

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

**VOLUME II**

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



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March 29, 2016

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

As the Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of the Commonwealth of Kentucky-Volume II for the year ended June 30, 2015. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With OMB Circular A-133*, federal award findings and questioned costs identified during our audit, and the summary schedule of prior audit findings.

The Auditor of Public Accounts also calculates a dollar threshold, based on OMB Circular A-133 guidance, to determine the federal programs to be audited for internal controls and compliance. For FY 2015, the threshold for auditing federal programs was \$30,000,000.

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

Respectfully Submitted,

Mike Harmon  
Auditor of Public Accounts





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## **INTRODUCTION**



**COMMONWEALTH OF KENTUCKY  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2015**

### **Single Audit**

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

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

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

### **Schedule of Findings and Questioned Costs**

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

### **Summary Schedule of Prior Audit Findings**

Audit findings related to federal awards reported in the Schedule of Findings and Questioned Costs for FY 2014, as well as any previous federal awards findings that have not been resolved in the prior two fiscal years, are reported in the Summary Schedule of Prior Audit Findings for FY 2015.

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

**COMMONWEALTH OF KENTUCKY  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

**Audit Approach**

The scope of the FY 2015 SSWAK included:

Financial

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

Federal Awards

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

**Component Units**

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

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





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

*Independent Auditor's Report*

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

**Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth of Kentucky's (Commonwealth) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2015. The Commonwealth's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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



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

**Basis for Qualified Opinion on CFDA 17.225, 17.258, 17.259, and 17.278**

As described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding CFDA 17.225 Unemployment Insurance as described in finding number 2015-046 for Activities Allowed or Unallowed. The Commonwealth also did not comply with requirements regarding CFDA 17.258 WIA Adult Program, CFDA 17.259 WIA Youth Activities, and CFDA 17.278 WIA Dislocated Worker Formula Grants as described in finding number 2015-047 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

**Qualified Opinion on CFDA 17.225, 17.258, 17.259, and 17.278**

In our opinion, except for the noncompliances described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-048, 2015-049, 2015-050, 2015-051, 2015-052, 2015-053, 2015-054, 2015-055, 2015-056, 2015-057, 2015-058, 2015-059, 2015-060, 2015-061, 2015-062, and 2015-063. Our opinion on each major federal program is not modified with respect to these matters.

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

**Report on Internal Control Over Compliance**

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

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

Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-046 and 2015-047 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items, 2015-048, 2015-049, 2015-050, 2015-051, 2015-052, 2015-053, 2015-054, 2015-055, 2015-056, 2015-057, 2015-058, 2015-059, 2015-060, 2015-061, 2015-062, and 2015-063 to be significant deficiencies.

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

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

Respectfully Submitted,



Mike Harmon  
Auditor of Public Accounts

March 4, 2016



## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	✓ Yes	No
Are any significant deficiencies identified?	✓ Yes	None Reported
Is any noncompliance material to the financial statements noted?	✓ Yes	No

**Federal Awards**

Internal control over major federal programs:

Are any material weaknesses identified?	✓ Yes	No
Are any significant deficiencies identified?	✓ Yes	None reported
Type of auditor's report issued on compliance for major federal programs:	Qualified: 17.225, 17.258, 17.259, 17.278 Unmodified: All other major programs	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	✓ Yes	No
Dollar threshold used to distinguish between type A and type B programs:	\$30,000,000	
Auditee qualified as a low-risk auditee?	Yes	✓ No

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)*****Identification of Major Programs*****Major Type A Programs**

<b>CFDA</b>	<b>Program Title</b>
<b>Supplemental Nutrition Assistance Program Cluster</b>	
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
<b>Child Nutrition Cluster</b>	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
15.252	Abandoned Mine Land Reclamation (AMLR) Program
17.225	Unemployment Insurance
<b>Workforce Investment Act Cluster</b>	
17.258	WIA/WIOA Adult Program
17.259	WIA/WIOA Youth Activities
17.278	WIA/WIOA Dislocated Worker Formula Grant
<b>Highway Planning and Construction Cluster</b>	
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
23.003	Appalachian Development Highway System
84.010	Title I Grants to Local Educational Agencies
<b>Special Education Cluster</b>	
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.268	Immunization Cooperative Agreements
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges
<b>TANF Cluster</b>	
93.558	Temporary Assistance for Needy Families
93.714	ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)*****Identification of Major Programs (Continued)*****Major Type A Programs (Continued)**

<b>CFDA</b>	<b>Program Title</b>
<b>CCDF Cluster</b>	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care And Development Fund
93.658	Foster Care Title IV-E
93.659	Adoption Assistance
93.767	Children's Health Insurance Program
<b>Medicaid Cluster</b>	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
97.778	Medical Assistance Program
<b>Disability Insurance/SSI Cluster</b>	
96.001	Social Security-Disability Insurance (DI)
96.006	Supplemental Security Income (SSI)
<b>Major Type B Programs</b>	
12.401	National Guard Military Operations and Maintenance Program
14.228	Community Development Block Grants/States Program
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining
<b>Employment Services Cluster</b>	
17.207	Employment Service/Wagner-Peyser Funded Activities
17.801	Disabled Veterans' Outreach Program (DVOP)
17.804	Local Veterans' Employment Representative (LVER) Program
<b>School Improvement Grants Cluster</b>	
84.377	School Improvement Grants
84.388	ARRA-School Improvement Grants
97.040	Chemical Stockpile Emergency Preparedness Program

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

See Volume I of the fiscal year 2015 SSWAK for Financial Statement Findings 2015-001 through 2015-045.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2015-046: The Department For Workforce Investment Failed To Promote An Operating Environment Committed To Ensuring Compliance With State And Federal Regulations**

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State Agency: Department For Workforce Investment  
Federal Program: CFDA 17.225-Unemployment Insurance  
Federal Agency: U.S. Department of Labor  
Pass-Through: Not Applicable  
Compliance Area: Activities Allowed or Unallowed  
Questioned Costs: \$0

This finding is a material weakness in internal control over financial reporting, a material noncompliance in provisions of state law, a material weakness in internal control over compliance, and a material noncompliance with federal regulations. The structure of the Federal-State Unemployment Insurance (UI) partnership is based on federal statute; however, it is implemented through state law. As identified during financial statement testing, the Department For Workforce Investment (DWI) circumvented established internal controls to transfer \$20 million of restricted surcharge funds to the Federal UI trust fund in violation of state law in an effort to ensure an estimated \$165 million in future Federal Unemployment Tax Act (FUTA) credits for Kentucky employers. The entire finding can be found in Volume I of the fiscal year 2015 SSWAK as Finding 2015-001.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Material Weaknesses Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-047: The Department For Workforce Investment Failed To Monitor Workforce Investment Act Subrecipients In Accordance With Federal Guidelines**

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State Agency: Department For Workforce Investment  
 Federal Program: CFDA 17.258-WIA Adult Program  
CFDA 17.259-WIA Youth Activities  
CFDA 17.278-WIA Dislocated Worker Formula Grants  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Subrecipient Monitoring  
 Questioned Costs: \$0

The Department for Workforce Investment (DWI) failed to monitor Workforce Investment Act (WIA) subrecipients according to federal guidelines. Although subrecipient monitoring procedures were conducted and reports were prepared, documentation provided was insufficient in illustrating how DWI's monitoring procedures ensured subrecipients were compliant with federal requirements, including the uniform administrative requirements for grants and agreements as promulgated in circulars and rules of the Office of Management and Budget (OMB). DWI's subrecipient monitoring process included the following deficiencies:

- A standard operating procedure manual was available for DWI's monitoring of subrecipients; however, there was no documentation of procedures performed to support conclusions made for each monitoring visit. In addition, the standard operating procedures did not follow or outline required federal regulations. Without sufficient documentation of procedures completed it was indeterminable whether conclusions could be drawn supporting the subrecipients compliance with the uniform administrative requirements or to allow determinations to be made as required in accordance with 20 CFR Part 667.410;
- Documentation was not available supporting DWI's review of the subrecipients' OMB A-133 audit, including WIA related findings; and
- DWI did not have adequate procedures to follow up on monitoring findings. DWI was unable to provide evidence if subrecipients were brought to prompt compliance as required in regulations. In cases of prolonged noncompliance, DWI could not provide documentation if sanctions or other reprimands were required.

Additionally, prior year finding 2014-065 recommended DWI maintain adequate supporting documentation and justification within its workpapers for why findings or concerns initially reported were removed from the final draft of subrecipient monitoring reports. During fiscal year 2015, one instance was noted where an "observation" was removed from the final draft report without sufficient documentation to support how or why the possible deficiency had been cleared during the review process.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Material Weaknesses Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-047: The Department For Workforce Investment Failed To Monitor Workforce Investment Act Subrecipients In Accordance With Federal Guidelines (Continued)**

DWI failed to enact adequate policies and procedures to ensure its subrecipient monitoring complied with federal requirements. Documentation, such as work plans documenting review procedures and compliance requirements covered, were not available to help validate subrecipient monitoring procedures were adequate. Failure to ensure sufficient subrecipient monitoring policies and procedures are in place leaves federal funds at risk to fraud, waste, and abuse, and could result in federal noncompliances.

WIA Sec. 184. Fiscal Controls; Sanctions, (a) Establishment of Fiscal Controls by States, states, in part,

- (3) UNIFORM ADMINISTRATIVE REQUIREMENTS. - (A) IN GENERAL. - Each State (including the Governor of the State), local area (including the chief elected official for the area), and provider receiving funds under this title shall comply with the appropriate uniform administrative requirements for grants and agreements applicable for the type of entity receiving the funds, as promulgated in circulars or rules of the Office of Management and Budget...
- (4) MONITORING. - Each Governor of a State shall conduct on an annual basis onsite monitoring of each local area within the State to ensure compliance with the uniform administrative requirements referred to in paragraph (3).
- (5) ACTION BY GOVERNOR. - If the Governor determines that a local area is not in compliance with the uniform administrative requirements referred to in paragraph (3), the Governor shall-
  - (A) require corrective action to secure prompt compliance; and
  - (B) impose the sanctions provided under subsection (b) in the event of failure to take the required corrective action.

20 CFR Part 667.410 - What are the oversight roles and responsibilities of recipients and subrecipients?, states, in part,

- (b) State roles and responsibilities for grants under WIA sections 127 and 132.
  - (1) The Governor is responsible for the development of the State monitoring system. The Governor must be able to demonstrate, through a monitoring plan or otherwise, that the State monitoring system meets the requirements of paragraph (b)(2) of this section.
  - (2) The State monitoring system must:
    - (i) Provide for annual on-site monitoring reviews of local areas' compliance with DOL uniform administrative requirements, as required by WIA section 184(a)(4);
    - (ii) Ensure that established policies to achieve program quality and outcomes meet the objectives of the Act and the WIA regulations, including policies relating to: the provision of services by One-Stop Center; eligible providers of training services; and eligible providers of youth activities:

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2015-047: The Department For Workforce Investment Failed To Monitor Workforce Investment Act Subrecipients In Accordance With Federal Guidelines (Continued)**

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- (iii) Enable the Governor to determine if subrecipients and contractors have demonstrated substantial compliance with WIA requirements: and
- (iv) Enable the Governor to determine whether a local plan will be disapproved for failure to make acceptable progress in addressing deficiencies, as required in WIA section 118(d)(1).
- (v) Enable the Governor to ensure compliance with the nondiscrimination and equal opportunity requirements of WIA section 188 and 29 CFR part 37. Requirements for these aspects of the monitoring system are set forth in 29 CFR 37.54(d)(2)(ii).

**Recommendation**

We recommend DWI review federal laws and regulations and develop a subrecipient monitoring plan outlining procedures to be conducted during on site field visits. Planned procedures should be thorough enough to allow DWI to conclude on a subrecipient's compliance with applicable federal requirements, including the uniform administrative requirements for grants and agreements as promulgated in circulars or rules of OMB. Documentation should be maintained necessary to support conclusions drawn on performed procedures. Additionally, DWI should maintain clear records, including supporting documentation, for findings, discussion points, or observations which are initially identified yet removed from finalized subrecipient monitoring reports.

