four years.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-018: The Finance Administration Cabinet Did Not Properly Account For Funds Due To The Kenton County Clerk**

In counties having a population of 70,000 or more, certain operating expenses are paid out of the State Treasury rather than accounts maintained by the county. These funds are collected by the counties but deposited into the State Treasury. Because of this, these counties rely on timely payments by the Division of Local Government County Fees Systems Branch (CFSB) to ensure uninterrupted continuance of county government operations. These operating expenses include payroll and insurance withholdings for county employees.

In April of 2013, Kenton County received \$34,334 from the Clerk's funds, which was intended to pay the health insurance provider for premium expense. This amount was greater than what was actually owed so the Clerk returned the funds to CFSB and asked that their account be credited.

CFSB informed the Clerk that their account could not be credited, and because the amount was processed in the Commonwealth's payroll system (KHRIS), the money was no longer available.

Despite numerous inquires and requests by the Kenton County Clerk, the funds were not returned until October 14, 2015.

Differences in date of coverage at the state and local level, along with the resulting difficulties related to those differences in KHRIS, leads to cases where withholdings and subsequent payments made to the counties for insurance premiums do not agree to the premiums the counties are actually required to pay.

This delay made reconciliation of their various accounts more difficult and placed the Clerk under unnecessary financial pressure. The Clerk's term ended before this issue was resolved and therefore the funds went to the Kenton County Fiscal Court instead of the Clerk.

Good internal controls dictate that CFSB ensure that counties receive proper funding to pay their health insurance premiums so that payments are made timely and disruptions in employee coverage do not occur.

Recommendation

CFSB should ensure timely resolution to funding issues related to payroll processing in KHRIS. CFSB should actively coordinate a solution using all stakeholders to avoid such issues in the future.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-018: The Finance Administration Cabinet Did Not Properly Account For Funds Due To The Kenton County Clerk (Continued)**

Management's Response and Corrective Action Plan

The Division does not agree because in April of 2013, KHRIS prepared identical \$34,334 checks for the Kenton County Clerk's health insurance payment. The duplicate check was shortly thereafter returned to County Fees Systems Branch (CFSB) for redeposit, with the check being forwarded to the Personnel Cabinet for reprocessing.

During the period ending October 14, 2015, CFSB was not aware of the duplicate check being written and distributed. When this was brought forward in October during a meeting with the Personnel Cabinet and the APA, the Personnel Cabinet agreed to review the issue, and then to refund the check to the Kenton County Clerk's account.

From April 1, 2011 until September 25, 2013, CFSB did not have access to the over 70,000 county fee officials' records in KHRIS, or to the distribution of their insurance premium payments. Control and records of the \$34,334 redeposit was in the Personnel Cabinet's KHRIS system.

KHRIS was not originally designed to include the over 70,000 county fee officials. It was designed for processing payment under the State insurance plan. Only two of the twelve counties were members of the State insurance plan. The other ten counties had contracted with various other insurance carriers. For these carriers, the premium payments would be withheld in month one, payment to the insurance carrier would be prepared, mailed to the county agency in month two. The carrier would be receiving the payment a month later in month 3 when a cancellation notice had already been issued.

To resolve this timing problem, beginning September 24, 2013, an agreement was reached between the Personnel Cabinet and CFSB for the transfer of the withheld premiums from each bimonthly payroll to CFSB, who would assume the responsible for preparing the monthly premium payments to the related insurance carriers. This was the only procedure available to insure that payments would be timely and that disruptions in employee coverage did not occur.

The above procedure adopted on September 24, 2013 with the Personnel Cabinet relating to CFSB handling the county insurance premium payments was entered into with the intention of assuring timely payments to the proper insurance carrier, thus eliminating notices of cancellation.

Auditor's Reply

Based on email correspondence reviewed by the APA, CFSB was originally made aware of the issue in August of 2013. Although the problem was eventually remedied in October of 2015, this delay was unacceptable, and as indicated in the finding, placed an unnecessary financial burden on the Kenton County Clerk.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-019: The Finance Administration Cabinet Did Not Remit Timely Operating Payments To Fiscal Courts

In counties having a population of 70,000 or more, certain operating expenses are paid out of the State Treasury rather than accounts maintained by the county. These funds are collected by the counties but deposited into the State Treasury. Because of this, these counties rely on timely payments by the Division of Local Government County Fees Systems Branch (CFSB) to ensure uninterrupted continuance of county government operations. CFSB is required to remit 25% of the funds collected to the Fiscal Court in each county in quarterly installments. Based on information obtained through multiple fee audits conducted by the APA, quarterly payments due to the fiscal courts are not being remitted timely. For example, three out of four quarterly payments were not remitted timely for all of the following counties: Madison, Boone, Pike, Kenton, and Jefferson.

Turnover at CFSB and delays in responding to issues raised by the counties have led to the current situation.

Late payments place an unnecessary financial strain on these counties who rely on this funding, which they collected but cannot access, and impair daily operations. By not having a consistent timeframe for the receipt of payments, planning is difficult for county officials.

KRS 64.350 states, in part:

The amount of twenty-five percent (25%) of fees collected by the county clerks and sheriffs during each calendar year shall be paid to the fiscal courts, urban county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. Each payment shall be for the preceding three (3) months during which fees were received by the Finance and Administration Cabinet.

Recommendation

CFSB should make the resolution of this issue a priority through reallocation of resources and process improvements in order to comply with KRS 64.350.

Management's Response and Corrective Action Plan

The Division is in agreement that the 25% of the revenue receipts collected for the fee officials in the over 70,000 counties had not been timely remitted to their respective Fiscal Courts.

The delays have resulted from the turnover of staff and the hiring of a trained accountant to monitor these receipts.

To address this problem currently, now that the Assistant Director has been trained and has become part of the process, he has been assigned the responsibility of monitoring and remitting these receipts no later than the 15th of each month following the end of the quarter as stated in KRS 64.350.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-020: The Finance Administration Cabinet Did Not Ensure Available Information Within eMARS Reporting Was Complete To Allow Accurate Reporting

InfoAdvantage, the reporting solution used in conjunction with the enhanced Management Administrative and Reporting System (eMARS), cannot be consistently relied upon to provide the user with complete and accurate data. During the audit, reporting was not functioning properly. This issue has been addressed to the agency for the past eight audit cycles.

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

- We noted that the “Customer” field was prohibited for the Solicitation Response (SR) and Solicitation Response Wizard (SRW) documents, based on the DCTRL table; however, there was not a “Vendor/Customer Code” within the SR class or linked to the document codes within the Procurement Awards Universe. This field was available to be populated when the document was developed, due to the fact that a “Vendor” code is allowable. When a user develops a report of SR or SRW documents from the infoAdvantage Procurement Awards universe including this field, the values for the “Vendor/Customer Code” are populated from the Award Accounting Line. However, there was not a direct relationship between the SR and the Award Accounting Line tables in the Procurement Awards Universe. Therefore, the data values returned cannot be relied upon.
- We found that the “Cited Authority” field was required for the Contract (CT), Contract 2-Way Match (CT2), Contract KYTC (CTT1), Contract 2-Way Match KYTC (CTT2), Delivery Order (DO), Delivery Order 2-Way Match (DO2), Delivery Order PunchOut with ProCard (DO3), Delivery Order PunchOut without ProCard (DO4), General Accounting Expense/Expenditure (GAX), Purchase Order (PO), Purchase Order 2-Way Match (PO2), Proof of Necessity Agreement (PON2), Commodity Based Payment Requisition (PRC), and Commodity Based Internal Payment Requisition (PRCI) documents based on the DCTRL table; however, the “Cited Authority” field was not available in the Accounting Journal class or linked to the document codes within the General Accounting Universe. The field was available for use when these documents were developed.
- We noted in prior years and confirmed for FY 2015 there was no “Event Type” field available within the Accounts Payable - KY Universe. Therefore, the auditor was not able to test documents populated within the Accounts Payable – KY Universe for required or prohibited fields based on the Event Requirement (ERQ) table.

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-020: The Finance Administration Cabinet Did Not Ensure Available Information Within eMARS Reporting Was Complete To Allow Accurate Reporting (Continued)

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

We are aware Finance upgraded eMARS to version 3.10. This upgrade included significant changes to the reporting functionality. However, the upgrade did not occur until FY 2016. Further, the agency confirmed the concerns addressed in the comment were not addressed within the 3.10 upgrade.

Finally, a data dictionary has not been developed to document the information available within the infoAdvantage universes and how these data elements are linked. We are aware comparisons were made between the 3.6 and 3.10 versions of several universes for use by staff as they recreated reports in the new 3.10 environment. However, there were a number of universes that were converted to the 3.10, which were not documented in this way. Therefore, a data dictionary of all available universes has still not been fully developed.

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

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

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-020: The Finance Administration Cabinet Did Not Ensure Available Information Within eMARS Reporting Was Complete To Allow Accurate Reporting (Continued)

Recommendation

As the new eMARS Reporting has been introduced with the eMARS 3.10 upgrade, we recommend Finance, in conjunction with the vendor, work to ensure all known reporting problems are corrected or properly addressed. Further, a review of the established links within the universes should be performed to ensure they are functioning as intended for the Commonwealth of Kentucky.

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

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

Management's Response and Corrective Action Plan:

Finance will work with the eMARS vendor to analyze and evaluate the best tools to assist users in their report development. In lieu of a data dictionary one option may be to utilize the Metadata Management Universe.

The Metadata Management universe provides detailed structure and mapping information on the infoAdvantage universes, the infoAdvantage data warehouse, the infoAdvantage ETL process, and both the Advantage database and application. Users can create reports using this universe to show the entire data lineage from the objects that appear on an infoAdvantage Universe back to their origin on the Advantage application pages along with all of the intermediate steps. This data lineage hierarchy includes:

- *infoAdvantage Universe objects and classes*
- *Data warehouse tables and columns*
- *ETL processes and objects*
- *Advantage database tables and columns*
- *Advantage application pages*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-021: The Finance Administration Cabinet Did Not Adequately Protect Sensitive And Confidential Data

The Fiscal Year (FY) 2015 audit revealed weaknesses in the Finance and Administration Cabinet's (Finance) internal controls involving the security of confidential and sensitive data. While the agency generally complies with the Commonwealth Office of Technology (COT) Standard Procedure, COT-067 Security Standard Procedures Manual, some types of data were not adequately protected from potentially intentional or unintentional access or misuse of information. This issue was first identified in FY 2013. We are aware Finance has developed a new policy concerning the storage and collection of confidential and sensitive data and is working with COT to address this issue.

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

Although Finance has plans to protect sensitive and confidential data, these plans were not completed during FY 2015.

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

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

Recommendation

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

Management's Response and Corrective Action Plan:

Finance management will continue to work with COT and the eMARS vendor to ensure confidential and sensitive data is sufficiently protected and secured. Finance is aware of this importance and the maintenance of confidential and sensitive data remains a high priority.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-022: The Department Of Juvenile Justice Payroll Documentation Lacked Adequate Approvals For Timesheets And Overtime/Leave Requests**

During the Fiscal Year 2015 audit of the Department of Juvenile Justice (DJJ), payroll was tested to ensure controls were in place and that payroll was accurately stated. Employee time sheets were tested from both facility and central office operations. Testing results revealed the following:

- Five time-sheets had been corrected by marking through or adding information. These changes were not appropriately approved or signed by the employee and/or supervisor.
- One time-sheet included a leave request that was not approved by the employee's supervisor.

DJJ has not consistently executed its agency wide policies concerning payroll documentation and approvals. Overtime worked requires the prior approval of supervisors to support the necessity of the extra time worked. Leave time taken should be approved before it is taken when possible. When prior approval is not possible approval should be documented upon return. Further, changes to the timesheets and leave forms should be signed by the employee indicating approval of the changes. Additionally, subsequent approval by supervisory personnel should also be obtained in these circumstances.

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

Good internal controls over payroll dictate that processes and procedures are in place for reviewing the accuracy of personnel and payroll documents. Additionally good internal control over payroll dictates that payroll charges should be supported by adequate documentation including signed timesheets or timecards, leave and overtime forms that detail and substantiate hours and times worked by each employee, and approval by management.