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

*DWI is in the process of updating the monitoring Standard Operating Procedures (SOP). Once complete, the SOP will be reviewed and signed off by upper management. Additionally, in 2011 DWI entered into an agreement with an outside vendor to overhaul the program and fiscal monitoring processes. As a result of this overhaul, Monitoring toolkits were developed. These toolkits were revised for WIOA language and compliance prior to the PY15 monitoring year. Monitoring toolkits are sent to the local areas prior to monitoring activities. Respective local areas complete the toolkits and return them to the DWI monitoring staff. The toolkits cover the majority of the above findings and are inclusive to the requirements set forth in 20 CFR Part 667.410. Also, DWI has a standard template, shared with the APA at its request, which the staff utilizes for compliance review of individual customer files. It should also be noted that the monitoring toolkits significantly cover the requirements of 20 CFR Part 667.410. Toolkits for all areas, all program years, are saved on a shared drive for access.*

*During the monitoring report process, reports are sent to the local areas for their response to said findings. During this process, most of the findings contain no follow up as they are handled within the local area response. However, for those that require further action, DWI staff will develop a policy and procedure for monitoring follow up. DWI staff does not have the authority to implement sanctions. Sanctions, if applicable, of any sort would be the determination of Agency/Cabinet Leadership.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2015-047: The Department For Workforce Investment Failed To Monitor Workforce Investment Act Subrecipients In Accordance With Federal Guidelines (Continued)****Management’s Response and Corrective Action Plan (Continued)**

*Documentation was made available to the APA regarding “preliminary” reports reviewed prior to a final report. These reports contained explanation as to the removal of any discussion point/observation. DWI noted that it is very rare for a discussion point and/or observation to be totally removed from the preliminary report, but if so, it is a mutual agreement of all parties involved in the review process. This provides a check and balance approach overriding one individual to state that a discussion point and/or observation should be removed. DWI implemented this change to the report review process based on the 2014 APA finding. To summarize: In the past, preliminary reports contained the title of “findings” prior to discussions with management. As a result of the APA finding, DWI incorporated a wording change on the preliminary reports from “findings” to “discussion points.” Said discussion points are discussed and if all parties agree moved to a finding. This new process prevented the appearance of findings being removed from reports. Copies of preliminary meeting draft reports are filed and notes regarding any changes are contained on the reports.*

*OET is developing a formal policy and the review process for the OMB A-133 reports.*

**Auditor’s Reply**

During the audit, all information pertinent to the control structure regarding subrecipient monitoring was requested and documented in narratives. DWI’s response identified it has policies and procedures in place to ensure federal compliance was obtained; however, the documentation was inadequate to allow us to conclude federal compliance was obtained. The monitoring toolkits identified in DWI’s response did not support the subrecipient monitoring procedures being completed by DWI to meet federal requirements. As indicated in DWI’s response, “[m]onitoring toolkits are sent to the local areas prior to monitoring activities. Respective local areas complete the toolkits and return them to the DWI monitoring staff.” Since the toolkits are being prepared by the local areas they do not provide any assurance of subrecipient monitoring procedures being completed by DWI.

On February 22, 2015, during the finding response period, the Finance and Administration Cabinet’s Office of Policy and Audit released an agreed upon procedure review for periods July 1, 2013 through March 31, 2015 concerning DWI. This report provided collaborating support to our finding and identified the following:

Kentucky Education and Workforce Development management informed the Office of Policy and Audit that required monitoring tasks were being performed and completed, but at the time there was no complete set of written policies and procedures for central level and sub-recipient monitoring tasks. KEWDC stated they were working on the control procedures and had recently taken steps that included adopting four new policies in response to WIOA, which replaced WIA, effective July 1, 2015.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2015-047: The Department For Workforce Investment Failed To Monitor Workforce Investment Act Subrecipients In Accordance With Federal Guidelines (Continued)**

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**Auditor's Reply (Continued)**

Despite several requests, DWI did not provide OPA complete policies and procedures for central level grant-related processes. Further, they did not provide adequate sub-recipient monitoring procedures that describe processes that include pre-onsite, onsite, and post-onsite activities involved with sub-recipient monitoring. KEWDC is responsible for assuring fiscal and programmatic compliance with WIA/WIOA and applicable regulations at the central level and when monitoring sub-recipients.

DWI's corrective action for prior year finding 2014-065 involved a wording change which did not address the underlying concern that potential issues and exceptions were being resolved without a justification being documented. Whether called a finding, observation, or discussion point, the terminology used to describe a potential issue does not alleviate DWI's responsibility to justify and support how the issue is cleared between the draft and final report.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-048: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program**

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State Agency: Department For Community Based Services  
 Federal Program: CFDA 10.551-Supplemental Nutrition Assistance Program  
CFDA 10.561-State Administrative Matching Grants For The Supplemental Nutrition Assistance Program  
 Federal Agency: U.S. Department of Agriculture  
 Pass-Through: Not Applicable  
 Compliance Area: Special Tests & Provisions  
 Questioned Costs: \$0

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

In fiscal year 2015, compliance with the EBT card security was tested in 13 locations within 12 counties to ensure proper security was maintained, proper issuance was performed, periodic balancing of EBT cards was completed, and proper destruction was performed. Each location tested had inadequate EBT security and was not following proper procedures implemented by DCBS.

We noted the following exceptions:

- Five out of 13 locations failed to properly secure EBT cards by not having adequate security procedures in place.
- One out of 13 locations failed to document proper issuance procedures.
- Thirteen out of 13 locations failed to perform all required control procedures to confirm the count of cards remaining in the office.
- Five out of 13 locations failed to properly destroy EBT cards by not destroying cards timely or did not ensure the destruction of the cards was completed or maintained.

This is a recurring problem which has been noted in numerous previous audits.

Improper procedures are being followed in handling EBT cards. Management and staff members are not aware of correct procedures, or the policies are not being enforced by DCBS.

The documented policies at DCBS may be written appropriately but without training or enforcement, the policies are ineffective. Without proper procedures being performed, there is a risk the EBT cards could be stolen, misplaced, or improperly used.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

*Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

**FINDING 2015-048: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

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7 CFR section 274.5(c) states:

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

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

The DCBS Operation Manual MS 0290 states:

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

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

- A. The Field Services Supervisor (FSS):
  - 1. Maintains overall responsibility for secure storage of EBT cards and logs;
  - 2. Designates two individuals (Employee A and Employee B mentioned below) to handle, secure, issue, destroy and complete logs for EBT cards;
  - 3. Ensures EBT cards are NEVER left unsecured;
  - 4. Routinely inspects the secure storage area;
  - 5. Destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged, or not picked up within 30 days;
  - 6. Signs form EBT-5 at the time of destruction; and
  - 7. Reviews and signs forms EBT-2, County EBT Card Log, and EBT-5 monthly to confirm the EBT cards remaining in the local office at the end of each month.
  
- B. Employee A:
  - 1. Has responsibility for receiving and securing EBT cards;
  - 2. Ensures that the EBT cards are logged on form EBT-2 as received;
  - 3. Obtains a card from the secure location and releases the card to Employee B at the time a recipient comes in to pick up the EBT card;
  - 4. Records the release of each EBT card to Employee B on form EBT-2 daily; and
  - 5. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-048: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

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

#### **Recommendation**

DCBS Management should:

- Provide continuous training to county office personnel to effectively communicate all DCBS policies and procedures regarding EBT card security to ensure proper handling, issuances, and destruction of EBT cards - including the segregation of duties with receiving and issuing cards, timely destruction of cards, and the utilization of most current revisions of forms EBT-2 and EBT-5.
- Enforce the proper application of policies.
- Consider creating an internal review or monitoring of DCBS EBT Card Security procedures at local offices.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-048: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

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

*DCBS has reviewed the exceptions noted and agrees with the findings.*

*Over the past two (2) years, DCBS has been in the process of developing a new eligibility system which will be used to determine SNAP eligibility. This new system, hereafter referred to as Benefind, will go live Monday, February 29, 2016. Functionality to address the EBT card security issues has been included in the design of Benefind and will address the exceptions noted as follows:*

- 1. Five out of thirteen locations failed to properly secure EBT cards by not having adequate security procedures in place. Benefind will track each card that is requested to be sent to the local office and track each step of the process. Each card will be logged as received, checked as provided to the client when they come to pick up which will include:
  - a. capturing the identity and signature of the client;*
  - b. record the identity of the worker who requested the replacement card;*
  - c. record the identity of the worker who logged in the replacement card;*
  - d. record the identity of the worker that provided the card to the client.**

*This will ensure separation of duties and eliminate the use of the EBT 2 and EBT 5 logs. In addition to the functionality that Benefind will provide, the Office of the Ombudsman, Performance Branch, Management Evaluation Section (ME) will continue to check how and where EBT cards are secured when local office management evaluation reviews are conducted. Regional staff (Service Region Administrative Associate (SRAAs) and/or Public Assistance Program Specialists) will review to ensure cards are being stored securely with limited access as they travel from office to office within their region. If a finding is discovered during a review conducted by ME, a corrective action plan will be submitted to DCBS central office management for follow up with regional staff and the local office.*

- 2. One out of thirteen locations failed to document proper issuance procedure: Automation through Benefind will ensure that each local office adheres to the proper issuance procedures.*
- 3. Thirteen out of thirteen locations failed to perform all required control procedures to confirm the count of cards remaining in the office: Benefind will store the office code and the county code of the card(s). Additionally there is a card status of "In Local Office". Using this information, supervisors and/or regional staff can run a report to determine how many cards the office should have versus how many they do have at any point in time. This report will be ran and checked monthly once the monthly logs are obsolete. DFS is also revising policy to include instructions for supervisors, regional staff and ME staff to conduct random checks using this report.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-048: The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

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

4. *Five out of thirteen locations failed to properly destroy EBT cards by not destroying cards timely or did not ensure the destruction of the cards was completed or maintained. Timely destruction of cards will be remedied by a task that will post to supervisors each day for cards that reach their 30 day in office timeframe. If the task is not completed on the due date, it will become past due and stay at the top of the supervisor's inbox until it is completed.*

*Over the last two (2) months, all eligibility staff has attended training for Benefind. DFS will work with DSR and the regional Public Assistance Program Specialists to ensure that the new procedures are followed and that the appropriate policy is reviewed with staff as the policy manual is updated.*

*In addition to the above actions and processes that have been developed, the DSR Director will be addressing this issue with the SRAs at the next monthly meeting. The discussion will involve the importance of following policy and procedures and to go over the corrective action in regards to the response provided above.*

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-049: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System**

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State Agency: Department For Community Based Services  
 Federal Program: CFDA 93.658-Foster Care Title IV-E  
CFDA 93.659-Adoption Assistance Title IV-E  
 Federal Agency: U.S. Department for Health and Human Services  
 Pass-Through: Not Applicable  
 Compliance Area: Eligibility  
 Questioned Costs: \$0

The Title IV-E Adoption Assistance and Foster Care programs operated by The Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have adequate internal controls in place for The Workers Information System (TWIST). During the audit, case files were reviewed for both programs for the fiscal year ending June 30, 2015, and the results of testing noted the following exceptions.

Foster Care case files:

- Five missing Social Security Numbers (SSN) in TWIST.

Adoption Assistance case files:

- One state funded adoption listed as a Title IV-E Adoption in TWIST
- Eleven differences between the name in the files and the name in TWIST.

Cases are not being adequately updated when there are changes to the case file. DCBS relies on TWIST for information on individuals in the Foster Care and Adoption Assistance programs, making payments, and reporting to the federal government. Failure to include all relevant information by updating the files and keeping them current creates difficulty in finding physical files as well as finding cases in TWIST, creates the possibility of file mix-ups, and allows for the use of inaccurate information.

45 CFR part 92.20 indicates that states receiving federal awards must establish and maintain internal controls designed to ensure that federal funds are used in compliance with federal laws, regulations and compliance requirements.

#### **Recommendation**

DCBS Management should:

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

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-049: The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System (Continued)**

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

*Response to 1<sup>st</sup> Exception: 5 missing Social Security Numbers (SSN) in TWIST*

*For every child in out-of-home care, workers are required to enter the child's social security number. Weekly, the TWIST team runs a report of all children in out-of-home care or in adoptive placement and identifies missing data elements. Field staff is responsible for entering corrections of all the required data elements, including child social security numbers accordingly in anticipation of the federal AFCARS submission every six months.*

*As part of TWIST modernization, post adoptive screens will be redesigned. Post adoption cases will prompt and require the worker to re-enter the child's full name and social security number prior to finalizing for subsidy. This will ensure that any changes to the child's identifying information resulting from the adoption will be entered and match the subsidy case. These changes should be completed in TWIST in 2017.*

*Response to 2<sup>nd</sup> Exception: 1 State Funded Adoption listed as a Title IV-E Adoption in TWIST*

*When a Children's Benefit Worker (CBW) makes the determination of Title IV-E or State for an adoption assistance case, they use a generic form and send to the designated Internal Policy Analyst (IPA) in central office who oversees all payments for adoptions. The IPA then checks the generic form received from the CBW against what has already been received from the regional billing specialist (RBS) to ensure the data is a match. If it does not match, the IPA notifies the CBW to follow up with the field to make the necessary corrections to the case. The generic form is also sent to claiming staff to ensure that the Cabinet is claiming correctly. The claiming staff checks against records when the child was in foster care. If discrepancies are found, the information is returned to the CBWs who will follow up with field staff. Additionally, when errors are found, the Title IV-E specialists are notified so they may track the progress of correcting the errors. The Branch Manager is available to assist as needed.*

*This particular case found in error was an older adoption case that had been overlooked. It has now been corrected.*

*Response to 3<sup>rd</sup> Exception: Consider procedures to include periodic reviews to ensure the accuracy of information in the TWIST system.*

*As described in the first portion of the Management's Response and Corrective Action Plan, the planned TWIST modernization should greatly aid in accuracy of information.*

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-050: The Cabinet For Health And Family Services Did Not Timely Submit Financial Reports To The Federal Government**

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State Agency: Department For Community Based Services  
 Federal Program: CFDA 93.658-Foster Care Title IV-E  
CFDA 93.659-Adoption Assistance Title IV-E  
 Federal Agency: U.S. Department for Health and Human Services  
 Pass-Through: Not Applicable  
 Compliance Area: Reporting  
 Questioned Costs: \$0

The Title IV-E Foster Care and Adoption Assistance programs, operated by the Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS), did not have proper internal controls in place for reporting. Furthermore, the Foster Care and Adoption Assistance programs were not in compliance with federal reporting guidelines. During the audit of both Foster Care and Adoption Assistance for the fiscal year ending June 30, 2015, CB-496 Reports for the quarters ending 9/30/2014, 12/31/2014, 3/31/2015, and 6/30/2015 submitted to the federal government were reviewed.

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

- CB-496 report QE 12/31/2014 was not submitted timely to the federal government. The report was submitted on 2/11/2015, 12 days past the submission date.
- CB-496 report QE 3/31/2015 was not submitted timely to the federal government. The report was submitted on 6/11/2015, 72 days past the submission date.
- CB-496 report QE 6/30/2015 was not submitted timely to the federal government. The report was submitted on 8/6/2015, six days past the submission date.

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

OMB No. 0970-0205 states,

“Parts 1-3 of this form must be submitted quarterly within 30 days of the end of each fiscal quarter, i.e., no later than January 30, April 30, July 30, and October 30, respectively.”

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

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-050: The Cabinet For Health And Family Services Did Not Timely Submit Financial Reports To The Federal Government (Continued)**

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**Recommendation**

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

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

*DCBS concurs that the reports that are in question were not timely. This was largely due to events that are non-recurring in nature, so this condition is not expected to recur.*

*December 2014 reporting was not timely due to data entry errors, VPN access issues, and an issue with the size of the CFC Benefits claim file. This file lists all of the payments within the quarter for both Foster Care and Adoption and contains the initial calculation for the quarterly claim.*

*With regard to the original March 2015 report, unfortunately the combination of data entry errors and corrections needing to be made to the master payment file delayed the time submission until 06-11-2015. DCBS worked closely with Public Consulting Group to identify each error and create a corrective action plan to prevent those errors from occurring again in the future.*

*Finally, the June 2015 report was not timely because the prior quarter adjustments were for cases whose eligibility and reimbursability had changed since the time that the report was submitted. However, on July 30, 2015, the Division of Accounting and Procurement Services (DAPS) had requested a one week extension from ACF (for submission by 08-07-2017). That extension was granted by ACF and the report was submitted timely before the new deadline of 08-07-2015 on 08-06-2015. (See attached email for more details.)*

*In summary, DCBS concurs that three of the CB-496 reports were not submitted timely. However, it should be noted that DCBS made every attempt for a timely filing. Cabinet staff notified the US Department of Health and Human Services when submission of a report was going to be delayed. The federal auditors in Atlanta understood the delay since DCBS staff made every effort to comply with the deadlines but circumstances beyond staff's control delayed the actual submission.*

*To mitigate these issues, DCBS has taken the following actions:*

- 1) Contracted with Public Consulting Group (PCG) for Title IV-E Claims Assistance Services (Contract Number PON2 736 15\*572 valid through June 2016 with renewal options)*
- 2) Implemented the use of a Standard Operating Procedure for claim completion; and*
- 3) Implemented a claiming timeline each quarter to allow for collaborative work between PCG and DAPS to ensure the proper review and timely submission of the CB-496 reports.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-051: The Cabinet For Health And Family Services Misclassified An Adoption Case Resulting In Errors In Federal Reimbursement**

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State Agency: Department For Community Based Services  
Federal Program: CFDA 93.659-Adoption Assistance Title IV-E  
Federal Agency: U.S. Department for Health and Human Services  
Pass-Through: Not Applicable  
Compliance Area: Allowable Costs/Costs Principles and Eligibility  
Questioned Costs: \$5,788

The Title IV-E Adoption Assistance program (Adoption Assistance) operated by the Cabinet for Health and Family Services (CHFS) Department for Community Based Services (DCBS) did not have proper internal controls in place for eligibility determinations and was not in compliance with federal regulations for eligibility. During the audit of Adoption Assistance for the fiscal year ending June 30, 2015, we reviewed adoption files and examined supporting documentation for these adoptions that included Adoption Assistance Agreements, Title IV-E funding determinations, court documents, and evidence of termination of parental rights.

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

The results of testing noted the following exception:

One state funded adoption subsidy was claimed as Title IV-E for reimbursement from the federal government. Expenditure testing revealed that the state was incorrectly reimbursed using Title IV-E funds. During state fiscal year (SFY) 2015, the federal government reimbursed \$5,788 incorrectly to Kentucky. This amount is being reported as the known questioned cost above. Since the adoption was incorrectly claimed as Title IV-E beginning on January 1, 2011, additional questioned costs were reimbursed by the federal entity. As detailed in the following table, a total of \$26,389 was reimbursed to Kentucky in error for this case.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-051: The Cabinet For Health And Family Services Misclassified An Adoption Case Resulting In Errors In Federal Reimbursement (Continued)**

SFY	Grant Award Letter	Total Subsidy	Total Federal Match	ARRA Match	Federal Match	Total Federal Funding
2011	1101KY1407	\$2,070	74.69%	\$66	\$1,480	\$1,546
2011	1101KY1407	2,070	72.69%	25	1,480	1,505
2011	1101KY1407	2,070	71.49%		1,480	1,480
2012	1201KY1407	6,210	71.18%		4,420	4,420
2013	1201KY1407	2,070	71.18%		1,473	1,473
2013	1301KY1407	6,210	70.55%		4,381	4,381
2014	1301KY1407	2,070	70.55%		1,460	1,460
2014	1401KY1407	6,210	69.83%		4,336	4,336
2015	1401KY1407	2,070	69.83%		1,445	1,445
2015	1501KY1407	6,210	69.94%		4,343	4,343
		<u>\$37,260</u>		<u>\$91</u>	<u>\$26,298</u>	<u>\$26,389</u>

In addition to receiving a monthly subsidy, the child was Title IV-E eligible for annual reimbursement for extraordinary medical expenditures in the amount of \$4,680. Likely questioned costs resulting from payment of extraordinary medical expenditures were not determined by auditors.

Although controls over eligibility case files appear to have improved from previous testing, all cases are not being input into TWIST completely and accurately. As a result, one state funded adoption was incorrectly classified as Title IV-E reimbursable on the report submitted to the federal government, leading to the adoptions being incorrectly reimbursed by the federal government with Title IV-E funds. Inconsistent filing practices at the regional level may lead to missing documentation within Title IV-E child files. This can also lead to the possibility of difficulty locating documents and lost documents.

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

Pursuant to 42 U.S.C. 673:

(1) Categorical Eligibility

- (a) Applicable and Non-Applicable Children An applicable child is a child for whom an adoption assistance agreement was entered into in fiscal year (FY) 2010 or later and who meets the applicable age requirement (differs over a 9 fiscal year phase-in period beginning in FY 2010), or a child who has been in foster care under the responsibility of the Title IV-E agency for at least 60 consecutive months, or a sibling to either such child if both are to have the same adoption placement (42 USC 673(e)(2) and (e)(3)).

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-051: The Cabinet For Health And Family Services Misclassified An Adoption Case Resulting In Errors In Federal Reimbursement (Continued)**

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- (b) Adoption agreements entered into prior to the beginning of FY 2010 , or agreements entered into during FY 2010 or thereafter for a “non-applicable child” The child is categorically eligible if:
- (i) the child was eligible, or would have been eligible, for the former AFDC program
  - (ii) the child is eligible for SSI; or
  - (iii) the child is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent (42 USC 673(a)(2)(A)(i)(I)).
- (c) Adoption agreements entered into during FY 2010 or thereafter for an “applicable child” the child is categorically eligible if the child:
- (i) at the time of the initiation of adoption proceedings, was in the care of a public or private child placement agency by way of a voluntary placement, voluntary relinquishment or a court-ordered removal with a judicial determination that remaining at home would be contrary to the child s welfare; or
  - (ii) meets the disability or medical requirements of the SSI program; or
  - (iii) was residing with a minor parent in foster care (who was placed in foster care by way of a voluntary placement, voluntary relinquishment or court-ordered removal); or,
  - (iv) was eligible for adoption assistance in a previous adoption in which the adoptive parents have died or had their parental rights terminated.

45 CFR 92.20 indicates that states receiving federal awards must establish and maintain internal controls designed to ensure that federal funds are used in compliance with federal laws, regulations and compliance requirements.

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

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-051: The Cabinet For Health And Family Services Misclassified An Adoption Case Resulting In Errors In Federal Reimbursement (Continued)**

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##### **Recommendation**

DCBS Management should:

- Develop written policies and procedures for inputting cases into TWIST that include ensuring all necessary information is complete and accurate.
- Implement a system that ensures all files contain the documentation required.
- Stress the importance to agency personnel of filing and retaining all documents necessary for determining eligibility for Adoption Assistance.
- Determine the amount of extraordinary expenditures reimbursed since the Adoption Assistance agreement was approved.
- Work with the federal grantor to determine amounts required to be reimbursed to the federal government as a result of the improper reimbursement of assistance payments and any extraordinary expenditure identified for this case.