Recommendation

We recommend DJJ:

Review established standards for recordkeeping including requirements for the use of leave and overtime approvals and ensure that procedures are uniform across all facilities. Stress to each timekeeper, employee, and supervisor the importance of following procedures consistently under any circumstance and safeguarding the employee payroll records.

Develop and implement procedures to ensure that all timesheets are signed by the employee and approved by a supervisor. Changes that are made during the review of any timesheet should be documented and approved by the affected employee and/or supervisor.

Consider establishing a periodic review of payroll at each facility that includes agreeing timesheets and other supporting documents to ensure that they support payroll and are completed per the established guidelines.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-022: The Department Of Juvenile Justice Payroll Documentation Lacked Adequate Approvals For Timesheets And Overtime/Leave Requests (Continued)**

Management's Response and Corrective Action Plan

The Department of Juvenile Justice has executed agency wide policies regarding payroll procedures and payroll documentation approval processes. In April 2015, the Department issued DJJ Policy 103.4 that addresses time, attendance and leave requirements for all departmental staff (See attached PDF titled DJJ Policy 103.4). Please be advised that DJJ Policy 103.4 became effective 4/17/2015 and was issued via email to all departmental staff.

The policies and procedures set forth the requirement of prior approval of overtime and leave in accordance with 101 KAR 2:102, Section 5, 101 KAR 2:034 and 101 KAR 3:015; require all timesheets be signed and dated by the employee and supervisor; leave and overtime request and approvals shall be attached to the timesheet and corrective timesheets shall be required for any errors found to include signature and date from the employee and supervisor.

In addition, please note that DJJ conducts a quarterly review of payroll documents which includes timesheets and supporting documentation to ensure compliance. A total of 16% of the department staff is audited yearly.

In addition, it is mandatory that all departmental staff complete the online "Accurate Time Reporting" training issued by the Department of Human Resources Administration (DHRA).

In concluding, DJJ requires all departmental staff to sign/date an Acknowledgement Form affirming that a review of the "DJJ Policy Manual" has been completed. This Acknowledgement Form is completed in January of each year.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-023: The Department Of Juvenile Justice Does Not Have Adequate Policies And Procedures Over Outside Bank Accounts

As part of the audit of the FY 2015 Kentucky Department of Juvenile Justice (DJJ), site visits were conducted at certain DJJ facilities to determine if controls were in place and operating effectively over financial receipts and disbursements. DJJ operates facilities across the state. These facilities utilize external bank accounts to assist in the operation of the facilities. A review of outside bank accounts revealed the following:

- DJJ policies and procedures do not address the opening of local bank accounts.
- DJJ policies and procedures do not address which employees should have account access to those bank accounts. Policies and procedures also do not require any central office personnel access to the account for oversight purposes.
- DJJ policies and procedures do not require the removal of an employee from outside bank account access upon termination, separation, discipline, or demotion.
- Review of one local facilities noted one account was reported to be in the name of the superintendent of the facility.
- One DJJ facility funded youth activities by issuing a check to the youth worker. DJJ policies and procedures require a youth worker to pay these expenses out of pocket and request reimbursement with a travel voucher.
- Facilities were using local bank accounts for purposes not approved by DJJ policies and procedures, including the following:
 - One facility was operating the site's vending machines with an outside bank account. Proceeds were being used for employee events, gifts for employees that had a family member pass away, Christmas Party, and other events.
 - One facility was operating vending machines with a local bank account. Proceeds in this account were used to fund youth activities.
 - One facility operated a canteen out of the Youth Activity account. The canteen offered items for sale to both facility employees and youth.

In addition to policy issues noted with outside bank accounts, review of financial management activities noted other weaknesses. The following segregation of duties issues were noted:

- The superintendents at facilities visited had the authority to approve expenditures, sign checks, and approve monthly reconciliations.
- The fiscal managers at the facilities collect cash received from other employees without documentation, made deposits, recorded transactions, and performed monthly bank reconciliations.

DJJ has not enacted adequate internal controls to ensure facilities are appropriately using outside bank accounts or taking steps to ensure that financial duties are adequately separated to reduce the risk of loss due to theft or fraud.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-023: The Department Of Juvenile Justice Does Not Have Adequate Policies And Procedures Over Outside Bank Accounts (Continued)

Failure to enact adequate internal controls over outside bank accounts provides an opportunity for fraud, waste, abuse, or non-compliance with state laws and Finance and Administration Cabinet policies. DJJ has not effectively monitored outside bank accounts to ensure facilities are abiding by policies and procedures.

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

Good internal control dictates that comprehensive policies and procedures are placed over cash accounts. Policies and procedures should include adequate monitoring of accounts and adequate separation of duties.

SAS54: Request for Approval of Bank Account instructions state:

KRS 41:070 allows the Finance and Administration Cabinet to authorize state agencies to temporarily deposit funds into banks accounts other than the central depository of the state. This form is completed by an agency to request authorization to open a separate bank account, to make changes to an existing account, or report the closing of an existing account.

KRS 41.070 (1) states in part:

Unless otherwise expressly provided by law, no receipts from any source of state money or money for which the state is responsible shall be held, used, or deposited in any personal or special bank account, temporarily or otherwise, by any agent or employee of any budget unit, to meet expenditures or for any other purpose... However in the case of state departments or agencies located outside Frankfort, and all state institutions, the Finance and Administration Cabinet may permit temporary deposits to be made to the accounts maintained by the agency, department, or institution in a bank which has been designated as a depository for state funds for a period not to exceed thirty (30) days, and may require that the money be forwarded to the State Treasury at the time and in the manner and form prescribed by the cabinet.

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-023: The Department Of Juvenile Justice Does Not Have Adequate Policies And Procedures Over Outside Bank Accounts (Continued)

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

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

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

Recommendation

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

- Review the process for opening accounts and ensure compliance with KRS 41.070, including establishing criteria for determining which employees should be assigned authority of each outside bank account. Also, those criteria should include assigning central office staff to accounts for monitoring.
- Establish clear purposes for outside bank accounts, in compliance with KRS 41.070.
- Strengthen internal controls to ensure outside bank accounts are only used for those purposes.
- Review the use of vending machine proceeds. Evaluate if these funds should be used for employees and/or youth. Determine the rules if a determination is made that they are acceptable for use.
- Establish an audit plan or procedure list for the internal auditor to use for the annual audit of outside bank accounts.
- Review internal controls to ensure adequate segregation of duties over outside bank accounts, as well as all other financial aspects of the operation. Specifically consider the following controls to assist in this area:
 - Develop/ensure fiscal policies requiring facilities to reconcile and review all accounts on a monthly basis; the reviewer should be independent of the person performing the reconciliation.
 - Evaluate the fiscal manager's office responsibilities at these facilities to ensure that duties are appropriately divided among the available staff.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-023: The Department Of Juvenile Justice Does Not Have Adequate Policies And Procedures Over Outside Bank Accounts (Continued)**

Management's Response and Corrective Action Plan

Youth Activity Fund accounts are non-governmental funds wholly owned by the committed youth in the Department of Juvenile Justice facilities by Fund Charter and Department Policy. These funds are not used for state expenditures. The funds are comprised of sales of crafts, firewood, canteens, vending, charitable donations, parent contributions, work experience and allowances.

The Department is the trustee of the accounts since the youth are under age. The funds are used for youth activities such as gifts, movies, outings etc. to allow the youth to have normal activities while in treatment and committed to the Department. Youth receive their applicable share of the funds upon release from the Department. Meal money accounts and KECC accounts are collected, recorded and sent to Central Office and deposited to the Kentucky State Treasury in compliance with KRS 41:070 or forwarded on to Kentucky Employees Charitable Campaign. All three types of accounts are filed with Finance on the SAS-54 per KRS 41:070. New accounts and deleted accounts are included in the annual SAS-54 approved by the Commissioner of the Department. The Department is not a trustee for staff only accounts. The Department's responses/disagreements and plan of action follow the recommendations below.

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

Review the process for opening accounts and ensure compliance with KRS 41.070, including establishing criteria for determining which employees should be assigned authority of each outside bank account. Also, those criteria should include assigning central office staff to accounts for monitoring.

Response: Criteria for determining which employees should be assigned authority is addressed in Department Policy 315 Non-Governmental Funds and Youth Activity Funds Section IV, Paragraph G. This policy details the responsible persons for the accounts, which includes a Fiscal Branch staff in Central Office. Authorization to open these accounts is outlined in Paragraph E of Policy 315. The Department will continue to work to ensure compliance with KRS 41.070 and Policy 315.

Establish clear purposes for outside bank accounts, in compliance with KRS 41.070. Strengthen internal controls to ensure outside bank accounts are only used for those purposes.

Response: The purposes of outside bank accounts are established in Policy 315 section 1. The accounts are audited annually to ensure adherence to policy. The Department will continue to provide training annually to responsible persons on the accounts.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-023: The Department Of Juvenile Justice Does Not Have Adequate Policies And Procedures Over Outside Bank Accounts (Continued)**

Management's Response and Corrective Action Plan (Continued)

Review the use of vending machine proceeds. Evaluate if these funds should be used for employees and/or youth. Determine the rules if determination is made that they are acceptable for use.

Response: Vending machine proceeds belonging to youth activity funds are to be solely used for youth extra- curricular activities as described in the opening remarks above. The Fiscal Branch conducts annual audits to ensure proper use of funds. The Department will continue to ensure compliance with Policy 315.

Establish an audit plan or procedure list for the internal auditor to use for the annual audit of outside bank accounts.

Response: The internal auditor conducts annual audits of outside bank accounts. The Department will revisit Policy 315 to address this recommendation in the next round of policy sessions.

Review internal controls to ensure adequate segregation of duties over outside bank accounts, as well as all other financial aspects of the operation. Specifically consider the following controls to assist in this area:

- Develop/ensure fiscal policies requiring facilities to reconcile and review all accounts on a monthly basis; the reviewer should be independent of the person performing the reconciliation.*
- Evaluate the fiscal manager's office responsibilities at these facilities to ensure that duties are appropriately divided among the available staff.*

Response: Policy 315 section IV, Paragraph H,I and J requires multiple levels of approval for disbursements, monthly reconciliations and account management. Department resources and staff personnel specifications limit the ability of additional segregation of duties. Annual training is provided to all responsible persons. The Department will continue to work to ensure compliance with KRS 41.070 and Policy 315.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-024: The Department Of Juvenile Justice Lacks Appropriate Policies And Procedures Over Permanently Assigned Vehicles**

As part of the 2015 audit of the Department of Juvenile Justice (DJJ), procedures for reviewing implementation of policies and procedures to correct previous audit deficiencies were conducted. As such, previous audit testing indicated issues with the agency's practices of assigning state vehicles to agency staff. Inquiries made during the audit indicated the agency had not updated policies and procedures relating to use of agency assigned vehicles.

In its response to the prior year finding, DJJ's corrective action plan stated DJJ would review "personal use" of vehicles and report retroactively back to 2013 to meet IRS reporting requirements. DJJ was not able to provide evidence that any activity regarding policy over "personal use" vehicles had been implemented. DJJ was asked to provide items outlined in its corrective action plan in the prior year finding. In response, DJJ was able to provide two paystubs that showed a retroactive taxable benefit as well as current benefit being assessed to the Commissioner of DJJ for his "personal use" of a state vehicle. However, DJJ was unable to provide evidence of retroactive reporting of any taxable benefit for "personal use" of other assigned state vehicles or provide updated policies and procedures over the use and reporting of state vehicles, nor suggest a consistent approach in how this activity should be reported.

DJJ has not reviewed, nor implemented an overall agency policy relating to vehicle assignments and usage and has not ensured compliance with Finance and Administration Cabinet policies and IRS requirements relating to the use of said vehicles.

Failure to enact adequate internal controls over department vehicle assignments provides an opportunity for fraud, waste, abuse, as well as non-compliance with Finance and Administration Cabinet and IRS policies.

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

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-024: The Department Of Juvenile Justice Lacks Appropriate Policies And Procedures Over Permanently Assigned Vehicles (Continued)

Recommendation

We recommend DJJ perform the following:

- Review and implement policies and procedures relating to DJJ's vehicle assignment and usage to ensure compliance with Finance and Administration Cabinet policies and IRS reporting requirements.
- Where applicable, document and report applicable information to the IRS regarding any taxable benefit associated with an assignment of state property.
- Strengthen internal controls to ensure documentation of vehicle use is properly maintained and stored.