##### **Management's Response and Corrective Action Plan**

*DCBS has reviewed the exception noted above and agrees with the finding.*

*During the 2014 audit, DCBS was out of compliance for this particular type of error with several cases. DCBS decided it best to implement a practice of internal quality assurance prior to approval for adoption subsidy. Some of the cases that are being reviewed during audit are adoptions that have been in place for many years.*

*SOP 31.11, Title IV-E adoption assistance outlines the policy and procedures that the Children's Benefits Workers (CBW) follow for the adoption assistance cases (<http://manuals.sp.chfs.ky.gov/chapter31/Pages/3110TitleIV-EAdoptionAssistance.aspx>). When a determination is made as to whether a case is IV-E or state eligible, the CBW requires the Protection and Permanency (P&P) worker to send a packet of information to the CBW. That package includes the following:*

*Termination of parental rights for both parents,  
Subsidy request worksheet,  
Subsidy agreement,  
Judgment verification letter,  
Petition for adoption,  
Adoption placement agreement  
Approval letter*

*Private health Insurance Cards and new social security card - may also be requested if new cards have recently been issued*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-051: The Cabinet For Health And Family Services Misclassified An Adoption Case Resulting In Errors In Federal Reimbursement (Continued)**

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

*If the packet is not sent within the requested amount of time, requests are forwarded to management to retrieve the requested information.*

*When a CBW makes the determination of Title IV-E or State eligibility for an adoption assistance case, they use a generic form and send it to the designated Central Office employee who oversees all payments for adoptions. The employee then checks the generic form received from the CBW against what has already been received from the Regional Billing Specialist (RBS) to ensure the data is a match. If it does not match, the CBW is notified and is asked to follow-up with the appropriate field staff to make the necessary corrections to the case. The generic form is also sent to claims processing staff to ensure that the Cabinet is claiming correctly. The claiming staff verifies Title IV-E or state eligibility for the duration the child was in foster care. If discrepancies are found, the information is returned to the CBW's who will follow-up with field staff. Additionally, when errors are found, the Title IV-E specialists are notified so they may track the progress of correcting the errors. The branch manager is available to assist as needed.*

*The Adoption Branch has conducted trainings with staff in recent months and has provided staff with a listing of all information that is required for Title IV-E adoption cases. Furthermore, CBW staff is disseminated throughout the regions to complete trainings with staff to ensure they are aware of all forms and information that is needed.*

*Lastly, it should be noted that extraordinary medical payments are not a Title IV-e reimbursable activity. It is a state funded only expense and no dollars have been reimbursed for this adopted child or any adopted child.*

*This particular case found in error was an older adoption case that had been overlooked. It has now been corrected.*

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-052: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program**

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State Agency: Department For Community Based Services  
 Federal Program: CFDA 93.558-Temporary Assistance for Needy Families (TANF)  
 Federal Agency: U.S. Department for Health and Human Services  
 Pass-Through: Not Applicable  
 Compliance Area: Eligibility  
 Questioned Costs: \$0

During the FY 2015 audit of the Cabinet for Health and Family Services (CHFS) Temporary Assistance for Needy Families' (TANF) Program, member eligibility testing was performed. The TANF program is comprised of six federal assistance programs: Kentucky Transitional Assistance Program (K-TAP), Kentucky Works Program (KWP), Kinship Care Program (KC), Family Alternatives Diversion Program (FAD), WIN Program (Work Incentive), and Safety Net. CHFS Department of Community Based Services (DCBS) determines eligibility for each of these programs. As a part of TANF eligibility testing, the 60 month life time benefits rule for eligibility was also included in testing.

To ensure compliance with eligibility for the TANF program, case files in 13 counties across five DCBS regions were selected for testing. Testing results indicated CHFS failed to be in compliance with federal regulations regarding member eligibility requirements. Furthermore, CHFS did not maintain proper supporting documentation or authorizations at the local DCBS offices and/or Electronic Case File (ECF) system, thus reducing the assurance that can be achieved as to the adherence to proper eligibility determination by DCBS personnel. Testing results noted the following exceptions:

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

- Clinton County: One participant was missing KIM-101 Form.
- Jefferson County: One participant was missing KIM-125 NCP Form.

KC - Seven exceptions were noted due to missing documentation:

- Christian County: One participant was missing KIM-78KC Form and one was missing the KC-125NCP Form for both parents.
- Clinton County: One participant was missing KIM-78KC Form and one was missing the Pursuance of Permanent Custody Documentation.
- Estill County: One participant was missing KC -01 Form.
- Fayette County: One participant was missing KIM-78KC Form and one was missing the KIM-125NCP Form for the mother.

FAD - Four exceptions were noted due to missing documentation:

- Jefferson County: One participant was missing the FA-01 Form, and three participants' FA-01 Forms were missing the 2<sup>nd</sup> page –signature page for the supervisor.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-052: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

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WIN - Five exceptions were noted due to missing documentations:

- Christian County: One participant did not report employment information within required time period.
- Daviess County: Two participants did not report employment information within required time period.
- Fayette County: One participant did not report employment information within required time period.
- Jefferson County: One participant did not report employment information within required time period.

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

- Barren County: One participant was missing review documentation in the file for FY15, and one had eligibility extended after 60 months with no good cause documented in the file.

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

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

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

45 CFR part 92.20 indicates that states receiving federal awards must establish and maintain internal controls designed to ensure that federal funds are used in compliance with federal laws, regulations and compliance requirements.

Pursuant to 45 CFR section 263.2 (b)(3) TANF assistance may be provided to those individuals who are financially eligible based on the state's quantified financial eligibility criteria based on income and resource standards.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-052: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

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According to CHFS, DCBS Operational Manual Volume I:

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

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

TANF has a required record retention of five years.

**Recommendation**

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

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

*The Department for Community Based Services (DCBS) continues to identify and implement solutions to assure and improve quality management of cases, including case documentation. Electronic Case Files (ECF) has been in place statewide since June 2012, providing workers a paperless system where workers can scan documents at their desks and attach the scanned documents to an electronic case file. A change was made to this system now referenced as Document Management System (DMS)) in November 2014. The document is scanned and is automatically attached to the electronic case file alleviating a step that must be taken by the worker when processing documents.*

*Effective February 29, 2016, a new integrated eligibility system was implemented. This system fully integrates all programs currently remaining on the KAMES legacy system and all health insurance programs into one system. With this integration, there will only be one case for all programs, instead of multiple cases in multiple systems. This one case will be associated with one electronic case file, streamlining workload management and documents received for processing.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-052: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

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**Management's Response and Corrective Action (Continued)**

*Additionally, with the new integrated eligibility system, other enhancements were created to better manage incoming documents. The first is a change in business processes through the creation of a centralized mail center. With the centralized mail center, all incoming mail will come to one location as opposed to being returned to each local office. The centralized mail center is charged with processing all incoming mail that involves opening the mail and scanning it into the DMS system. From here, a task is generated to include the document that appears on the caseworker's dashboard for processing. With this process, the responsibility of staff in the local office to process and scan hardcopy documents will virtually be eliminated.*

*Another enhancement to be implemented with the new system is the batch processing applications and electronic/voice signature. Voice signature will be utilized for applications and recertifications processed over the phone. When voice signature is captured for the application/recertification, it is associated with the application/recertification document and automatically uploaded into DMS. A hardcopy form of the application/recertification will be printed overnight and mailed through the mail distribution center. This enhancement relieves the local office from having to mail the application out for signature and requiring the client to sign and return back to the local office. This same process would work for electronic signature captured through signature pads in the local office. Once the signature is captured, the signature along with the document is automatically uploaded into DMS and a hardcopy is mailed out to the client through the mail distribution center.*

*A third enhancement was created for Family Alternative Diversion (FAD) cases. Currently, applications for FAD are strictly hardcopy as the FAD system does not have functionality to process on the legacy system. The FAD application is fully automated into the new eligibility system. As with regular applications, voice signature and electronic signature will be utilized with the FAD application. The process for capturing the signature and uploading into DMS is the same as it is for all applications and recertifications.*

*For new applications and recertifications for a Kinship Care (KC) case, additional information will be required by the new eligibility system. This includes:*

- 1. Date of Placement;*
- 2. Date KC-01 Completed;*
- 3. Relative Home Evaluation Approval Date; and*
- 4. Date Referral to Family Support.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

**FINDING 2015-052: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

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**Management's Response and Corrective Action (Continued)**

*In order to complete eligibility, the worker will have to have the documentation available for completion of these fields. This documentation should be housed in DMS or provided by P&P staff as verification.*

*To reinforce the importance of maintaining proper case files, central office management will address this issue in the regularly scheduled monthly meetings with regional management. Additionally, the Division of Family Support (DFS) will issue announcements on a quarterly basis reminding staff of the importance of following policy and procedures in the maintenance of case files beginning with April 2016.*

*It should be noted DCBS was able to locate several of the documents cited as missing.*

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-053: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Medicaid Member Eligibility Determinations**

State Agency: Department For Medicaid Services  
 Federal Program: CFDA 93.775-State Medicaid Fraud Control Units  
CFDA 93.777-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare  
CFDA 93.778-Medical Assistance Program  
CFDA 93.767-Children’s Health Insurance Program  
 Federal Agency: U.S. Department for Health and Human Services  
 Pass-Through: Not Applicable  
 Compliance Area: Eligibility  
 Questioned Costs: \$0

The Department for Community Based Services (DCBS) is responsible for determining eligibility for the Medicaid Assistance Program (MAP) and the Kentucky Children’s Health Insurance Program (KCHIP), pursuant to their agreement with the Department of Medicaid Services (DMS).

To ensure compliance with respect to member eligibility guidelines, case files for KCHIP and MAP were examined. Forty-six case files did not contain required documentation to support the member’s eligibility for these programs as determined by DCBS personnel.

The MA-2 form is a critical component of the eligibility documents required to be submitted by applicants prior to receiving Medicaid or MAP assistance. The MA-2 lists the penalties for providing false information to obtain Medicaid or KCHIP assistance. The MA-2 form was not available for online applicants/applicants using the portal.

Testing identified 34 cases where the MA-2 was not documented:

- Twenty-two MAP case files were missing MA-2 forms.
- Twelve KCHIP case files were missing the MA-2 forms.

We also noted the following 18 exceptions - 11 exceptions to the MAP case files and seven to the KCHIP case files:

- One MAP and one KCHIP case file did not have support for social security on file.
- Nine MAP and three KCHIP case files did not contain signed applications.
- One MAP and one KCHIP case file did not contain evidence to establish citizenship.
- One KCHIP file did not contain evidence to establish qualified alien status.
- One KCHIP file did not contain documentation to support recertification of the case.

DCBS did not provide online applicants the opportunity to complete the MA-2 Form, which warns applicants and spells out the penalties for knowingly providing false information to obtain Medicaid benefits. To be consistent and protect the integrity of the Medicaid program, the MA-2 form should be available to all applicants regardless of the method of applying for benefits.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-053: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Medicaid Member Eligibility Determinations (Continued)**

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

Failure to provide online/portal applicants the opportunity to complete the MA-2 Form creates inconsistencies and potentially affects the integrity of the Medicaid program. Inadequate documentation procedures increase the risk that benefits are being issued to ineligible recipients.

42 CFR § 435.913 - Case documentation states:

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

45 CFR part 92.20 indicates that states receiving federal awards must establish and maintain internal controls designed to ensure that federal funds are used in compliance with federal laws, regulations and compliance requirements.

This dictates that sufficient documentation is maintained in the MAP and KCHIP case files to support eligibility decisions and assure compliance with eligibility requirements and notifications provided to applicants.

**Recommendation**

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

Further, we recommend CHFS ensure all applicants for Medicaid/KCHIP are given the opportunity to complete the MA-2 Forms when applying online to protect the integrity and consistency of the Medicaid application process.

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

*The Department for Community Based Services (DCBS) continues to identify and implement solutions to assure and improve quality management of cases, including case documentation. Electronic Case Files (ECF) has been in place statewide since June 2012, providing workers a paperless system where workers can scan documents at their desks and attach the scanned documents to an electronic case file. Now referenced as Document Management System (DMS), a change was made to this system in November 2014 where when the document is scanned it is automatically attached to the electronic case file alleviating a step that must be taken by the worker when processing documents.*

*Effective February 29, 2016, a new integrated eligibility system was implemented. This system fully integrates all programs currently remaining on the KAMES legacy system and all health insurance programs onto a new platform using the kynect platform. With this integration, there will only be one case for all programs, as to multiple cases on multiple systems. This one case will be associated with one electronic case file, streamlining workload management and documents received for processing.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-053: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Medicaid Member Eligibility Determinations (Continued)****Management's Response and Corrective Action Plan (Continued)**

*Additionally, with the new integrated eligibility system, other enhancements were created to better manage incoming documents. The first is a change in business processes through the creation of a centralized mail center. With the centralized mail center, all incoming mail will come to one location as opposed to being returned to each local office. The centralized mail center is charged with processing all incoming mail that involves opening the mail and scanning it into the DMS system. From here, a task is generated to include the document that appears on the caseworkers dashboard for processing. With this process, the responsibility of staff in the local office to process and scan hardcopy documents will virtually be eliminated.*

*Another enhancement to be implemented with the new integration system is the batch processing applications and electronic/voice signature. Voice signature will be utilized for applications, recertifications and MA-2s processed over the phone. When voice signature is captured for the application, recertification and MA-2, it is associated with the document and automatically uploaded into DMS. The hardcopy forms will be printed overnight and mailed through the mail distribution center. This enhancement relieves the local office of having to mail the applications and MA-2s out for signature and requiring the client to sign and return back to the local office. This same process would work for electronic signature captured through signature pads in the local office. Once the signature is captured, the signature along with the document is automatically uploaded into DMS and a hardcopy is mailed out to the client through the mail distribution center.*

*Replacing the manual process of providing this form the MA-2 in the online application on Worker Portal will address the stated issues identified in this audit. In addition, all the cases involved in the audit have been reviewed and any missing the appropriate MA-2 form documentation, (or other relevant documentation) corrected.*

*In addition to the enhancements described above, various other state and federal interfaces were built into the system. Many of these interfaces are real time and will assist with verifying required information such as social security number, citizenship, etc. If verification cannot be verified through an available interface, the system will automatically pend the case and generate a request for information to the client asking for the required information. If the required information is not received, the system will automatically take action to either deny the application or discontinue benefits depending on the status of the case.*

*To reinforce the importance of maintaining proper case files, central office management will address this issue in the regularly scheduled monthly meetings with regional management. Additionally, the Division of Family Support (DFS) will issue announcements on a quarterly basis reminding staff of the importance of following policy and procedures in the maintenance of case files beginning with April 2016. It should be noted DCBS was able to locate several of the documents cited as missing.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

*Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

**FINDING 2015-053: The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Medicaid Member Eligibility Determinations (Continued)**

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**Auditor's Reply**

DCBS's continued efforts to improve its processes and systems related to eligibility determinations are noted. It is imperative that documentation adequately supports its determinations of eligibility and complies with federal regulations.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-054: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely**

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State Agency: Department For Medicaid Services  
 Federal Program: CFDA 93.775-State Medicaid Fraud Control Units  
CFDA 93.777-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare  
CFDA 93.778-Medical Assistance Program  
CFDA 93.767-Children’s Health Insurance Program  
 Federal Agency: U.S. Department for Health and Human Services  
 Pass-Through: Not Applicable  
 Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Costs Principles  
 Questioned Costs: \$0

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

In a sample of 15 pharmaceutical companies the following exceptions were noted:

- Twelve pharmaceutical companies did not remit payment within 30 days of the billing date as required leaving an outstanding amount of \$213,799;
- Nine pharmaceutical companies did not provide the required written notice of disputed items when they paid less than the invoiced amount;
- One pharmaceutical company was 186 days overdue in not remitting their payment or providing a notice of disputed items to DMS.

Pharmaceutical companies did not follow the federal regulations for the payment of rebates and submission of written disputes. DMS has not documented any follow up with the companies that were delinquent in their payment and did not provide required documentation of disputed items.

Failure of the pharmaceutical companies to remit drug rebate payments and written disputes in a timely manner caused the Commonwealth not to receive funds legally due and entitled by law. CHFS risks noncompliance with the drug rebate requirements when they do not document communications with pharmaceutical companies that have not complied with the requirements of 2 U.S.C. § 1396r-8. Without timely payment or written notice of disputed items, accounts receivable balances could potentially be inaccurately reported.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-054: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

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2 USC 1396r-8 indicates:

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

45 CFR part 92.20 indicates that states receiving federal awards must establish and maintain internal controls designed to ensure that federal funds are used in compliance with federal laws, regulations and compliance requirements.

**Recommendation**

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

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

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

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

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-054: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

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

*The manufacturer may dispute all or some part of the invoiced amount. In this case, the manufacturer will notify the PBM along with their payment or will advise the PBM if disputing the entire invoiced amount. Disputes of the entire invoice rarely occur regarding Fee-for-Service utilization. Once received, the PBM captures the number of disputed units per National Drug Code (NDC) (year quarter) as reported by the manufacturer for the purpose of reflecting this information in reports regarding outstanding balances, as well as, being reflected in prior period adjustment statements that go out with future invoices.*

*A high percentage of manufacturers are registered with the PBM for use of the electronic invoice web solution. Through this web based system invoices can be retrieved and claim detail is provided. This allows manufacturers to load claim detail along with the invoice and run dispute unit algorithms.*

*By following the CMS best practice guidelines for dispute resolution, Kentucky's PBM works diligently to ensure invoices are as accurate as possible. The PBM also:*

- (a) Systematically converts billing units to rebate units using Point of Sale (POS) edits on quantities to ensure providers cannot bill for inaccurate or non-decimal units;*
- (b) Loads drug file updates bi-monthly to apply the most accurate information;*
- (c) Systematically removes non-rebate products and claims from 340B providers; and*
- (d) Presents dispute findings to manufacturers in a timely fashion.*

*However, despite all of this effort, it does not always translate to a manufacturer issuing a check to the Commonwealth.*

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

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-054: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

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

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

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

*In response to the recommendations here and in the findings of audit FYE 06/30/13 regarding the pursuit of timely payments from manufacturers for rebate invoices DMS implemented the following corrective actions beginning September 2015:*

- (1) DMS explored options through the PBM to increase collection attempts on behalf of the Commonwealth; including:*
  - (a) sending additional late payment notices to manufacturers (although additional penalties cannot be included);*
  - (b) increase the frequency of submitting notice to CMS regarding manufacturers that do not submit payment timely (quarterly):*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-054: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

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

*Changes implemented can be summarized as follows:*

*Increase of communication with manufacturers:*

- a. *Previous communication – Manufacturers are sent a Dunning Letter that notifies them of non-payment of an invoice 45 days after invoice date. This timing allows all payments within 38 days to be forwarded from DMS to MMA for recording of payment.*
- b. *Current communication – MMA will utilize functionality of the rebate reporting system to send Dunning Letters to manufacturers at 45, 75 and 90 days past the invoice date. Interest calculations will remain the same under the Federal guidelines and no additional penalty will be communicated on the collection letter.*

*Increase of communication with CMS:*

- c. *Previous communication – CMS Operations is provided a report each quarter that reports manufacturers that have not submitted payment in two consecutive quarters. DMS is copied on this communication. There will be no change in this process and this report will continue to be delivered.*
- d. *Current communication – MMA will send CMS Operations a copy of the Dunning Report that identifies the Dunning Letters above at each interval noted above (45,75 and 90 days). With this added communication, CMS will have a complete list of manufacturers that are not in compliance with their own regulation of payment submission within 38 days.*

*DMS and the PBM also executed a Statement of Understanding (SOU) to codify the changes to rebate invoice communication procedures as noted above.*

*(2) DMS reviewed the supplemental agreement contract enter into with manufacturers through the National Medicaid Pooling Initiative (NMPI) to explore the addition of penalties and sanctions against untimely payments from manufacturers for the next contract renewal period. There is some provision for additional interest accrual on unpaid balances. DMS has considered the implication of this provision and uses its discretion to prefer or non-prefer products from manufacturers with a poor payment track record when doing so would not disadvantage recipients or the State.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-054: The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely (Continued)**

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

*(3) In August 2015, DMS explored initiating requests for state hearings as allowed in the National Rebate Agreement. However, DMS must approach hearing proceedings with great caution to avoid causing unwanted complications, including:*

- e. Hundreds of hearings for each invoice cycle that would overwhelm the state fair hearing process,*
- f. A hearing could not be initiated until payment is sixty (60) days overdue which is outside of timely payment, and*
- g. Hearing outcomes have no bearing to assure compliance with the initial thirty (30) day payment period.*

*(4) Additionally, DMS also instructed the PBM to compile a list of balances for manufacturers that continue to have returned mail due to them being terminated. This report will allow for balances to adjust down to zero in the rebate system since they are not collectable. This project shall begin operation during spring 2016.*

*The agency provided documentation in support of their finding response.*

**Auditor's Reply**

Drug rebates represent a significant source of funds to Kentucky's Medicaid program and the APA continues to encourage DMS to pursue amounts disputed by drug manufacturers with the utmost urgency. The APA recognizes the inherent difficulty with the drug manufacturer contractual process. Nevertheless, the APA reiterates that the funds outstanding are due to the Commonwealth, and failure to remit them in compliance with contract terms results in a non-compliance for the agency.

Documentation of all communications with drug manufacturers regarding disputed amounts should be maintained and readily available to auditors during testing. DMS has not documented any follow up with the companies that were delinquent in their payment or did not provide required documentation of disputed items not included with their remittance, which caused the exceptions noted.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-055: The Cabinet For Health And Family Services Failed To Comply With The 40 Hours Of Home And Community Based Services Limitation**

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State Agency:	<u>Department For Medicaid Services</u>
Federal Program:	<u>CFDA 93.775-State Medicaid Fraud Control Units</u> <u>CFDA 93.777-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</u> <u>CFDA 93.778-Medical Assistance Program</u> <u>CFDA 93.767-Children’s Health Insurance Program</u>
Federal Agency:	<u>U.S. Department for Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Allowable Costs/Costs Principles</u>
Questioned Costs:	<u>\$0</u>

The Michelle P. Waiver (MPW) is a Home and Community Based (HCB) waiver program, developed as an alternative to institutional care for people with intellectual or developmental disabilities. The waiver allows individuals to remain in their homes with services and support. The MPW program was reviewed during the audit of the Medicaid program, and the Department of Medicaid Services (DMS) is not in compliance with the limitation of 40 hours of HCB services as stipulated by the waiver approved by the Center for Medicaid Services (CMS). The limits on HCB services are written in 907 KAR 1:835 Section 12.

Forty-eight participants tested had approved HCB plans that exceeded the 40 hours per week limit. One participant’s plan included 73 hours of personal care services per week. Another client’s plan was for a total of 79 hours of services including personal care, community living support, and adult day health care.

We did not have sufficient data available to calculate the likely questioned cost that may have resulted from the excess of 40 hours per week limit.

DMS failed to monitor the HCB services provided to MPW participants to ensure that the 40 hours per week limit was followed as specified in 907 KAR 1:835 Section 12. Failure to monitor the 40 hours per week limit constitutes noncompliance with the state regulation.

Because MPW participant plans included services that exceeded the limits stipulated in the regulation, DMS is not in compliance which brings into question the integrity of the waiver program.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-055: The Cabinet For Health And Family Services Failed To Comply With The 40 Hours Of Home And Community Based Services Limitation (Continued)**

Criteria set forth by 907 KAR 1:835, relating to the required 40 hours per week stipulate the following:

907 KAR 1:835 Section 12, Reimbursement.

- 1) The following Michelle P. Waiver services, alone or in any combination, shall be limited to forty (40) hours per calendar week:
  - a) Homemaker;
  - b) Personal care;
  - c) Attendant care;
  - d) Supported employment;
  - e) Adult day health care;
  - f) Adult day training;
  - g) Community living supports;
  - h) Physical therapy;
  - i) Occupational therapy;
  - j) Speech therapy; and
  - k) Behavior supports.
  
- 2) Respite services shall not exceed \$4,000 per member, per calendar year.

**Recommendation**

We recommend DMS take all necessary measures to ensure the 40 hours per week limit specified in 907 KAR 1:835 Section 12 is properly monitored and future HCB plans for waiver participants account for this limitation of services. In addition, DMS should consult with the federal government regarding the calculation of excess costs paid for services exceeding the 40 hour per week approved limit.