Management's Response and Corrective Action Plan

The Department of Juvenile Justice has reviewed the practice of assigning vehicles and works to make sure that only staff with FAC approved take home vehicles are being permitted to drive vehicles from home. Currently, only one Department of Juvenile Justice staff drives a vehicle from home, and that vehicle is a FAC approved take home vehicle. A copy of the documentation demonstrating that the vehicle is a FAC approved take home vehicle is attached.

The Department of Juvenile Justice submits that it has reviewed and implemented an overall agency policy relating to vehicle assignments and usage in an effort to make sure that it is in compliance with FAC polices relating to the use of vehicles. In particular, the Department of Juvenile Justice revised its DJJ Policy 111 regarding use of vehicles. A copy of the DJJ Policy 111 is attached for consideration. The policy was reviewed and revised by the Department during the last year. The policy became effective on December 1, 2014. The policy provides that all staff shall comply with Finance and Administration Cabinet's Guide for Drivers of the Commonwealth's Vehicles. The policy also states that the Department of Juvenile Justice shall comply with the Finance and Administration Cabinet's Agency Guide for the Commonwealth's Vehicles.

With regard to the first recommendation in the Record of Control Weakness, the Department agrees to continue reviewing and implementing policies and procedures relating to the Department of Juvenile Justice vehicle assignments and usage to ensure compliance with Finance and Administration Cabinet policies. Administrative Managers should monitor these procedures consistent with Section V of DJJ Policy 111.

In addition, the Department of Juvenile Justice will send an email and/or memo to all staff that expressly reiterates information in the Criteria section of the Record of Control Weakness stating that Commonwealth of Kentucky vehicles are for official business of the Commonwealth only with personal use or convenience travel prohibited.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-024: The Department Of Juvenile Justice Lacks Appropriate Policies And Procedures Over Permanently Assigned Vehicles (Continued)**

Management's Response and Corrective Action Plan (Continued)

The second recommendation in the Record of Control Weakness is for the Department of Juvenile Justice to document and report applicable information to the IRS regarding any taxable benefit associated with an assignment of state property. The Department of Juvenile Justice is not aware of any required IRS reporting that it needs to conduct, but the Department certainly desires to comply with all applicable IRS reporting requirements and will work with the Auditor's office to conduct any specific reporting that is appropriate. The Fleet Management website provides that employees who have permanently assigned vehicles may have individual tax reporting responsibilities and liabilities. Currently, only one employee drives a FAC approved take home vehicle. If you are aware of any specific reporting form or documentation that the Department needs to submit to the IRS, please let us know, and the Department of Juvenile Justice will work promptly to make the report or submit the documentation to the IRS as appropriate.

The final recommendation in the Record of Control Weakness is for the Department of Juvenile Justice to strengthen internal controls to ensure documentation of vehicle use is properly maintained and stored. At the present time, the Department of Juvenile Justice maintains vehicle mileage logs for each vehicle. Each time that an employee drives a vehicle, the employee should write the starting time of vehicle use, starting mileage, the travel destination and purpose, the ending mileage, and the ending time of vehicle use. Each employee is additionally asked to initial the mileage log after recording the requested information. The mileage logs are available to the Auditor upon request. The Department also maintains a listing of vehicles and their assignments. The Department will work with the Auditor to implement any reasonable specific suggestions for further steps that can be taken to strengthen internal controls to ensure documentation of vehicle use is properly maintained and stored.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-025: The Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2015 School District SEEK Payments**

During the audit of the Kentucky Department of Education's (KDE) Support Education Excellence in Kentucky (SEEK) funding program, the basis utilized in calculating school district SEEK payments for the first quarter of Fiscal Year (FY) 2015 was noncompliant with the calculation method required by Kentucky Revised Statute (KRS) 157.410. Consequently, two of the school districts tested were underpaid a total of \$7,813 during the first quarter of FY 2015 and 13 of the school districts tested were overpaid by a total of \$6,458,889 during the first quarter of FY 2015.

However testing supported the school districts received the correct total of SEEK funds by the end of FY 2015, therefore no financial adjustment is necessary. Further, KDE attempted to have legislation passed to revise the SEEK payment requirements to the payment practice currently in place with House Bill 455, however the bill did not pass in the prior legislative session.

The first quarter of FY 2015 SEEK payments to school districts appear to have been calculated based on the FY 2015 forecasted SEEK total. Calculation of the SEEK payments for the first quarter should, however, be based upon the prior year's allotment, reduced by any capital outlays and/or the SEEK nickel state equalization. The SEEK payments for the remaining quarters should be based upon 1/12 of the current year tentative SEEK total.

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

Recommendation

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

Additionally, given the current practice for calculating the SEEK payment is based on the forecasted SEEK amount, KDE should continue efforts to effect change in the law for calculating the amount in order to comply with statutes.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-025: The Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2015 School District SEEK Payments (Continued)****Management's Response and Corrective Action Plan**

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

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

Additionally, KDE proposed a change to the statute during the 2014 Regular Session of the General Assembly. House Bill 455 was passed out of the House and did not make it through the Senate due to lack of time. This was, again, proposed in the 2015 Regular Session of the General Assembly but was not successfully passed into law. KDE will continue to support legislative efforts to effect this change in order to more closely match revenue with actual data which we feel benefits the school districts.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-026: The Department Of Education's Office Of Knowledge, Information, And Data Services Did Not Establish Sufficient Procedures And Consistently Monitor Security Over The KETS Network**

The Fiscal Year (FY) 2015 audit of the Kentucky Department of Education (KDE) system controls revealed security weaknesses surrounding the Kentucky Education Technology System (KETS) network, which is managed by the Office of Knowledge, Information and Data Services (KIDS). These weaknesses were addressed to the agency during the past eight audits.

KIDS continues to enable the audit logging function on all KIDS agency servers. Server monitoring procedures are documented in a formal policy; however, the review of security logs for inappropriate activity is not performed on a regular basis. We are aware that incident investigation is performed on an as-needed basis by the appropriate KIDS infrastructure team and the incidents are documented in Remedy, KIDS's incident management solution. However, the formal policy related to this process has not been updated and specific procedures have not been developed to ensure security logs are periodically reviewed.

Further, all KDE users were granted Local Administrator rights on their workstations. Local Administrator rights provide users with the ability to install applications on individual machines connected to the agency network. This is considered unnecessary access for most KDE employees. Technical and support staff should be the only personnel with this level of access to prevent the accidental or intentional introduction of viruses or the loss of programs or data and to ensure workstations utilize only approved software.

During the previous audit, KDE indicated that implementing a method of reviewing audit logs and reducing or eliminating the number of KDE staff with Local Administrator rights are currently "Forecasted" projects, meaning they have been identified as important efforts, but require further review and approval. However, as of the end of fieldwork for the FY 2015 audit, no actions were taken to resolve these issues. Due to the lack of action taken over the last eight years this issue has been addressed with the agency, its classification has been upgraded to a Significant Deficiency.

KDE has previously stated that they do not have adequate resources, staff or tools to regularly review security logs in an effective and efficient manner. Additionally, as in past audits, KDE continues to state that they are considering the development of corrective measures. However, as noted above, KDE has not updated their procedures nor restricted access to Local Administrator rights.

Without strong, formal logical security controls, the opportunity increases for unauthorized modification to financial and staffing reports, as well as the likelihood of errors or losses occurring from incorrect use of data and other resources. Granting users local administrator rights to their workstations allows those users the ability to download and install unauthorized software.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-026: The Department Of Education's Office Of Knowledge, Information, And Data Services Did Not Establish Sufficient Procedures And Consistently Monitor Security Over The KETS Network (Continued)

Formal security policies establish the tone of management's concern for strong system security and provide a security framework used to educate management and users of their responsibilities. Granting users system administration access to their computers increases the likelihood that unauthorized and unlicensed software could be installed and increases the chance of system attacks by viruses or other malware. System user accounts and audit trails should be reviewed periodically in order to ensure identification and tracking of user activity.

Recommendation

We recommend KDE expand current procedures to include the periodic review of security audit logs with special attention given to users with high-level privileges. This additional scrutiny is necessary to ensure inappropriate use of resources can be further investigated, if necessary. These reviews can be performed on a periodic basis for a sample of accounts or days to make them more manageable. Documentation of these reviews should be retained for audit purposes. In addition, we recommend KDE restrict Local Administrator rights on all KDE-managed devices to technical and support staff.

Management's Response and Corrective Action Plan

Monitoring of audit logs is performed on an as-needed basis, as incidents are identified. This method is necessary due to resource limitations and lack of sufficient evidence, at this time, for change. Identification and implementation of a security log analysis solution that can work within KDE resource limitations is an ongoing effort, but may be delayed by higher-value security initiatives.

Possession of Local Administrator permissions is currently more advantageous to KDE staff than their removal, and so KDE has implemented a vendor-provided solution to mitigate instances where local administrator credentials could be used to escalate an attack, in order to reduce risk. Even so, directly reducing or eliminating the number of KDE staff with Local Administrator rights to their workstations remains a "Forecasted" security project, meaning it has been identified as an important effort, but requires further review and approval.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-027: The Department Of Education Did Not Adequately Protect Confidential Data**

The Fiscal Year 2015 audit of the Kentucky Department of Education's (KDE) internal controls revealed that, although certain agency level security related policies and processes are in place, these safeguards are applicable to data in transit or for the transfer of data onto removable storage devices. KDE did not implement additional controls to address certain Commonwealth enterprise policies related to sensitive or confidential data at rest and housed on enterprise systems. Further, while KDE expressed that the Enterprise Data Dictionary (EDD) upgrade project was listed as a current year priority and has obtained pricing information on a compatible software solution, KDE has not made progress on rewriting the EDD.

KDE, Kentucky school districts, and external vendors are jointly responsible for properly securing KDE's legacy systems containing enterprise data. KDE has shown some improvements during FY 2015 by providing a publically available website containing information regarding federal and state data security standards, for training and awareness purposes. However, these documents and presentations do not address all necessary aspects of the COT enterprise standards concerning the overall security of data or provide specific guidelines or requirements for the agency, Kentucky school districts, or vendors to follow these standards.

More detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, the APA thoroughly discussed this issue with KDE staff.

KDE has not fully established or implemented additional security measures in policy to ensure sensitive or confidential data, at rest or housed on enterprise systems, maintained by KDE, Kentucky school districts, and vendors was protected in a manner that addresses certain security related Commonwealth standards.

By not implementing policies to address certain security related issues, the risk is unnecessarily increased that sensitive or confidential data could potentially be accessed or made available to unauthorized users. This type of control weakness could potentially be exploited either internally or externally.

According to Commonwealth standards, sensitive or confidential data requires more stringent security measures to provide additional protection to reduce the risk of unauthorized access by internal or external users. The National Institute of Standards and Technology Publication 800-111 states, "[m]any threats against end user devices could cause information stored on the devices to be accessed by unauthorized parties. To prevent such disclosures of information, particularly of personally identifiable information (PII) and other sensitive data, the information needs to be secured."

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-027: The Department Of Education Did Not Adequately Protect Confidential Data (Continued)**

Recommendation

We recommend KDE expand current security policies and procedures impacting KDE, Kentucky school districts, and vendors to address additional security controls suggested in Commonwealth enterprise standards. We also recommend KDE continue to prioritize the implementation of additional security controls over sensitive or confidential data. Management should ensure sufficient resources are dedicated to update policies and procedures to ensure additional security controls are implemented in a timely manner to further strengthen security over data considered to be sensitive or confidential. Once updated, the KDE policies and procedures should be communicated to KDE staff, Kentucky school districts, and vendors to ensure additional security controls are implemented, or warranted. Further, KDE management should complete the ongoing rewrite of the EDD.

Management's Response and Corrective Action Plan

KDE does not agree with the title or "Significant Deficiency" assessment by the APA for this item.