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

*DMS has been working actively to correct this issue since late 2014. In early 2015, DMS notified Michelle P Waiver CDO providers/support broker agencies, with the help of the DAIL, that effective April 1, 2015, any first time budget requests for the MPW that exceeded 40 hours per week would be denied, and the applicant would receive a right to a fair hearing. "Whenever an action is taken that adversely affects a waiver participant post-enrollment (e.g., services are denied, reduced or terminated), the participant must be notified of the action in writing on a timely basis in advance of the effective date of the action in accordance with 42 CFR §431.211." (Appendix F: Participants Rights, Instructions, Technical Guide and Review Criteria, p. 221, 2014)*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-055: The Cabinet For Health And Family Services Failed To Comply With The 40 Hours Of Home And Community Based Services Limitation (Continued)**

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

*The notification included that any consumers currently receiving in excess of 40 hours per week would be required to adjust their plan of care to comply with the regulatory maximums starting April 1, 2016. This will require the consumer to submit a voluntarily reduced support spending plan/plan of care, or the consumer will have his or her budget denied, due to exceeding regulatory limits, and the consumer will receive a right to a fair hearing, according to 42 CFR §431.211. This transition period gave each consumer/representative a one year notice to prepare for any reduction in benefits. In addition, DMS notified the providers that any requests for budget exceptions that were presented in excess of 40 hours per week would also be denied with appeal rights.*

*DMS has also written multiple change orders for the MMIS system, which when fully implemented, will prohibit any MPW providers from billing for services which, when combined, would exceed the 40 hour limit; anything in excess of this limit would be scrutinized and require a manual override by DMS.*

*DMS disagrees that the program was not monitored correctly, rather with a different interpretation of the regulation at that time, due largely in part to the previous leadership within the Division of Community Alternatives. It wasn't until a new Director was named that the correct interpretation (the one which is outlined in this document) was allowed to be enforced.*

*The issues identified in this report will be discussed with CMS during the next quality assurance review.*

*This corrective action has been submitted and will be monitored for compliance by Home and Community Based Services.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-056: The Department For Local Government Did Not Ensure The Audits Of Subrecipients Were Submitted Within Nine Months From The End Of The Fiscal Year As Required By OMB Circular A-133**

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State Agency: Department For Local Government  
Federal Program: CFDA 14.228-Community Development Block Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Pass-Through: Not Applicable  
Compliance Area: Subrecipient Monitoring  
Questioned Costs: \$0

As part of the audit of the Department for Local Government (DLG), subrecipient monitoring procedures were reviewed to determine compliance with monitoring requirements. The results of testing indicated eight subrecipient OMB A-133 audits were not submitted within nine months of the end of the fiscal year as required by OMB Circular A-133. At the time of the audit, DLG had received six of eight audits. Even though the eight late audits were due by March 31, 2015, two of the audits had still not been received in January 2016. For those two audits, there were no audit delinquency letters on record from April 1, 2015 to January 2016.

Furthermore, four of the late audits showed sub-standard audit opinions. There was no clear evidence of additional monitoring after any of these sub-standard audits were received.

DLG did not fully comply with the requirements of OMB Circular A-133 because they failed to obtain the needed A-133 subrecipient audits within nine months of the fiscal year end. DLG is not closely monitoring the receipt of subrecipient audit reports.

Even though the pass-through entity and subrecipient are equally responsible for A-133 compliance, prior to March 2015, DLG had taken a somewhat passive approach related to some monitoring aspects related to subrecipient audits. In response to the FY 2014 audit finding related to this issued in March 2015, DLG began in May 2015 to send audit reminder notices more frequently; however, the new process was started too late to correct the problem for the A-133 audits due by March 31, 2015. Although we acknowledge efforts to sufficiently monitor subrecipients, it is still the agency's responsibility to understand and comply with the provisions of OMB A-133 regardless of the timing of any audits.

OMB Circular A-133 § .235 and § .400 provide guidance over subrecipient monitoring activities.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-056: The Department For Local Government Did Not Ensure The Audits Of Subrecipients Were Submitted Within Nine Months From The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)**

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

When an A-133 audit related to a grantee has a less than satisfactory audit opinion, an agency should follow up to determine whether any of the problems have an impact on the grant project and the related funds. If the project or the funds are impacted, an agency should increase their monitoring related to the particular grantee. Thus, additional monitoring by an agency might include more site visits, closer review of expenditures and supporting invoices and related documentation, and closer review of the grantee's A-133 audits during the course of the related projects.

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

**Recommendation**

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

We also recommend the DLG take proactive steps to improve their monitoring process related to A-133 audits. DLG cannot control whether a grantee properly arranges for an A-133 audit and gets it delivered to DLG by the reporting deadline. However, DLG can control whether it conducts a thorough, systematic, and well documented monitoring process so that it is clear to everyone they have done all that they can reasonably be expected to do.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-056: The Department For Local Government Did Not Ensure The Audits Of Subrecipients Were Submitted Within Nine Months From The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)**

#### **Management’s Response and Corrective Action Plan**

*DLG has given due thought and consideration to the comments set forth in the Record of Control Weakness and Record of Noncompliance regarding collection of Subrecipient A-133 audits. DLG's Corrective Action Plan (CAP), implemented in May 2015, is aggressive not just in the collection of audits, but collection of audits based on all federal funds administered by DLG and in a timely fashion. Unfortunately, we did not have the opportunity to have a full year of intervention with the 2014 CDBG subrecipients to test the new Corrective Action Plan process and get the results sought. The FY14 audits were due before our plan was put into place. We fully expect to produce much better results with the 2015 audits. Consequently, we propose to continue to adhere to the CAP set forth below and implemented in May of 2015 but as a result of the recent finding, we will add additional steps to further identify cities or counties that meet the A-133 audit requirement thresholds. These steps will occur annually in August and consist of:*

- *Notifying the Auditor of Public Account’s staff that DLG has identified counties that will require an A-133 and request a prioritization of those audits.*
- *Request a copy of the “Fourth Quarter Report” from DLG’s County Branch to further check federal fund expenditures by those counties close to the A-133 audit threshold expenditure amounts.*
- *Identify delinquent audits on the office’s Internal Audit Spreadsheet to increase staff awareness to increase and improve notifications of delinquency.*
- *Add a CEO signatory requirement to the audit section of the CDBG Program Completion Report. This should remind the respective Mayor or County Judge/Executive of audit requirements, their importance and increase accuracy of data in report.*

*The plan's action items are ongoing but described below in chronological order during the calendar year beginning in January.*

#### *First Step:*

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

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-056: The Department For Local Government Did Not Ensure The Audits Of Subrecipients Were Submitted Within Nine Months From The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)****Management's Response and Corrective Action Plan (Continued)***Second Step:*

*As a result of the SEFA analysis, DLG will send a letter, also in January, to the respective CEO (mayor or county judge/executive) and the certified CDBG administrator handling grants identified on DLG's Audit Tracking Spreadsheet. The letter will be a notification that a considerable amount of federal funds have been disbursed by DLG in the first half of the subject fiscal year. They will be advised the combination of those funds with other federal funds will likely trigger an A-133 audit, and said audit will be due within 9 months of the end of the fiscal year. This will be known as the Early Audit Notification. An email report of this activity will be sent to all DLG project advisers letting them know the letters have gone out with the Audit Tracking Spreadsheet attached. As project advisers, they have frequent phone/email and face to face contact with subrecipients and need to be kept apprised of audit status.*

*Third Step:*

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

*Fourth Step:*

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

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-056: The Department For Local Government Did Not Ensure The Audits Of Subrecipients Were Submitted Within Nine Months From The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)**

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

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

***Fifth Step:***

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

***Sixth Step:***

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

*This six step action plan is very proactive and focuses on timeliness and tracking of all federal sources administered by DLG. The plan will be implemented by the Fiscal Officer and the Administrative Specialist. Oversight will be provided by the Executive Director over CDBG.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-056: The Department For Local Government Did Not Ensure The Audits Of Subrecipients Were Submitted Within Nine Months From The End Of The Fiscal Year As Required By OMB Circular A-133 (Continued)**

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

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

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

*For CDBG staff, audit policies are included in the Internal Control Plan and Risk Assessment document.*

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-057: The Department For Workforce Investment Failed To Ensure The Accuracy Of Data Reported In The Trade Activity Participation Report**

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State Agency: Department For Workforce Investment  
 Federal Program: CFDA 17.225-Unemployment Insurance  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Reporting  
 Questioned Costs: \$0

The Department for Workforce Investment (DWI) submits the Trade Activity Participation Report (TAPR) quarterly to the United States Department of Labor (DOL). This report includes data about the Trade Act Program (TAA) for claimant benefit payments, training payments, and performance data and is used to support the overall management, evaluation, and continuous improvement of the TAA at the local, state, and federal levels. Review of reports submitted to DOL during fiscal year 2015 identified that data within the TAPR did not agree to supporting documentation. In 10 of 58 instances tested, participant data reported in the TAPR had incorrect or missing wages reported for individuals in quarters prior to and after their participation in TAA.

Difficulties in acquiring and assembling information pertaining to the development of the TAPR can be attributed to a lack of resources in updating TAA computer systems, technical issues in assembling data between current mainframe reporting systems and older computer systems, and the complexities associated with tracking required information necessary for the TAPR. Failure to ensure the accuracy of information reported within the TAPR as submitted to DOL could impact determinations used in managing and evaluating the activities and effectiveness of TAA.

20 CFR § 617.61, Information, reports, and studies states, “A State agency shall furnish to the Secretary such information and reports and conduct such studies as the Secretary determines are necessary or appropriate for carrying out the purposes of the Act and this Part 617.”

The *2012 Trade Activity Participant Report, Data Preparation and Reporting Handbook*, states, in part,

Accurate and comprehensive management information on job seekers served through the one-stop delivery system is needed to make appropriate, cost-effective, and timely decisions about state and federal investments in workforce development activities. The performance information available through the TAPR is useful to One-Stop Career Center managers, public and private workforce agencies, service providers, state program administrators engaged in policy development and program planning, and evaluation researchers involved in the analysis of the TAA program.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-057: The Department For Workforce Investment Failed To Ensure The Accuracy Of Data Reported In The Trade Activity Participation Report (Continued)**

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The 2012 *Trade Activity Participant Report, Data Preparation and Reporting Handbook*, goes on to require the following reporting requirements within Section D: Performance Outcomes Information.

**D. 02: Wage Record Information**

This section tracks information that is used to track the participant's performance outcomes in the program, including:

- Wage data for three quarters prior to participation, and
- Wage data for four quarters after program exit.

Data elements that report information in this section should appear within six months following the report quarter referenced in the data element.

**Recommendation**

We recommend DWI review TAPR requirements and work to ensure the report is prepared utilizing complete and accurate information. DWI should implement adequate internal controls over the preparation and subsequent review of the TAPR to ensure compliance with federal guidelines.

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

*The Quality Assurance Branch has standing verbal policies and procedures that allow for the review of the TAPR. Prior to the submission of the TAPR, the staff along with the Quality Assurance Manager reviews the data and verifies a sample to ensure accuracy. While there are still some ongoing issues with the TRA payment file, there has been progress made in regards to its improvement. We are continuously improving our policies and procedures and will develop written policies and procedures to assure compliance with federal guidelines. The Standard Operating Procedure manual will be updated to reflect such policies, procedures and guidelines.*

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-058: The Department For Workforce Investment Failed To Ensure Unemployment Insurance Claimants Were Registered For Employment Services Prior To Receiving Benefits**

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State Agency: Department For Workforce Investment  
 Federal Program: CFDA 17.225-Unemployment Insurance  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Eligibility  
 Questioned Costs: \$4,055

As part of the process for registering for Unemployment Insurance (UI), some claimants are required to register with State Employment Services (ES) before they are eligible to receive benefits. In order to ensure compliance with eligibility requirements, claimants are required to register for ES within the Kentucky Career Center Focus program (Focus). Two claimants were identified to have not registered within Focus for ES and therefore were ineligible, based on state laws and regulations, to receive UI benefits.

After registering for UI, a confirmation screen notifies claimants in order to be eligible to receive UI benefits they must also register for ES. Review identified that Focus does not make it mandatory for required claimants to register for ES, and claimants are able to bypass registration for ES and still receive benefits.

The Department for Workforce Investment (DWI) has an internal control process in place for monitoring and identifying potential claimants who were required to, but failed to register for ES. During a required in-person eligibility review, which occurs after six weeks of a UI claim, local employment office staff performs an overall review of a claimant's eligibility, including registration with ES. Due to the six week delay between the in-person eligibility review and the initial UI registration, ineligible claimants would still be receiving UI benefits during the six week period. Additionally, the in-person review is ineffective in catching claimants that have a change in their search for work requirement and therefore are required to register for ES subsequent to this review process.

As a result of not having adequate internal controls to ensure eligibility requirements in accordance with State laws and regulations, claimants are receiving UI benefits prior to, or without being eligible resulting in \$4,055 in questioned costs.

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 [26 U.S.C. 3301 et seq.], includes provision for-
  - (1) Such methods of administration (including after January 1, 1940, methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary of Labor shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due...

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-058: The Department For Workforce Investment Failed To Ensure Unemployment Insurance Claimants Were Registered For Employment Services Prior To Receiving Benefits (Continued)**

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KRS 341.350, Conditions of qualification for benefits, states, in part,

An unemployed worker shall, except as provided in KRS 341.360 and 341.370, be eligible for benefits with respect to any week of unemployment only if...

- (a) He has registered for work with respect to such week in accordance with regulations prescribed by the secretary; and
- (b) He participates in reemployment services, such as job search assistance services, if pursuant to a profiling system established by the secretary, he has been determined to be likely to exhaust regular benefits unless:
  - 1. The claimant has completed the services to which he is referred; or
  - 2. There is justifiable cause for the claimant's failure to participate in the services. For the purpose of this section, "justifiable cause" shall be interpreted to mean what a reasonable person would do in like circumstances.

787 KAR 1:090- Unemployed worker's reporting requirements, states, in part,

Section 1. Registration for Work. (1) "An unemployed worker shall be registered for work with a state employment service before he is eligible to receive benefits. A registration shall be considered filed if the unemployed worker completes the registration process."

#### **Recommendation**

We recommend DWI take necessary steps to ensure required UI claimants are properly registered for ES before they receive UI benefits to ensure compliance with state and federal UI laws and regulations. DWI should review and strengthen Information Technology (IT) controls to ensure ES registration cannot be bypassed and implement adequate control mechanisms to identify and follow-up with individuals who fail to register for ES as required.

#### **Management's Response and Corrective Action Plan**

*The two cases that were determined not to have registered for ES were individuals who had undergone a change in status from group classification B to group classification A. The failure to capture the need for ES registration resulted from the fact that the recently introduced Focus system is not fully integrated with the EKOS system. The historical systems utilized by DWI, KEWES and Eligibility Review Interview, functioned as expected and caused the group classifications to be updated as when the separation change from group A to B occurred. With the recent implementation of the Focus software, however, there was not full integration between the old and new systems. Procedural changes had been implemented to ensure full registration within the Focus system itself, but that was not integrated to carry over to the Employ Kentucky Operating System (EKOS).*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-058: The Department For Workforce Investment Failed To Ensure Unemployment Insurance Claimants Were Registered For Employment Services Prior To Receiving Benefits (Continued)**

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

*Historically, an initial Employ Kentucky Operating System (EKOS) registration satisfied the requirement as work search information is captured during the UI claim filing. This registration process is required for the completion of a UI claim and is embedded within the application. The change in procedure, requiring a full registration with work history and resume information in Focus Career has resulted in the need for additional manual checks for each registration. The control procedures in place were inadequate for staff to recognize that the status change had occurred in the EKOS system and therefore there was no follow up to require the necessary full registration when registering through the FOCUS system. OET has explored the cost of a full integration, however IT costs and reduced administrative funds present challenges for implementation. Until such time a full integration of the two independent systems is achieved we must continue to depend upon the local office staff to ensure registration and full Career Center services.*

*OET will continue to provide training and regular reinforcement of existing policy and procedure, currently found in published manuals. Furthermore, OET remains committed to review the combination of systems and policies that support the initial claims process.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-059: The Department For Workforce Investment Failed To Implement Adequate Internal Controls To Ensure The Correct Account Was Charged For Benefit Payments**

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State Agency: Department For Workforce Investment  
Federal Program: CFDA 17.225-Unemployment Insurance  
Federal Agency: U.S. Department of Labor  
Pass-Through: Not Applicable  
Compliance Area: Special Tests & Provisions  
Questioned Costs: \$0

This finding is a significant deficiency in internal control over financial reporting, internal control over compliance, and is a noncompliance with federal regulations. The computation of an employer's annual tax rate is based on State Unemployment Insurance (UI) law per 26 U.S.C. § 3303. During financial statement testing, it was identified the Department For Workforce Investment (DWI) incorrectly charged the state pooled account for UI benefits instead of the employer's reserve account. The entire finding can be found in Volume I of the fiscal year 2015 SSWAK as Finding 2015-014.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-060: The Department For Workforce Investment Failed To Ensure Financial Reports Were Prepared On The Correct Accounting Basis**

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State Agency: Department For Workforce Investment  
 Federal Program: CFDA 17.258-WIA Adult Program  
CFDA 17.259-WIA Youth Activities  
CFDA 17.278-WIA Dislocated Worker Formula Grants  
CFDA 17.225-Unemployment Insurance  
CFDA 17.207-Employment Service/Wagner-Peyser Funded Activities  
CFDA 17.801-Disabled Veterans’ Outreach Program  
CFDA 17.804-Local Veterans’ Employment Representative Program  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Reporting  
 Questioned Costs: \$0

The Department for Workforce Investment (DWI) failed to ensure quarterly Employment and Training Administration (ETA) financial reports were prepared using the correct basis of accounting in accordance with federal requirements. Submitted ETA-9130 reports for Unemployment Insurance (UI), Employment Services Cluster Wagner-Peyser program and the state’s portion of the Commonwealth’s Workforce Investment Act (WIA) expenditures were prepared on the cash basis of accounting instead of the accrual basis of accounting as required.

DWI uses eMARS, the state’s accounting system, to generate data used in the preparation of the Commonwealth’s ETA-9130 reports. eMARS is a cash basis system, therefore DWI failed to make appropriate adjustments to ensure the ETA-9130 reports were reported on the accrual basis. As a result, ETA-9130 quarterly reports were not prepared in compliance with the United States (U.S) Department of Labor (DOL) ETA Financial Report Instructions, and federal oversight authorities did not receive precise information as requested in the ETA-9130 reports to assist in their oversight of federal related activities.

29 CFR § 97.41 - Financial Reporting, states, in part:

(b) (2) Accounting basis. Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. If the Federal agency requires accrual information and the grantee’s accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through and analysis of the documentation on hand.

U.S. DOL ETA Financial Report Instructions (Basic Instructions for ETA-9130) Reporting Requirements, 4) states, “All financial data is required to be reported cumulative from grant inception, through the end of each reporting period. Expenditure data is required to be reported on an accrual basis.”

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-060: The Department For Workforce Investment Failed To Ensure Financial Reports Were Prepared On The Correct Accounting Basis (Continued)**

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**Recommendation**

We recommend DWI review the U.S. DOL ETA Financial Report Instructions and ensure ETA-9130 reports are completed in compliance with federal guidelines, which includes ensuring the correct basis of accounting is utilized. DWI should develop policies, procedures, and internal controls to ensure accrual information necessary for reporting is complete, accurate, and properly incorporated when required per federal reporting requirements.

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

*DWI has reviewed the U.S. DOL ETA Financial Report Instructions for the submission of the ETA-9130 and is in agreement with the recommendation. DWI will work with the Cabinet accounting staff to develop policies, procedures, and internal controls to ensure the correct basis of accounting is utilized.*

*eMARS accounting system is a "cash basis" system. DWI in accordance with 29 CFR 97.41 is not required to convert the accounting system, but will develop additional reports from the eMARS system to analyze and report our expenses on an accrual basis. This analysis will require that payments be coded and appropriately categorized for any expenditure that was relevant to the "period of time" for the ETA-9130. To accomplish this DWI will have to coordinate with the Cabinet accounting staff to properly code invoices. DWI does not process or store invoices to be paid in the eMARS system.*

*DWI and Cabinet accounting staff will begin this collaborative process and strive toward getting the accrual information accurately reported on the next ETA-9130 submissions.*

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2015-061: The Department For Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Boards On Submitted Reports**

State Agency: Department For Workforce Investment  
 Federal Program: CFDA 17.258-WIA Adult Program  
CFDA 17.259-WIA Youth Activities  
CFDA 17.278-WIA Dislocated Worker Formula Grants  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Reporting  
 Questioned Costs: \$0

The Department for Workforce Investment (DWI) failed to ensure the accuracy of data provided by the Local Workforce Development Boards (LWDB) as utilized in the preparation of financial and performance reports for the Workforce Investment Act (WIA) program.

The United States Department of Labor (USDOL) Employment and Training Administration (ETA) 9130 financial reports are submitted quarterly by DWI to report LWDB expenditures. The LWDBs enter their expenditures into the Workforce Online Reporting for Kentucky System (WORKS). DWI utilizes the data from WORKS to prepare the quarterly ETA-9130 which cumulatively reports the expenditures of all LWDBs. DWI monitors the accuracy of the data from WORKS by performing a reconciliation to the LWDB's annual A-133 compliance audit. A spreadsheet provided by DWI comparing data between WORKS and the LWDBs annual audit reports revealed the following differences with reported expenditures:

- Barren River LWDB: \$1,394,012;
- Bluegrass LWDB: \$132,807;
- Cumberland LWDB: \$199,281;
- Eastern Kentucky Concentrated Employment Program, INC. LWDB: \$7,087,928;
- Kentuckiana Works LWDB: \$960,732;
- Lincoln Trail LWDB: \$431,291;
- Northern Kentucky LWDB: \$237,286;
- TENCO LWDB: \$170,098; and
- West Kentucky LWDB: \$330,175.

DWI did not perform any further reconciliation or review of these differences between WORKS and finalized audit reports in order to verify and validate the accuracy of information reported within ETA-9130 financial report. As a result, submitted financial reports could contain inaccurate information.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-061: The Department For Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Boards On Submitted Reports (Continued)**

The LWDBs enter participant data into the Employee Kentucky Operating System (EKOS) which is utilized by DWI to prepare required performance reports. DWI prepares quarterly ETA 9090 performance reports, as well as annual Table B, Table E, and Table H1 performance reports. As part of subrecipient monitoring procedures, DWI stated it samples participant data entered into EKOS to help verify the accuracy of data utilized in compiling performance reports; however, DWI was unable to provide evidence supporting that subrecipient monitoring procedures verified the accuracy of participant data. As a result, there was no evidence provided to support the reconciliation, review, or monitoring of data to confirm its completeness or accuracy.

DWI failed to implement adequate internal controls over the monitoring and review of data utilized in preparing financial and performance reports in order to ensure information is complete and accurate. Failure to ensure the accuracy of financial and performance reports submitted to USDOL could lead to noncompliance with federal regulations as well as impact determinations used in managing and evaluating the activities and effectiveness of WIA.

Sound internal controls dictate adequate policies and procedures be implemented to ensure data utilized for financial and performance reporting is complete and accurate.

WIA Section 136 - Performance Accountability System, states, in part,

- (f) Fiscal and management accountability systems.
  - (1) In general.—Using funds made available under this subtitle, the Governor, in coordination with local boards and chief elected officials in the State, shall establish and operate a fiscal and management accountability information system based on guidelines established by the Secretary after consultation with the Governors, local elected officials, and one-stop partners. Such guidelines shall promote efficient collection and use of fiscal and management information for reporting and monitoring the use of funds made available under this subtitle and for preparing the annual report described in subsection (d).

WIA Section 185 - Reports; Recordkeeping; Investigations, state, in part,

- (a) Reports
  - (1) In general.—Recipients of funds under this title shall keep records that are sufficient to permit the preparation of reports required by this title and to permit the tracing of funds to a level of expenditure adequate to ensure that the funds have not been spent unlawfully.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-061: The Department For Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Boards On Submitted Reports (Continued)**

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**Recommendation**

We recommend DWI implement adequate internal controls over the review of data provided by LWBDs within WORKS and EKOS to ensure information is complete and accurate. DWI should ensure its established procedure to complete reconciliations of data within WORKS as submitted by LWBDs and finalized audit reports be performed, with any differences being investigated and resolved. Additionally, subrecipient monitoring procedures should be documented and performed to verify the accuracy of participant data utilized in the preparation of the performance reports.