- *The title of this Finding - "The Kentucky Department of Education Did Not Adequately Protect Confidential Data" - is extremely misleading. KDE employs many different industry-leading technologies and methods, each appropriate for its use, to maintain data security both at rest and in transit while ensuring the functionality required of the data. The APA's opinion that not employing one (1) single, specific technology necessarily results in unprotected data is not supported by state or federal guidelines and ignores the multitude of other security systems in place.*
- *The APA has not presented any evidence that confidential data were inappropriately accessible, indicating again, that the title of this item is an opinion.*
- *KDE is in agreement with the National Institute of Standards and Technology Publication 800-111, cited by the APA as measurement criteria for this item, in which is stated, "When evaluating solutions, organizations should compare the loss of functionality with the gain in security capabilities and decide if the tradeoff is acceptable. Solutions that require extensive changes to the infrastructure and end user devices should generally be used only when other solutions cannot meet the organization's needs."*
- *KDE will address its use of this technology, as requested in the Comment Detail.*
- *KDE agrees with APA regarding the importance of completing the EDD, and efforts to do so are ongoing.*

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-027: The Department Of Education Did Not Adequately Protect Confidential Data (Continued)**

Auditor's Reply

As discussed during the audit, based on discussions and recommendations from the Commonwealth Office of Technology, certain details associated with this finding were not subject to disclosure due to the sensitive and secure nature of the information. Detailed information was provided to KDE staff that explained the Commonwealth enterprise policies and specific issues of concern. This information includes all the necessary recommendations needed for KDE to remediate this finding. However, if KDE management needs additional information or clarification, it should contact the APA to make that request.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-028: The Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements**

During the Fiscal Year (FY) 2015 audit of the Kentucky Department of Education (KDE), we determined Kentucky school districts were not granted authority to monitor the security implemented by the Kentucky Student Information System (KSIS) vendor to adequately secure servers housing sensitive district student information from potential unauthorized access. Also, KDE does not allow direct involvement of the school districts in the monitoring process used to determine whether the vendor met contractual obligations. Similar issues were originally identified and reported to KDE management during our FY 2014 audit.

Responsibilities associated with KSIS servers have been defined within the Support Service Level Plan (SLA), which was revised in May 2011. KDE and the vendor are jointly responsible for securing and maintaining these devices. KDE is responsible for providing and securing the required network infrastructure. The vendor is specifically responsible for providing application, server hardware, and server operating system (OS) level support to KDE and all Kentucky school districts. This includes providing security related OS patches and antivirus software with the most current virus definitions or signatures. School districts must collect the student data, but are only responsible to ensure vendor servers are physically secured. KDE and each of the 173 Kentucky school districts must also provide name and contact information of onsite representatives that can assist the vendor with technical issues at the state and local levels.

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

KDE has servers at the state level dedicated to housing student data submitted by the Kentucky school districts. KDE has assigned the vendor an IP range within their Vendor Services Demilitarized Zone (DMZ) to use as needed. KDE relies on the vendor to determine what services are enabled and running on these and school district devices and, therefore, does not actively monitor security measures enabled by the vendor on these servers. We are aware that the vendor recently performed a security assessment to ensure these machines were compliant with the vendor's own best practices.

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-028: The Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)**

Furthermore, there was not sufficient detail explaining how KDE determined whether the actions taken by the vendor were compliant with the metrics established in the SLA. We are aware that State Edition support contacts have access to Kentucky case details, including information regarding resolution; however, a review of this information was not documented in a formal process.

The KSIS vendor has also provided KDE with access to a dashboard monitoring tool that allows monitoring of services provided by the vendor to ensure they are fulfilling their contractual obligations. However, KDE management does not routinely review the information presented in this tool. Also, the use of this tool has not been documented in a formal process document.

In addition, KDE meets with the vendor in June every year to discuss and agree to defined metrics based on prior year cases reported by KDE and school districts. During this meeting, KDE and the vendor also agree to any credits to be granted to KDE for non-compliance by the vendor. Kentucky school districts were not given the authority or opportunity to be involved in the monitoring process to ensure the vendor managing their KSIS servers is compliant with established metrics and terms of the contract.

KDE was able to obtain and provide auditors with the most recent Service Organization Control (SOC) report during fieldwork. However, there is not an audit clause within the contract between KDE and the KSIS vendor that would require annual audits to be performed and provided to KDE or permit reviews, investigations, or audits of the vendor's records or other data, at the discretion of KDE.

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

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

Good management practices minimize risks through planning. Formal procedures provide a framework to educate management and users of their responsibilities for contractor oversight. Consistent application of formal procedures provides continuity for implementation and sets the tone of management's concern for strong oversight practices.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-028: The Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)

Recommendation

We recommend:

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

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

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

Management's Response and Corrective Action Plan

KDE does not agree with the "Significant Deficiency" assessment by the APA of the state-approved contract for the Kentucky Student Information System (KSIS). We do agree that the KSIS should be considered a high-value target that requires the best security possible. It is this belief, along with goal to provide the best possible experience, which has made the move to the cloud not only hugely beneficial, but almost a requirement. The manner in which the APA voices its concerns betrays a fundamental lack of understanding of the purpose and benefits, including increased security, of cloud service providers in general, and of the contract with the KSIS service provider, specifically.

In Kentucky's student information system's case, we have a state-approved contract for a vendor, who provides this service, including security, and who owns the responsibility for making sure all the instruments (or servers) are safe, in good shape, and ready to play – 24-7. Anytime you access the system via computer, phone or tablet, it's on and ready to go. This also provides the benefit when changes need to be made.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-028: The Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)**

Management's Response and Corrective Action Plan (Continued)

When new functionality or a security update is identified, it's very easy for the vendor push these changes out to every Kentucky district immediately because the vendor owns the hardware and the "cloud" or network that it's on. If each district managed their own servers and server security, adoption of the updates or patches would be dependent on local staff time, resources, and whether the network was up or down. Because of the importance of this system, it only makes sense for it to be in a cloud environment.

The "cloud" in "cloud computing" is actually a very simple concept when you think about it, and especially when you compare it with a very similar service that we've used for generations - our utilities like electricity, gas, and water. Taking electricity as an example, both it and cloud computing run in the background across vast networks, are monitored and managed by specially trained professionals, and are available just when we need them and in just the right amount. Another key similarity is that it would be impossible for me to go to a power substation or cloud data center and just walk through the door and begin making changes, even if I knew what all the knobs and dials meant. Not only is this a similarity with any utility, but it's actually a key strength and adds a great deal to overall security.

Both cloud computing and our electric infrastructure are "general purpose" services, meaning that we can run anything on the electricity that comes to our house (e.g. blenders, clocks, TVs, lights, computers) and we can use the "cloud" for any sort of computing need we have (e.g. email, data storage, smartphone apps, and, of course, the Kentucky Student Information System).

Both services used their economies of scale to drive costs down and add value. In the late 1930s, when electrification of rural America was turned into a national project, the cost of running electricity just one mile to the typical farm dropped from \$2,000 to \$600. Similarly, the cloud computing service providers are now able to add or maintain services while dropping or maintaining price. Amazon, to use a familiar example, has dropped the price of its web-hosting business 44 times in the last 6 years. While the KSIS doesn't have that kind of scale, the principle is the same.

By taking advantage of cloud service providers, KDE and our public school districts are able to move away from the costs of buying and maintaining the software and hardware, which can, over a short amount of time, add up to over 4 times the original cost. Often, this is not figured into an organization's budget. Cloud computing allows for predictability of cost. Like electricity, which has a defined per Kw cost that you can use to predict your bill (not that I know anyone who does), organizations are able to set costs, via contract, with cloud service providers. Most sudden increases in your electric bill happen when you use more electricity than usual, such as your HVA/C in the middle of summer or winter. Again, this is very predictable, and when we need more electricity, the power companies are able to provide it, then scale back when it's no longer needed, just like cloud computing.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-028: The Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)**

Management's Response and Corrective Action Plan (Continued)

Finally, it's very important to understand that one of the reasons for the increased dependability of our utilities and of the cloud services is because a very limited number of people are allowed to access the electric substations or data centers, as mentioned above, and that's clearly on purpose. For instance, every substation is cordoned off with at least barbed-wire fencing and a gate with a lock. Customers are not expected or encouraged to poke around the substation in order to make sure the Lightning Arresters are in tip-top shape. Unless you work for the electric company, you don't get in to inspect the components of the substation because 1) you wouldn't know what you were looking at, probably, and 2) if you did make any changes, they would probably not be good ones. The only part of the whole electric utility most consumers get to work with is when we plug something into the wall to make use of the service. Similarly, with cloud computing, including KSIS, customers are expected to access only the consumer-facing part. They are not expected and do not want to monitor the internal CPU temperature of the servers, for example, used by the service.

Per the terms of the state-approved contract, security of the servers, which are owned by the service provider, is the complete responsibility of the service provider; a company paid by KDE and Kentucky public school districts to perform that service on our behalf, just like our monthly check to the power company also pays for the upkeep on the substations. Essentially, this allows districts to put a greater percentage of resources on education, and requires, again by state-approved contract, the service provider's trained professionals to handle maintenance and security.

Local districts are responsible for the monitoring and security of their internal network from the "point of demarcation" (where the state-controlled and the district-controlled networks meet). Similarly, homeowners are responsible for the electric wiring inside their own houses, though most folks hire someone to come in and perform repairs or changes.

KDE will review its monitoring procedures and determine if and where improvements can be made that will increase security for the data held within the KSIS.

The vendor already provides KDE with access to annual audit reports. KDE will update the contract with the vendor to include the recommended audit clause at the time of the next contract revision.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-028: The Department Of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)**

Auditor's Reply

The APA did not express any opinions on use of the cloud as it pertains to the KSIS application. This finding addresses appropriate controls and contract compliance, not the use of the cloud. KDE has contracted with the KSIS vendor to provide a service to each of the Kentucky school districts; therefore, KDE is responsible for monitoring and managing this contract. KDE is partially responsible for ensuring the application is properly secure with each of the Kentucky school districts. As such, KDE should work with school district representatives to ensure the vendor is complying with contract terms and agreements.

The APA is aware that KDE receives and reviews quarterly reports from the KSIS vendor. However, KDE has not documented a formal review process; therefore, there is no way to ensure all credits owed by the vendor have been received. We continue to recommend KDE develop a formal review process to ensure the vendor is in compliance with all aspects of the SLA.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-029: The Kentucky Horse Park Did Not Pay All Invoices Timely

During the Fiscal Year 2015 Kentucky Horse Park (KHP) audit, invoices were tested to verify that controls were in place and to ensure accuracy and completeness of KHP expenditures. Based on the evidence provided for the sample items tested, 14 invoices were not paid timely. Additionally, KHP willingly paid \$9,828 in late fees during Fiscal Year 2015. Based on test calculations, the amount owed to vendors as an interest penalty, per KRS 45.454, for the late payments should have included an additional \$631. Late payments have been a recurring problem for KHP since the Fiscal Year 2007 audit, and the results this year indicate a significant increase in the number of late payments. While an improvement over the past years' audits, this remains a significant issue given the number of late payments.

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

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

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

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

Recommendation

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

Management's Response and Corrective Action Plan

Over this year we have strived to increase the timeliness of invoice payment here at the Park. At times the lack of cash flow has caused this slow pay situation. We are making every effort to better plan for and manage our cash flow and expenditures. By better management of expenditures and cash flow planning we believe this situation will be bettered in the future.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-030: The Kentucky Horse Park Did Not Reconcile Bank Statements Consistently And Ensure Reconciliations Were Reviewed Promptly**

During the Fiscal Year 2015 audit of the Kentucky Horse Park, controls over bank reconciliations were reviewed to ensure they were being performed timely, were reviewed by appropriate supervisory personnel, and any errors or unusual reconciling items were followed up on and explained and/or corrected. All available bank statements and completed reconciliations for the receipt account and the charge card account for the fiscal year under audit were reviewed. At the time of our audit, each account had 12 completed reconciliations for the Fiscal Year 2015 statements. However, the following issues were noted with the reconciliation process including:

For the Receipt Account:

- None of the 12 bank reconciliations displayed a date of completion.
- None of the 12 bank reconciliations displayed a record of review.
- The person reconciling some of the bank statements was not independent of the process.

For the Credit Card Account:

- Nine out of the 12 bank statements were reconciled late. (e.g., the August 2014 statement was reconciled five months late)
- None of the 12 bank reconciliations displayed a record of review.
- The person reconciling some of the bank statements was not independent of the process.

For the Online Gift Shop account:

- None of the 12 bank reconciliations displayed a date of completion.
- None of the 12 bank reconciliations displayed a record of review.
- The person reconciling some of the bank statements was not independent of the process.

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

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-030: The Kentucky Horse Park Did Not Reconcile Bank Statements Consistently And Ensure Reconciliations Were Reviewed Promptly (Continued)**

Recommendation

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

Management's Response and Corrective Action Plan

The Park went through a management transition during the early portion of this year. We believe this caused some of the tardiness in the preparation of reconciliations. The Park's business office is short of staff for the volume of transactions that it processes which has led to overlap of some financial duties. Going forward we are making every effort to prepare reconciliations in a timely manner and as staffing allows will attempt to have a staff member separate from the process prepare them. A policy of signing and dating and having a reviewer sign and date has also been implemented. These procedures should help alleviate concerns in the future.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-031: The Kentucky State Police Did Not Adequately Account For Assets Received As Part Of The Law Enforcement Support Office Program

The Kentucky State Police (KSP) participates in and is a pass-through entity for the US Department of Defense's 1033 Law Enforcement Support Office (LESO) program. This program transfers excess equipment to states and local law enforcement agencies for administrative and law enforcement purposes.

Certain classes of equipment received by KSP through this program must remain the property of the federal government and are therefore on loan. KSP used incorrect acquisition codes in the State's financial accounting system, eMARS, which improperly recognized the equipment as owned rather than loaned. Examples of these assets primarily include high cost items such as humvees, planes, and helicopters.

Also, four M16 rifles received through this program were valued at \$20,000, which is significantly higher than other similar assets in eMARS.

KSP employees were not aware of the difference in acquisition coding in eMARS and the financial statement impact of incorrectly recording loaned items in the State's financial system. For assets valued above the State's capitalization threshold, incorrectly recording items not owned by the State in its financial records had the effect of overstating assets on the financial statements as well as overstating depreciation expense. The original acquisition cost recorded for these assets was \$3,080,776. For assets valued below the capitalization threshold, this incorrect classification overstated expenses for the years in which they were acquired.

The M16 rifles were inconsistently valued because the cost entered for the four rifles in question was based on collector fair market value, instead of their actual federal historical acquisition cost.

The Memorandum of Agreement (MOA) between the Commonwealth and the US Defense Logistics Agency includes the following language:

- Property will not be obtained for the purpose of sale, lease, rent, exchange, barter, to secure a loan, or to otherwise supplement normal Law Enforcement Agency (LEA) or State/Local governmental entities budgets.
- The DOD has authorized the transfer and use of excess Federal property to the State/LEA and as such reserves the right to recall any and all property issued through the 1033 or 1208 programs.

Recommendation

KSP should use correct acquisition methods available in eMARS to recognize items not owned by the Commonwealth. Also, KSP should revise policies and procedures so that assets are appropriately and consistently valued.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-031: The Kentucky State Police Did Not Adequately Account For Assets Received As Part Of The Law Enforcement Support Office Program (Continued)**

Management's Response and Corrective Action Plan

When Kentucky State Police (KSP) first started participating in the U.S. Department of Defense's (DOD) 1033 Law Enforcement Support Office (LESO) program, the only way to track the equipment items obtained was to enter them into Kentucky's statewide accounting system (eMARS). Since that time, the DOD 1033 LESO program integrated an inventory system of their own called Federal Excess Property Management Information System (FEPMIS). This property management system tracks all property received by LESO program participants. Additionally, at the end of each federal fiscal year, LESO program participants are required to utilize FEPMIS to conduct an annual inventory and certification of property in their possession. Timely and accurate reconciliation of property is a requirement for continued participation in the LESO program.

In addition to the creation of FEPMIS, KSP began use of two agency managed systems that effectively track all property acquired through the LESO program. The Electronic Automotive (E-Auto) tracks any vehicles obtained through the LESO program while the Inventory Management System (IMS) tracks all other items.

The items in question which created the condition of weakness/noncompliance are accurately depicted in this report as "loaned" items and are not assets owned by the Commonwealth. It is also accurate that the DOD reserves the right to recall any and all property issued through the 1033 or 1208 programs. Additionally, these items must be returned through the LESO program when no longer utilized by the agency. Based on this information, KSP proposes, as a plan of corrective action, to remove from eMARS all property acquired through the LESO program. Items to be removed are already being tracked and have been reconciled in the inventory systems mentioned above. Removal of these items from eMARS will effectively eliminate the issues of overstating assets and incorrect classification. Upon approval of this proposal, KSP further request a period of 90 days for completion with the Administrative Branch Manager and the KSP Supply Branch Commander listed respectively as the agency point of contact and contact persons responsible for corrective action.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-032: The Kentucky State Treasury Did Not Implement Adequate Internal Controls Over The Preparation, Review, And Distribution Of Reissued Checks

The Kentucky State Treasury (KST) failed to implement adequate internal controls and segregation of duties over the preparation, review, and distribution of reissued checks. Reissued checks are printed by KST when the payee requests and returns a mutilated check. The reissued check has the same check number as the mutilated check. However, when KST is notified of a lost or stolen check, as opposed to a mutilated check, a stop-payment order is issued and a replacement check, having a different check number, is printed. For the purposes of this finding, the mutilated check process will be referred to as reissued checks. During the review of reissued checks the following was identified:

- Reissued checks are not tracked in eMARS, the State's accounting system, making the frequency and amount of reissued checks untraceable and difficult to determine.
- The KST employee responsible for receiving mutilated checks is also responsible for preparing, reviewing, and distributing reissued checks; giving the same employee access to both the blank check stock and the check printing template.
- The review and approval of reissued checks is not documented.

In order to determine the completeness of the population, all KST files pertaining to reissued checks were reviewed. Based on that review there were 144 reissued checks totaling \$219,033.

KST did not have formalized policies and procedures in place to establish necessary internal controls and segregation of duties over the preparation, review, and distribution of reissued checks. However, KST management did implement a new tracking log after the audit discovered poor internal controls and inadequate segregation of duties. This log tracks the check number, reissued check date, creator of the reissued check, reviewer of the reissued check, and date of reissuance and/or review.

The inability to properly track reissued checks in eMARS prevents KST management from determining the frequency and amount of reissued checks processed on a weekly, monthly, quarterly, or annual basis. The inability to produce this information for statistical comparison may hinder KST management in properly responding to constituent demand and other agency needs.

Because of the inability to track reissued checks in eMARS, KST management must rely on files kept by a single employee responsible for receiving mutilated checks, preparing, and distributing reissued checks. When relying on paper files, instead of the State's accounting system, the frequency and likelihood of human error increases substantially; a file could be lost, stolen, or destroyed.

The lack of internal controls and segregation of duties allows the same individual responsible for check preparation to have uncontrolled access to blank check stock and the check printing template. By having access to both the blank check stock and check printing template the risk of an unapproved or fictitious check increases significantly along with the potential for waste, fraud, or abuse.

Proper internal controls and segregation of duties dictate that disbursements, such as reissued checks, are tracked, monitored, and properly approved. A single employee should not be responsible for receiving mutilated checks, preparing reissued checks, approving reissued checks, and distributing reissued checks.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-032: The Kentucky State Treasury Did Not Implement Adequate Internal Controls Over The Preparation, Review, And Distribution Of Reissued Checks (Continued)****Recommendation**

KST should develop and maintain sufficient written instructions to assist personnel in preparing reissued checks. All reissued checks should be well supported by adequate documentation. Additionally, internal controls over reissued checks should include proper tracking, monitoring, distribution, and management level review; which should include reconciling supporting documentation such as the date, payee, bank account, and amount of the mutilated check to the reissued check.

Management's Response and Corrective Action Plan

The Kentucky State Treasury will issue clear written instructions relating to the procedure for reissuing mutilated checks which must be reprinted. The procedures for doing this are well known by office staff members, and have been in effect for many, many years. As a matter of clarification, checks are reprinted rather than stopped and reissued through eMARS when more than 70% of a mutilated check is returned to the Treasurer's Office. By simply reprinting with the same check number, all of the eMARS information and documentation remain intact and tied to the check actually received by the payee. This is a great benefit for future research.

There is and has been proper segregation of duties in re-printing mutilated checks. Two people are required for the process – the same number of participants required for any payment transaction made through eMARS. The employee receiving the mutilated check prints the new check using blank check stock that is stored securely. The check must then be reviewed by supervisory personnel and compared to the original check before the Treasurer's signature is added. The signature stamp is kept under lock and key with only two supervisory personnel having access to it. Once reviewed, confirmed, and signed by the supervisory personnel, the check is returned to the department or entity requesting the new check.

All documentation relating to the re-printing of mutilated checks is retained in the Treasurer's Office for a minimum of 3 years. This includes the original check being replaced and all correspondence from the requestor. The mutilated check files are Item 03514 on the Treasury's State Agency Records Retention Schedule. The files are grouped by fiscal year.

As noted in the Auditor's comment, KST management has now implemented a tracking log to record the re-printing of any mutilated checks. The log tracks the check number, reissued check date, creator of the reissued check, reviewer of the reissued check, and the date of reissuance and/or review. This log, combined with the documentation retained in the mutilated check files, should provide complete documentation for the reissuing process. It will also provide quick reference for any questions that should arise concerning the volume of mutilated check reissuances.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-033: The Kentucky State Treasury Did Not Adequately Protect Sensitive And Confidential Data

The Fiscal Year 2015 audit revealed weaknesses in the Kentucky State Treasury's (Treasury) internal controls involving the security of confidential and sensitive data. While improvements were made to strengthen controls, Treasury's data was still not adequately protected from potential intentional or unintentional access or misuse of information. Similar issues have been noted since the FY 2013 audit.

We are aware Treasury management started taking actions to address these issues within FY 2016.

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

Treasury has developed a data security plan to protect sensitive data and is working to implement the plan; however, the plan was not fully implemented as of the end of Fiscal Year 2015.

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

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

Recommendation

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

Management's Response and Corrective Action Plan

The Kentucky State Treasury is acutely aware of the threat that exists to all electronic data systems. We are committed to protecting our system from cyber-attack and continue to strengthen our information technology defenses to prevent any such occurrence.

This year, as noted by the APA, progress to complete recommendations has been significant. Treasury continues its step-wise implementation as noted in the F-14 Audit. Treasury has and will continue to employ diligent management practices to identify efficiencies and allocate all available resources to complete the implementation of recommendations. As discussed in detail with the APA, the Treasury continues to follow our strategic security plan and make changes to policy and procedures as situations warrant. The Kentucky State Treasury expects completion of APA recommendations this fiscal year.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-034: The Department Of Parks Failed To Ensure Their Accounts Payable Balance Was Accurately Reported On Their Closing Package

The Kentucky Department of Parks (Parks) failed to properly identify and record all accounts payable on its closing package submitted to the Finance and Administration Cabinet (FAC) for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). Testing identified the following:

- Nine expenditures recorded in Fiscal Year 2015 were actually Fiscal Year 2014 obligations. These expenditures totaled \$17,885.
- Four expenditures that were Fiscal Year 2015 obligations were recorded as Fiscal Year 2016 expenditures. These expenditures were not listed on Parks Fiscal Year 2015 accounts payable closing package form. These expenditures totaled \$112,001.

Parks failed to properly identify when transactions are obligations. Parks staff identified that several of these items were recorded when they were due, not when the goods/services were received.

The nine Fiscal Year 2014 transactions recorded in Fiscal Year 2015 caused expenditures to be overstated by \$17,885. The four Fiscal Year 2015 expenditures recorded in Fiscal Year 2016 caused expenditures and accounts payable to be understated by \$112,001.

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

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

Recommendation

- Strengthen internal controls over the recording of expenditures to ensure they are incurred when the goods/services are received and not when payment is due.
- Strengthen internal controls over the preparation and subsequent review of its closing package to ensure all accounts payable are properly accounted for and recorded in accordance with GAAP and FAC's closing package instructions.

Management's Response and Corrective Action Plan

We acknowledge that this is an area where we do have weaknesses due to funding constraints. We will continue to strive to make sure all expenditures are accounted for in the year they are incurred.

Please note that the Department of Parks had expenditures in excess of \$88,000,000 for FY15 with the months of June and July being the highest of transaction months.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-035: The Department of Parks Failed To Enact Proper Policies And Procedures For Recording And Processing Receipts

The Kentucky Department of Parks (Parks) failed to enact proper policies and procedures for recording and processing receipts. Testing identified the following:

- Eight receipts either did not have cash counts or did not have the required two signatures. Four of these were from Parks operated cafeterias in Frankfort. The other four exceptions were from parks with only one person in the business office at the time.
- Four receipts were recorded as negative expenditures.
- Seven receipts were not recorded in the state's accounting system within five business days. The funds from one of these receipts were not deposited for eight business days.

Parks failed to properly enact policies and procedures over receipts. Park's Basic Procedure Guide lacks the following:

- Guidance on processing cash counts when there are not more than two employees in the business office.
- Procedures for cafeterias in verifying cash and checks received.
- Procedures to ensure deposits and receipts are recorded timely.

Park's Basic Procedure Guide states "If a payment is received as a form of restitution for a cost to replace/repair something that the park has expensed in the same fiscal year, please show in the Expense/Expenditure section of the DBR (Daily Business Report), offsetting the cost coded the same specific Expense Code".

Parks receives significant amounts of cash daily. Weak policies and procedures over cash create a significant risk and opportunity for fraud or abuse.

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

Recommendation

- Strengthen internal controls to ensure cash counts are properly authorized. Parks should include instructions for what to do when there are not enough business office staff to provide two signatures. Parks should also outline these procedures for cafeterias.
- Strengthen internal controls to ensure receipts are deposited and recorded in a timely manner.
- Update its policies and procedures to ensure receipts are not recorded as expenditures.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-035: The Department of Parks Failed To Enact Proper Policies And Procedures For Recording And Processing Receipts (Continued)**

Management's Response and Corrective Action Plan

The Department of Parks is in agreement with these findings of only one signature on the Cash Count Sheets and has addressed the issue with the Parks. Procedures will be revised to instruct the Parks how to handle this issue in the future. We are in the process of contacting the Food Service Director to verify the Standard Operating Procedure in place for the Cafeterias as well.

We have reiterated to the Parks business staff the need to complete ePay transactions, as well the local bank deposits in a timely manner. Accounts Receivables section of the Division of Financial Operations will continue to monitor these transactions and address any issues that arise.

Explanation of expenditures in Section 6 Page 1 of the Parks Policies and Procedures instructs how to record debits or credits to Expense/Expenditures (on the Daily Business Report) when the park has expensed something during the same fiscal year, identified by activity and object code. If the Park receives payment as a form of restitution to replace/repair something to offset the cost, they will use the same specific Expense Code.

The Department of Parks Receivables Section audited 17,935 Daily Business Reports totaling \$48 million in revenue for FY15.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-036: The Department of Parks Failed To Enact Proper Policies And Procedures Over Procurement Cards**

The Department of Parks (Parks) failed to ensure Procurement Card transactions complied with FAP 111-58-00 Procurement Card Program. Testing results revealed the following:

- Five instances of Procurement Card statement reconciliations that were not signed by the cardholder and/or not dated.
- Three instances in which the Procurement Card receipt was signed by a person other than the cardholder.
- Two instances in which sales tax was paid. In one instance, Parks reported the employee reimbursed the sales tax out of pocket. In the other instance, Parks received a store credit.

Parks failed to properly ensure policies and procedures over Procurement Cards are in compliance with Finance and Administration Cabinet policies and procedures.

Parks utilizes Procurement Cards for a significant number of transactions. Weak policies and procedures over Procurement Cards create a significant risk and opportunity for fraud, abuse, and non-compliance with Finance and Administration Cabinet policies and procedures.

FAP 111-58-00 Part 10 Cardholder and Custodian Responsibilities; (a) states: “Each cardholder and custodial card custodian shall reconcile purchases to transaction information provided by the financial institution and submit to the agency site administrator, on at least a monthly basis, a valid receipt for each charge. The itemized receipt or email confirmation shall be issued by the merchant and identify the good or service purchased. Dues and subscriptions may be documented by an order form. The receipts for each procurement card cycle shall be submitted to the agency site administrator in sufficient time to approve each payment, prior to the due date.”

FAP 111-58-00 Part 8 Cardholder Responsibilities; (a) states “The cardholder should not share or loan the card to any other individual.”

FAP 111-58-00 Part 8 Cardholder Responsibilities; (b) states “The cardholder shall, as an agent of the Commonwealth, ensure the proper use of the Commonwealth’s tax exempt registration number.”

Recommendation

We recommend Parks strengthen internal controls over Procurement Cards to ensure compliance with FAP 111-58-00, specifically the following:

- Strengthen internal controls to ensure cardholders perform reconciliations that are timely and properly documented.
- Strengthen internal controls to ensure Procurement Cards are used only by the cardholder.
- Strengthen internal controls to ensure sales tax is not charged to Parks. Parks should also update its policies and procedures to ensure incorrect charges are not reimbursed out of an employee’s pocket or exchanged for in-store credit.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-036: The Department of Parks Failed To Enact Proper Policies And Procedures Over Procurement Cards (Continued)**

Management's Response and Corrective Action Plan

We acknowledge that we need to continue to work on educating pro card holders to sign invoices/receipts regardless of the person who initiated the expenditure. We will continue to strive to make all cardholders aware and understand the necessity of them signing all invoices/receipts as well as the individual responsible for initiating the transactions.

We have made great strides to improve the tax issues with pro card. We have for several years kept a tax log to keep track of tax charges on pro card and receiving credits for the tax. In the instances listed we sometimes encounter vendors that do not want to give a credit after the transaction therefore they will sometimes issue a credit on an invoice or give cash back to a cardholder. All of these situations are documented on the tax log. There are rare occasions when a vendor refuses to issue some type of credit and then a cardholder will pay out of pocket as in one of the instances listed. We will continue to educate cardholders to advise vendors on the front-end of a transaction of our tax exempt status.

Please note that the Department of Parks Payables Section audited and processed 26,685 procard transactions totaling \$11,698,000 for FY15.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-037: The Personnel Cabinet Did Not Adequately Protect Sensitive And Confidential Information**

The Fiscal Year 2015 audit of the Personnel Cabinet's (Personnel) Kentucky Human Resource Information System (KHRIS) internal controls revealed that, although policies and processes are in place, Personnel did not consistently follow policies to ensure all sensitive and confidential data was protected. However, Personnel has initiated steps to protect certain types of data. Further, a specific concern identified during the prior year audit has been addressed. This issue was first identified and communicated to the agency during our FY 2014 audit.

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

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

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

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

Recommendation

We recommend Personnel management continue working with the Commonwealth Office of Technology (COT) to ensure confidential and sensitive data is sufficiently protected and ensure the maintenance of confidential and sensitive data remains a top priority. Management should ensure sufficient resources are dedicated to complete this timely.

Management's Response and Corrective Action Plan

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

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-038: The Department Of Revenue Did Not Adequately Protect Sensitive And Confidential Data

The Fiscal Year (FY) 2015 audit of the Department of Revenue (DOR) internal controls revealed that DOR did not consistently follow established policies to ensure that all sensitive and confidential data is protected. This issue was first addressed during our FY 2013 audit.

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

DOR has not established adequate procedures to ensure the protection of sensitive and confidential data.

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

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

Recommendation

We recommend DOR and COT work together to establish a process for identifying all data types. Data types classified as confidential and sensitive should be sufficiently protected. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority.

Management’s Response and Corrective Action Plan

The Department of Revenue is in the process of identifying classified and confidential data types. DOR is working with COT in labeling data that is classified to be Sensitive and Confidential so that COT can implement the proper security controls around the data. This classification and identification process will be outlined in the 2016-2017 SLA as well as the Governance Policy between the Department of Revenue and the Commonwealth of Technology. DOR is currently following Data Protection Policy’s as outlined by COT; therefore, the Department of Revenue is developing a Data Protection Policy specific to the Department of Revenue.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-039: The Department Of Revenue Did Not Consistently Perform Procedures Established To Revoke Access For Inactive Employees**

The audit of the Department of Revenue (DOR) for Fiscal Year (FY) 2015 revealed procedures were not being consistently followed to notify the DOR Security Office when access should be revoked for employees no longer employed by DOR. Similar issues with the revocation process have been noted since FY 2008.

Upon the resignation of an employee, his or her supervisor should submit an Authorization to Access Revenue Cabinet Confidential Computer Information form to the DOR Security Office to revoke the employee's access. Now that the DOR Security Office staff organizationally reside within the Commonwealth Office of Technology (COT), when an Authorization to Access Revenue Cabinet Confidential Computer Information form requesting access be revoked is received, a Staff Service Request Form, or COT-F181, must also be completed and sent to the Commonwealth Service Desk as an exit for the employee. Once the revocation request has been received by the DOR Security Office, the employee's access to the mainframe system is revoked. A spreadsheet is maintained by the DOR Security Office listing the revoked IDs and the date the access was revoked.

This procedure was tested originally for 87 employees listed on the DOR revocation spreadsheet as leaving DOR employment during FY 2015. For nine out of the 87 employees tested, or 10.3 percent, the control processes were not consistently followed. One employee left DOR employment, but an Authorization to Access Revenue Cabinet Confidential Information form was not submitted to the Security Office by a supervisor. Therefore, this employee's access remained active after separation. Three other employees that left DOR during FY 2015 did not have their access revoked timely. There were three additional employees that had access reinstated during the period; however, the Authorization to Access Revenue Cabinet Confidential Information form was not completed to support this action. Further noted, DOR's revocation listing was not properly updated to reflect accurate information for six of the employees with revoked access.

Testing also revealed there were 41 employees with personnel records from the Kentucky Human Resource Information System (KHRIS) that appeared to indicate a separation from DOR during FY 2015; however, they were not found on the DOR revocation listing. Further review revealed 29 of these employees had separated from DOR, but their information was not reflected on DOR's revocation listing. Also, the Authorization to Access Revenue Cabinet Confidential Information form was not completed to support the revocation of one of these employees' access and 10 employees access was not revoked in a timely manner.

DOR supervisors are not completing and submitting the proper security forms in a timely manner once an employee separates employment. Also, the DOR Security Office is not updating their revocation listing to capture all requests for revocation and to accurately reflect the status of revoked user accounts.

Allowing users the ability to access information without proper authorization increases the risk of data errors, omissions, or unauthorized transactions and may compromise the integrity of data.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-039: The Department Of Revenue Did Not Consistently Perform Procedures Established To Revoke Access For Inactive Employees (Continued)**

DOR requires supervisors or managers to complete the Authorization to Access Department of Revenue Confidential Computer Information form to revoke system access. The Security Office should log this request and promptly revoke access once this notification is received.

Recommendation

We recommend DOR management ensure staff consistently adheres to the established procedures to revoke access and continues to maintain the listing of revoked accounts with revocation dates. Specifically, DOR should ensure all forms are completed promptly for every employee upon termination or transfer. Further, these procedures should be communicated to all supervisors and applicable staff to ensure DOR management is diligent in following the established process to revoke all unnecessary access timely. Training should be provided to supervisors and managers responsible for this process.

Management's Response and Corrective Action Plan

In the past year, COT has made changes in their procedures for revoking access. Due to these changes, COT feels the previously established method of listing revocations is no longer sustainable: a much larger pool of people are processing the revocations and they do not all have access to the list. DOR and COT will work together to develop a method of record-keeping for these requests.

Through additional training and timely reminders to all supervisors and managers responsible for the process, DOR will ensure all forms are completed promptly for every employee upon termination or transfer. Procedures will be communicated to all supervisors and applicable staff to ensure DOR management is diligent in following the established process to revoke all unnecessary access in a timely manner.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-040: The Department Of Revenue Did Not Develop Procedures To Ensure Security Logs Are Adequately Monitored**

The Fiscal Year (FY) 2015 audit of risk prevention controls for the Department of Revenue (DOR) revealed DOR has not developed a formal written policy governing its security monitoring process. Similar issues have been reported to the agency since our FY 2007 audit.

The Commonwealth Office of Technology (COT) purchased vendor-developed monitoring software to assist DOR in monitoring the federal server security logs. The Internal Revenue Service (IRS) reviewed the software and confirmed that it complied with regulations for performing security reviews on the federal servers containing federal tax information. A processing manual was provided by the vendor documenting the technical specifications and functionality of the monitoring software.

DOR designated one employee the responsibility to monitor the federal server logs on a daily basis using the monitoring software. Log collectors are also installed on federal DOR servers. The logs generated by these servers are analyzed by the monitoring software and provide alerts when suspicious activity is identified. Server log review entails monitoring specific events or alerts triggered by pre-defined security criteria in the monitoring software and following up on suspicious activity. Although a processing manual for the monitoring software was available and auditors confirmed the logs are in fact being monitored by agency staff, management did not develop a policy to address the specific security log monitoring process to be followed by DOR staff.

Also noted during our review, a backup for the appointed reviewer was not formally selected. Further, no schedule was established for backups or retention of the security logs.

We are aware that DOR has upgraded their federal servers and has implemented new security measures as of October 2015. A vendor has been procured and is responsible for monitoring DOR's federal security logs. The vendor is contracted to provide weekly and monthly reports to designated DOR staff for consideration. In addition, a DOR staff member has been assigned as a backup for this process and is knowledgeable on the review of security logs.

DOR has not performed their due diligence to ensure the established process for monitoring security logs associated with federal and non-federal DOR is thoroughly documented for use by the appropriate staff. As previously noted, this issue has not been addressed by DOR since FY 2007.

Failure to adequately monitor application logs, and also the server security logs, could result in failure to identify suspicious activities that may be occurring on the system. Multiple access failures, account lockouts, after hours account creation and group membership creation, after hour logons, audit policy changes, and cleared security logs are activities that would be considered suspicious and could raise concerns over unauthorized access or fraud. Awareness of such activities enables the DOR to prevent or detect unauthorized access and potential fraud.

According to the IRS Publication 1075, Section 9, "All agency information systems used for receiving, processing, storing and transmitting Federal Tax information (FTI) must be hardened in accordance with the requirements of this publication. Agency information systems include the equipment, facilities, and people that collect, process, store, display, and disseminate information. This includes computers, hardware, software, and communications, as well as policies and procedures for their use."

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-040: The Department Of Revenue Did Not Develop Procedures To Ensure Security Logs Are Adequately Monitored (Continued)

Specifically, the IRS Publication 1075, section 9.3.3.3 Content of Audit Records (AU-3), states that audit record content should include:

- Information that establishes what type of event occurred, when the event occurred, where the event occurred, the source of the event, the outcome of the event, and the identity of any individuals or subjects associated with the event; and
- Details to facilitate the reconstruction of events if unauthorized activity or a malfunction occurs or is suspected in the audit records for audit events identified by type, location, or subject.

To support the audit of activities, section 9.3.3.10 Audit Record Retention (AU-11) states all agencies must ensure that audit information is archived for seven years to enable the recreation of computer-related accesses to both the operating system and to the application wherever FTI is stored.

Recommendation

We recommend DOR create a written policy governing the security log monitoring process for the federal servers. These procedures should ensure they are in compliance with IRS publication 1075 and include, at a minimum:

- Instructions for operation of the monitoring software;
- Definition of key events and alerts;
- Frequency of monitoring activities;
- The backup process for server data;
- A backup and retention schedule for the security logs in accordance with IRS requirements; and
- Documentation of activities performed.

If it is not feasible to develop such a policy due to the rapidly changing federal guidelines, then DOR should document the specific requirements established by the federal government that they adhere to and ensure all individuals responsible for monitoring federal servers are provided a copy and are aware of their responsibilities.

Management's Response and Corrective Action Plan

DOR will create a written policy based off IRS Publication 1075 on how to monitor server activity and access logs. The policy will need to be updated when changes are made to Publication 1075 to stay current with the advanced technology.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-041: The Kentucky Transportation Cabinet Did Not Ensure Effective Internal Controls Over The Payroll Process

Kentucky Transportation Cabinet (KYTC) personnel account for their time and attendance on a daily timesheet which is signed by the employee and approved by a supervisor. Timesheet information is then entered into the Kentucky Human Resources Information Systems (KHRIS) where it is uploaded into the State's accounting system (eMARS) for financial reporting purposes. The timesheets are maintained at either the KYTC central office or district offices throughout the state. Review of KYTC's payroll during Fiscal Year 2015 identified the following exceptions:

- In two instances, timesheets were not signed by an employee.
- Overtime approval was inconsistently documented on the timesheets. KYTC's policy manual requires overtime approval be documented within the comments column of the timesheet. The comments column was blank on some timesheets and completed on others when overtime was worked.
- In one instance, the time code on the timesheet did not agree to the time code entered into KHRIS.
- In several instances, the timesheet data uploaded to the PERS Universe in eMARS did not match KHRIS. The PERS Universe was intended to be a snapshot of KHRIS information so that data could be accessed through eMARS. There were multiple differences related to duplication of timesheet data, incorrect time codes, and incorrect total hours. This deficiency is currently being investigated by Personnel Cabinet and Finance and Administration Cabinet (FAC) personnel, but it does not appear to impact financial reporting.

In addition to the issues noted above, there were delays in receiving the timesheets from the district offices. The auditor requested 60 timesheets covering four pay periods from the Office of Human Resource Management (OHRM). The timesheets, requested in late July 2015, were expected to be received by the middle of August 2015. The last timesheets were provided at the end of October 2015. Such a delay to receive the requested timesheets brings into question the authenticity of the provided documentation. Furthermore, KYTC offices responsible for payroll reporting were unable to provide necessary reports from KHRIS or eMARS timely, which required further assistance from KYTC's internal audit department to acquire the necessary information.

KYTC failed to implement adequate internal controls as identified in its policies and procedures manual in order to prevent and detect errors related to payroll processing. Without an employee's signature on the timesheet there is no evidence the employee agreed with the time record processed in KHRIS. Additionally, failure to document overtime approval could lead to unauthorized payroll charges.

Differences noted between the PERS Universe in eMARS and KHRIS were identified as a possible systems error as some information was loaded into the PERS Universe twice when files were manually moved between servers. Inconsistencies with the same data not matching between two separate computer systems brings into question the validity of the information being reported.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-041: The Kentucky Transportation Cabinet Did Not Ensure Effective Internal Controls Over The Payroll Process (Continued)

Additionally, payroll within KYTC is processed at a central level by OHRM with information required being submitted by transportation districts located throughout the State. The decentralized nature of the payroll process can limit the flow of information and prevent the timely receipt of necessary data.

The General Administration and Personnel (GAP) Manual Section 206-1 states:

At the end of the pay period, employees shall sign the KHRIS timesheet, certifying the accuracy of the reported time, and submit the timesheet to their supervisor for signature approval.

The GAP 206-1 further states:

Employees shall not deviate from their preapproved regular work schedule, earn compensatory time/overtime, or take planned leave without securing prior approval from their supervisors. Employees shall document evidence of that approval by writing in the Comments column in the row of the appropriate attendance or absence code of the KHRIS timesheet.

Sound internal controls dictate that the correct hours should be charged for work performed, overtime should be properly approved, and timesheets should be signed by the employee to ensure the correct hours are reported in KHRIS. Appropriate review should be conducted and documented to ensure timesheet information is appropriate and properly coded into KHRIS. Additionally, a well designed internal control process should be able to confirm the accuracy of reported information, produce appropriate reports timely, and encourage good communication between various departments of an agency.

Recommendation

- Emphasize to supervisors and managers established payroll policies relating to employee signatures on timesheets and documenting the pre-approval of overtime with the comments section of the timesheet;
- Implement adequate internal controls to ensure timesheet data is properly uploaded into KHRIS; and
- Review the internal control structure of the payroll process to enhance the flow of information between the various departments and offices responsible for payroll reporting. This includes OHRM establishing its payroll responsibilities and coordinating efforts with Office of Budget and Fiscal Management (OBFM) where necessary, furthering its knowledge of KHRIS and eMARS payroll reporting, and ensuring timely information is received from the local transportation districts.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-041: The Kentucky Transportation Cabinet Did Not Ensure Effective Internal Controls Over The Payroll Process (Continued)**

Management's Response and Corrective Action Plan

The Office of Human Resource Management (OHRM) will send out reminders of the following to KYTC Timekeepers and Management:

- *Managers and timekeepers should ensure that timesheets are signed by the employee.*
- *Managers and timekeepers should ensure that overtime approval is documented on the timesheets as required by KYTC's GAP manual.*
- *Timekeepers should ensure that the time code on the timesheet agrees to the time code entered into KHRIS.*

It should be noted that GAP-206-1 further states "Supervisors shall sign the KHRIS timesheet certifying that all information reported by their employees is accurate, including all evidence of approved requests for deviation from regular work schedule, for planned leave, and for compensatory time/overtime. Supervisors may retain evidence of approval but are not required to attach any of the documentation to the KHRIS timesheet when they submit the approved timesheets to their time and attendance administrators (TAAs)." Therefore, we believe the supervisors that signed the timesheets that had missing comments did indeed approve the overtime.

KYTC management will evaluate the internal control structure currently in place and try to improve coordination between OHRM and the Office of Budget and Fiscal Management (OBFM). KYTC will continue to work with the Personnel Cabinet and the Finance & Administration Cabinet to ensure timesheet data is properly reflected in KHRIS as well as eMARS.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-042: The Kentucky Transportation Cabinet Did Not Ensure Adequate Security Is In Place Through The Commonwealth's Email System

The Fiscal Year (FY) 2015 audit of the Kentucky Transportation Cabinet (KYTC) revealed two objects found within the email system's public folders were open to anonymous viewing by any individual logged into the Commonwealth's email system. Further, the folder role for an anonymous viewer was set with editing permissions, and one of the objects was found to contain entries that included sensitive information.

The auditors informed agency management of these available objects at the time of testing. Remediation actions were taken at that time to restrict access.

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

Agency email public folders and subfolders were established with roles that did not sufficiently restrict anonymous access and anonymous view access containing active content.

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

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

Recommendation

We recommend specified KYTC staff periodically review the security control permissions applied to all agency email public folders and subfolders to ensure secure roles are restricted as deemed appropriate and anonymous access is disallowed for folders or calendars containing sensitive or confidential information.

Management's Response and Corrective Action Plan

The KYTC public folder with anonymous view was corrected upon initial report. The public folder containing sensitive information has been deleted and has not been used since. The Operations Support Branch within OIT will be doing periodic reviews of the KYTC public folder and subfolders security control permissions. Anonymous access will be disallowed for folders or calendars containing sensitive or confidential information.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-043: The Kentucky Transportation Cabinet Did Not Ensure The Kentucky Human Resource Information System Initially Allocated Paid Leave Equitably In Compliance With Federal Standards**

The Fiscal Year (FY) 2015 audit of the Personnel Cabinet's (Personnel) Kentucky Human Resource Information System (KHRIS) revealed KHRIS does not comply with allocation standards established by the Federal Highway Administration (FHWA). This issue was originally addressed with the agency during FY 2014.

In the FY 2013 audit, we reported KHRIS was unable to provide sufficiently detailed information for the Kentucky Transportation Cabinet (KYTC) to perform reporting required by the Federal government. An audit completed by the FHWA, which involved KHRIS-related transactions processed by the KYTC, from December 1, 2012 through January 31, 2013, indicated KYTC was not able to completely reconcile their payroll and time data to the reimbursements requested from the Federal government. As a result, KYTC struggled to generate sufficient information to comply with the reporting requirements of the Federal Emergency Management Agency (FEMA) and American Recovery and Reinvestment Act (ARRA) since April 2011 when KHRIS went into production. However, Personnel worked with the Finance and Administration Cabinet (Finance) to expand personnel and payroll information available within infoAdvantage, the information reporting solution used in conjunction with the enhanced Management Administrative and Reporting System (eMARS).

As a result of expanding this information, most of the required data was made available within infoAdvantage. Based on discussions with KYTC and through attending their payroll walk-thru trainings, we determined that KYTC has been able to use the information gathered from infoAdvantage, along with other external data, to reconcile an employee's time data from KHRIS to the federal accounting system and eMARS. However, based on the FHWA audit, allocation of leave and compensatory time taken is not being allocated equitably to State and Federal-Aid projects.

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

When accrued leave is taken, it is charged in proportion to the employee's current pay period work template. Also, when additional hours are worked in excess of a normal work schedule, the time is originally coded to a specific project or cost center by the employee. However, during the payroll process, these hours are accumulated in the employee's leave quota balances and held for later distribution when the time is taken, regardless of the hours charged to the initial project when the work hours were accrued.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-043: The Kentucky Transportation Cabinet Did Not Ensure The Kentucky Human Resource Information System Initially Allocated Paid Leave Equitably In Compliance With Federal Standards (Continued)**

The concern with this method is that not only is the compensatory leave not being properly accounted for by project when initially acquired, but also that compensatory leave is not being allocated equitably based on the accumulation of the leave for employees working on the FEMA and ARRA projects. However, given the current method of leave accumulation, where all leave is simply applied to employee quotas and not recorded against specific projects when the leave is earned, it is not possible to allocate leave in proportion to the accumulation of the leave or to equitably allocate against related projects.

It should be noted that while KHRIS is a comprehensive human resources system, it was primarily designed to process the Commonwealth's payroll, which is paid through eMARS. Personnel's Division of Employee Management is the business owner of the KHRIS payroll module. Personnel has no statutory authority or obligation to determine time allocations that are relevant to payroll. Instead, KHRIS processing, including allocation of leave, was designed and approved by KYTC, the Office of State Budget Director (OSBD), Finance and other agency stakeholders. Therefore, the current configuration and functioning of the KHRIS payroll module functions appropriately as originally designed.

To resolve this weakness noted by the federal auditors, KYTC has informed the FHWA that they plan to make leave costs non-participating for all future projects. Further, KYTC issued a request to the Personnel Cabinet for a system change on September 25, 2014. They are currently working with OSBD and other stakeholders to modify the current procedures to breakout leave expenses associated with labor costs in KHRIS and eMARS. This is a significant and complicated undertaking since it will involve programming changes to both systems. An anticipated implementation date has not been determined.

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

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

The requirements outlined in 2 CFR Part 225 Appendix B, 8.d (2) state,

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-043: The Kentucky Transportation Cabinet Did Not Ensure The Kentucky Human Resource Information System Initially Allocated Paid Leave Equitably In Compliance With Federal Standards (Continued)

Recommendation

We recommend KYTC continue to work with appropriate representatives from Personnel, OSBD, and Finance to ensure processes and procedures for breaking out leave expenses associated with labor costs are properly configured within KHRIS and eMARS. The specifications and requirements associated with a change request to address this issue should be thoroughly documented by KYTC. We recommend KYTC work closely with Personnel, Finance, and OSBD during the development and participate with testing of the planned functionality to ensure leave time is accurately broken out. KYTC should ensure certain projects are flagged as non-participating and those that are participating have the appropriate leave time allocated amongst State and Federal-Aid projects.

Management's Response and Corrective Action Plan

The Federal Highway Administration (FHWA) noted several deficiencies relating to the reconciliation of payroll and time data to reimbursement requests made to the Federal government. Most of the audit findings have been addressed to the satisfaction of FHWA with the exception of the deficiency related to allocation of employer paid leave. KYTC, Office of the State Budget Director, Finance & Administration Cabinet and Personnel Cabinet, along with representatives from the Auditor of Public Accounts (APA) have met several times as a work group to develop an approach to satisfy this deficiency. A conceptual plan to separately record employer paid leave costs in eMARS and tag those costs as ineligible for reimbursement by FHWA has been developed and reviewed by both FHWA and APA staff. Both agencies have agreed to move forward with development of functional specifications for making these changes.

The Personnel Cabinet will perform an analysis to determine the changes necessary and report findings to the work group. The Personnel Cabinet performed a high level analysis when determining the solution enhancements necessary to bring KYTC allocation in compliance with FHWA requirements. The Personnel Cabinet has recently completed the system upgrade of KHRIS to Enhancement Pak 7 and is now preparing to perform the detailed analysis of all areas of system functionality impacted by the requested enhancements to allocation. This includes, but is not limited to, allocation, interfaces (eMARS, Info-Advantage, Third Parties and others), as well as reporting and reconciliation. This initiative is extremely complex; therefore, accuracy of the in depth assessment to insure all areas, end-to-end, are thoroughly evaluated is extensive. This will facilitate the groundwork for detailed functional specs, technical specs, and test plans which will enable the Personnel Cabinet to determine the level of effort and corresponding costs. Due to the scope of this effort, other agencies will be impacted. This will require notice, education and awareness of impacts, along with understanding any downstream impact to other agencies resulting from these changes.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-043: The Kentucky Transportation Cabinet Did Not Ensure The Kentucky Human Resource Information System Initially Allocated Paid Leave Equitably In Compliance With Federal Standards (Continued)**

Management's Response and Corrective Action Plan (Continued)

A change of this magnitude will also require extensive testing by the Personnel Cabinet, KYTC, OSBD and Finance, as well as some other agency fiscal officers. We must insure the solution meets the objectives necessary to satisfy FHWA requirements and that no other KHRIS functionality becomes compromised as a result. Changes of this nature are best aligned with a fiscal year change or a calendar year change. Once the detailed analysis is completed, a target date for completion will be established.

The new changes will be reflected on a prospective basis only i.e., new changes will be effective from pre-defined go live date. Any retroactive changes before the pre-defined go live date will follow the old allocation and reporting logic and after the go live date the allocation will follow new allocation and reporting logic.

InfoAdvantage will also be modified to reflect the breakout of leave and fringe costs with special tags for billing and other downstream processes.

Auditor's Reply

Representatives from the APA were invited to and attended two work group meetings held by KYTC in which a resolution to this issue was discussed. KYTC work group attendees subsequently requested input from the APA to ensure there were no concerns regarding the proposed plan developed by KYTC, Personnel, OSBD, and Finance. Auditors performed a thorough review of the federal audit findings and the formal documentation developed by KYTC explaining the proposed requirements and enhancements that would need to be developed and implemented to address the FHWA's concerns. While no issues were noted during this review, KYTC was informed that we could not make managerial decisions regarding this proposal and whatever action was taken should be thoroughly documented and communicated to other agencies that would be affected by the proposed system changes. The APA recommends the work group reach out to the affected agencies prior to making any changes to KHRIS or eMARS to ensure they are in agreement with and understand the changes that will occur to daily business processes.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-044: The Kentucky Transportation Cabinet Did Not Adequately Protect Sensitive And Confidential Data

The Fiscal Year (FY) 2015 audit revealed weaknesses in the Kentucky Transportation Cabinet's (KYTC) internal controls involving the security of confidential and sensitive data. It was revealed that data was not adequately protected from potential intentional or unintentional access or misuse of information. We are aware KYTC is working to define their data. This security concern was originally identified and communicated to the agency during our FY 2014 audit.

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

KYTC has not established adequate procedures to ensure the protection of sensitive and confidential data.

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

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

Recommendation

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

Management's Response and Corrective Action Plan

KYTC understands the importance of protecting data, both PII and all critical and non-critical data. KYTC has remained in compliance with security protocols to ensure the protection of this data, at both the data warehouse and program/application level, and will continue to do so. The goal is to ensure data is protected while at rest, as well as in transit, and KYTC continues to work to ensure data throughout the cabinet meets all existing standards. KYTC OIT's primary repository for data is the Transportation Enterprise Data warehouse (TED), but other data is maintained throughout the cabinet on PC's, laptops and other data sources that OIT does not have control over. This response is in direct relation to data managed and controlled through OIT, and primarily through the Enterprise Data Services Branch in relation to the classification of data. COT is responsible for monitoring and providing standards for data for all cabinets.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2015-045: The Kentucky Transportation Cabinet Did Not Adequately Secure The Operations Management System

During the Fiscal Year (FY) 2015 audit of logical access security for the Kentucky Transportation Cabinet's (KYTC) Operations Management System (OMS), we determined KYTC employees and vendor staff were granted unnecessary administrator access to the system. This weakness was originally communicated to the agency during the FY 2014 KYTC audit.

OMS is a software package that maintains a computer database of the KYTC maintenance operations, including payroll costing; equipment, fleet, and materials inventory and usage; and pavement condition analysis. This information is manually entered by district employees on a daily basis. There are 15 security profiles available within OMS. One of the profiles is 'System Administrator', which allows full control of the system. Testing revealed two out of seven individuals having a 'System Administrator' security profile, or 28.6 percent, did not require this level of access to complete their job duties. One of the two individuals was identified as a vendor employee. Given this situation, the auditor performed additional testing to determine whether unnecessary access was granted to the remaining four security profiles that allow administrative control over the system, which are: 'A EMS Admin/Ability to Transfer Equip,' 'Equipment Administrator,' 'Equipment Inventory Admin,' and 'System Role.' This additional testing revealed:

- Two out of two individuals, or 100 percent, had unnecessary access to the 'A EMS Admin/Ability to Transfer Equip' security profile. Both of these individuals were vendor employees.
- Three out of ten individuals, or 30 percent, had unnecessary access to the 'Equipment Administrator' security profile. Two of these individuals were vendor employees.
- Three out of three individuals, or 100 percent, had unnecessary access to the 'Equipment Inventory Admin' security profile. Two of these individuals were vendor employees.
- Four out of 4 individuals, or 100 percent, had unnecessary access to the 'System Role' profile, which is equivalent to the 'System Administrator' role. One of these individuals was a vendor employee.

KYTC addressed these issues during fieldwork by removing access to all individuals identified as having unnecessary elevated access to OMS, with the exception of one vendor employee. According to management, this vendor requires system administrator access when assisting with upgrades to the system. However, such access should be disabled and only authorized when required for business purposes.

In addition, KYTC acknowledged in the response to the prior year finding concerning similar issues that they perform an annual review to determine if users should be removed from the OMS system. As a corrective action, they planned to add the review procedures to the OMS Materials Policy and Procedures Manual. A review for FY 2015 revealed that these procedures were not added to this manual.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-045: The Kentucky Transportation Cabinet Did Not Adequately Secure The Operations Management System (Continued)**

Finally, KYTC acknowledged that OMS does not allow reports to be generated showing individual user activity. However, all transactions are stamped with a user ID, which would assist in identifying the users who initiated activity if an investigation was warranted. The process to initiate such a review is not documented within the OMS Materials Policy and Procedures Manual.

KYTC employees and vendor staff was granted unnecessary administrator-level access to OMS by the System Administrator.

Without strong, formalized logical security controls, the opportunity increases for unauthorized modification to financial information and staffing reports as well as the likelihood of errors or losses occurring from incorrect use of data and other resources.

Formal security policies set the tone of management concern for strong system security and provide a security framework used to educate management, users, and others of their responsibilities. System security must be administered in such a way as to ensure proper segregation of duties. System access must be limited to the level necessary for performing assigned duties.

Recommendation

We recommend KYTC expand their formal procedures within the OMS Material Policy and Procedures Manual to address the process of disabling or removing terminated employee accounts as well as increasing the frequency that these accounts are reviewed. In addition, KYTC should also consider documenting within the OMS Materials Policy and Procedures manual the review process performed to identify users that need to be removed from the system. Further, the manual should be updated in order to explain the process staff should follow to initiate an investigation of questionable activity.

Management's Response and Corrective Action Plan

We agree with the recommendation and will make changes to the OMS Material Policy and Procedures manual on the process to disable or remove terminated employee accounts. The changes will also reflect the process staff should follow to initiate an investigation of questionable activity. The Transportation Engineer Specialist, Operations and Pavement Management Branch will be working on these changes and plans to complete this by September 30, 2015.

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APPENDIX

COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2015

This report is available on our website, www.auditor.ky.gov in PDF format. For other requests, please contact Gregory Giesler, APA's Open Records Administrator, at (502)564-5841 or gregory.giesler@ky.gov. If copies of the CAFR for FY 2015 are required, please contact William M. Landrum III, Finance and Administration Cabinet Secretary, at (502)564-4240 or william.landrum@ky.gov.

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

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

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

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

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

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

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

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

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

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

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

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

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

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

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

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

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

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

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

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

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

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

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

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

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

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

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

Office of Public Employees Health Insurance
State Office Building, 2nd Floor
501 High Street
Frankfort, KY 40601

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

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Kentucky River Authority
70 Wilkinson Boulevard
Frankfort, KY 40601

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

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

Kentucky Artisan Center at Berea
P.O. Box 280
Berea, KY 40403

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

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

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

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

Kentucky Public Transportation Infrastructure Authority
200 Mero Street, 6th Floor East
Frankfort, Kentucky 40622