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

*The Quality Control Branch currently has standing verbal policies and procedures that allow for the review of data within WORKS and EKOS. Staff strives to ensure the data is complete and accurate on both a state and local level. Reports are pulled and reviewed on a constant basis to ensure accuracy and discrepancies are noted and corrected. The staff will establish procedures to complete reconciliations of data within WORKS as submitted by the LWBDs and finalized audit reports, and will investigate and resolve any differences. Staff is currently writing policy and procedures that will document the sub recipient monitoring process as well as document the process for verifying the accuracy of data in preparation for the submission of performance reports. While the staff currently requires the review of data before it is submitted to the Department of Labor; that requirement has not been reduced to a written policy. A written policy will be established.*

*DWI agrees that reconciliations were not prepared timely, but it should also be noted that the annual reconciliation of WORKS data to submitted audits does not have a required deadline for completion. Reconciling the WORKS data to that of the audit reports creates an additional control that will be utilized by DWI when fulfilling the federal guideline requirements. DWI has other compensating controls and reconciliations to ensure accuracy of our quarterly reporting while waiting for the annual audit, such as quarterly reconciliations between WORKS and the state's accounting system.*

*At any time (including at the time of the APA audit), numbers may be different because a reconciliation between the annual audit and WORKS has not taken place. For example; during the APA visit, the EKCEP annual audit for FY14 had a net difference of \$7,102,264.82 between annual audit and WORKS. Updated numbers as of 03/04/2016 reflect a difference of \$14,336.86. All local areas are required to have their annual audit reports to the DWI staff by 03/31 of each fiscal year. The DWI staff work together reconciling the audit numbers versus WORKS data. Noted differences will be followed up with each local workforce area, as necessary. DWI staff will develop written reconciliation procedures to ensure timely processes are completed in the future.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-061: The Department For Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Boards On Submitted Reports (Continued)**

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

*As for validating participant data, DWI has just completed the task of WIA Data Element Validation (DEV) for PY 2014. DWI requested 1,392 WIA individual records from the LWIAs, with a total of 29,482 individual data fields across 5 WIA funding streams reviewed. Kentucky submitted to DOL on time, as we consistently have in the past. DWI is tasked with running a similar data accuracy check on the Trade and Wagner-Peyser programs, albeit at a much smaller scale. The staff was asked by the auditors to provide WP program verification, which was provided; however, staff was not asked to provide the same information on the WIA program. The Staff informed the auditor that the process was similar for WIA as it was for WP. However, documentation on the WIA DEV process or PY 2014 results was not provided since it was not requested. The data would have supported the fact that DWI procedures verify the accuracy of participant data.*

**Auditor's Reply**

During the audit, the APA requested all information pertinent to the control structure implemented by DWI to verify the accuracy of information used to prepare financial and performance reports. It is from the information provided that we test and evaluate internal controls to ensure they are adequately designed and effective. If DWI had other compensating controls in place, they were not identified and communicated to the APA during the audit.

During the response period, DWI identified some of the more significant differences between WORKS and audit reports had been reconciled to a more manageable level. While information provided indicated some variances were reduced, others increased and some of the differences were significant.

The APA agrees DWI is performing data validation on EKOS. While this procedure is ensuring information is formatted correctly and demographics cross-reference, DWI was not able to provide documentation of monitoring procedures to ensure the accuracy of performance data submitted by the LWDB's.

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-062: The Kentucky Transportation Cabinet Failed To Have Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations And Determine The Status Of Recommendations Under Consideration**

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State Agency:	<u>Kentucky Transportation Cabinet</u>
Federal Program:	<u>CFDA 20.205-Highway Planning and Construction</u> <u>CFDA 20.219-Recreational Trail Program</u> <u>CFDA 23.003-Appalachian Development Program</u>
Federal Agency:	<u>U.S. Department of Transportation</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Special Tests &amp; Provisions</u>
Questioned Costs:	<u>\$0</u>

The Kentucky Transportation Cabinet (KYTC) conducts Value Engineering (VE) analyses on highway construction projects as required by the Federal Highway Administration (FHWA). VE analyses are conducted to pinpoint areas where cost savings can occur. The recommendations resulting from the VE analysis are categorized as approved, not approved, or under consideration.

KYTC ensured VE analyses were conducted and recommendations approved for highway projects; however, the projects were not monitored after the analyses to ensure the incorporation of approved recommendations into the various project plans, specifications, and estimates, as required by FHWA. In addition, there was no evidence that recommendations under consideration were monitored and reevaluated as approved or not approved. KYTC is taking steps to resolve some of these issues; however, the projects were not monitored as required.

KYTC failed to implement adequate internal controls over the monitoring of VE recommendations and reporting requirements to ensure compliance with federal guidelines and regulations. The failure to ensure the approved VE recommendations are incorporated into the project plans, specifications, and estimates negates the purpose of the VE analyses. Proposed recommendations may have significant cost savings, potentially millions of dollars, for the six year highway projects evaluated on VE study. Therefore, failure to monitor the approval/denial, recommendations under consideration, and the implementation of the VE recommendations could result in the Commonwealth of Kentucky overspending by millions of dollars.

23 CFR § 627.7 (b) states:

“STAs [State Transportation Agencies] shall ensure the required VE analysis has been performed on each applicable project including those administered by subrecipients, and shall ensure approved recommendations are implemented into the project’s plans, specifications, and estimates...”

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2015-062: The Kentucky Transportation Cabinet Failed To Have Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations And Determine The Status Of Recommendations Under Consideration (Continued)**

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**Recommendation**

We recommend KYTC ensure the implementation of policies and procedures requiring the subsequent review and monitoring of recommendations resulting from VE analyses, including recommendations under consideration.

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

*Carrying over from last year's audit, we have taken the APA recommendation seriously and are building this into our program. We have made some recommended edits to the report (along with associated comments) to reflect the work that we have done thus far in that area. Changes to our program include:*

- *The Division of Highway Design issued a design memo in November 2015 that changes the internal process as means to address the monitoring non-compliance.*
- *Subsequently, the Quality Assurance Branch began contacting project managers to acquire the necessary information about the approval status and implementation of individual VE recommendations.*
- *This information is being added to the centralized VE database to help in the monitoring efforts.*

*We would like to clarify that Value Engineering is not completely synonymous with cost savings as indicated in the Condition of the finding. There are Value Engineering studies that can actually increase cost because it added improvements to the function of the project.*

*We plan to continue with this work in 2016.*

## SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2015-063: The Kentucky Transportation Cabinet Did Not Comply With Wage Rate Requirements**

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State Agency: Kentucky Transportation Cabinet  
 Federal Program: CFDA 20.205-Highway Planning and Construction  
CFDA 20.219-Recreational Trail Program  
CFDA 23.003-Appalachian Development Program  
 Federal Agency: U.S. Department of Transportation  
 Pass-Through: Not Applicable  
 Compliance Area: Special Tests & Provisions  
 Questioned Costs: \$0

The Kentucky Transportation Cabinet (KYTC) is required to follow the provisions of Wage Rate Requirements, also known as the Davis-Bacon Act, on construction contracts greater than \$2,000. During fiscal year (FY) 2015, KYTC failed to ensure the timely receipt of required weekly payroll records for three prime contractors. This matter existed and was previously communicated to KYTC in FY 2014.

KYTC does not have effective internal controls in place to ensure that prime contractors submit required weekly payroll records in a timely manner for all weeks worked by each prime contractor.

Failure by KYTC to verify the timely submission of payroll records by prime contractors increases the risk that contractors are not complying with the Wage Rate Requirements.

The United States Department of Labor’s (DOL) regulation 29 CFR § 5.5(a)(3)(ii)(A) requires construction contractors subject to Wage Rate Requirements submit weekly payroll records for each week in which any contract work is performed.

KYTC’s construction manual, CST-306-1, Contractor’s Payroll, guidelines for contractor’s payroll records states, “The contractor shall submit 2 copies of the contractor’s payroll, accompanied by statements of compliance, to the SE [section engineer] within 7 days after the ending of the applicable pay period.”

#### **Recommendation**

KYTC should implement adequate internal controls to ensure compliance with internal policies and federal regulations as established under Wage Rate Requirements.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2015-063: The Kentucky Transportation Cabinet Did Not Comply With Wage Rate Requirements (Continued)**

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

*The Division of Construction Procurement is responsible for storing contractor payrolls for this process. The Division of Construction and the section engineer is responsible for obtaining the contractor payroll reports. The section engineer is on location and is the most knowledgeable as to which contractors are working on the project and which payrolls are due each week. The Division of Construction Procurement does not have that knowledge and is currently dependent upon the section engineer to submit the appropriate payrolls timely.*

*Therefore, KYTC is taking the following corrective action:*

*The Division of Construction will revise their guidance manual to provide clarification on the section engineer's responsibilities in regards to contractor payrolls. It will also remove the requirement for submission of contractor payrolls to the Division of Construction of Procurement for storage. Contractor payrolls will be stored within the Division of Construction's ProjectWise folder effective upon completion of guidance manual revision.*

*The Division of Construction Procurement will revise their guidance manual to implement an audit function within the Division of Construction Procurement to review the payrolls received within the Section Engineer's Office. The Division of Construction Procurement will work with the KYTC Office of Audits to develop a formalized audit program. Once our audit is complete and if a project is non-compliant, the Division of Construction Procurement will notify the Division of Construction immediately with a request to withhold pay estimates until the situation is resolved. We will also notify the district section engineer and Chief District Engineer.*

*Another item that the Division of Construction Procurement is working toward is the implementation of the AASHTOware Civil Rights and Labor Management module. This module of the AASHTOware program will make the submittal process of the certified contractor payrolls electronic and should alleviate many of the issues from the past. This program will not be in production until March 2017 or beyond. However, the new procedure should be a step in the right direction until then.*

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**



**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Material Weaknesses/Noncompliances</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY13	13-CHFS-42	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program	93.658	\$1,436,331	Resolved
FY13	13-CHFS-43	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Controls In Place for Reporting and Did Not Comply with Federal Regulations for Reporting the Title IV-E Foster Care Program	93.658	0	Resolved
FY13	13-CHFS-44	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Did Not Comply With Federal Regulations For Allowable Costs For The Adoption Assistance Program	93.659	0	Resolved
FY13	13-CHFS-46	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting And Did Not Comply With Federal Regulations For Reporting For The Adoption Assistance Program	93.659	0	Resolved

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Material Weaknesses/Noncompliances (Continued)</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected:</i></b>					
FY13	13-CHFS-45	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations And Did Not Comply With Federal Regulations For Eligibility For The Adoption Assistance Program	93.659	\$147,060	Not Resolved see finding 2015-051
FY13	13-CHFS-47	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System	93.658 93.659	0	Not Resolved see finding 2015-049
FY14	2014-050	The Kentucky Department For Workforce Investment Exhibited An Operating Environment Which Failed To Clearly Establish A Commitment To Ensuring Accuracy And Integrity In Financial Reporting Over Achieving Financial Goals And Objectives	17.207 17.801 17.804 17.225	3,428	Not Resolved see finding 2015-046

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

There were no findings to report in this category.

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

There were no findings to report in this category.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Significant Deficiencies/Noncompliances</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY14	2014-054	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Expenditures And Was Not In Compliance With Federal Regulations For Allowable Costs For The Title IV-E Foster Care Program And The Adoption Assistance Program	93.658 93.659	\$2,005,374	Resolved
FY14	2014-062	The Department Of Military Affairs Did Not Use The AGO Installation Contingency Fund Bank Account For Its Intended Purpose	12.401	0	Resolved
FY14	2014-063	The Department For Workforce Investment Failed To Return Refunded Overpayments To The Federal Government Timely	17.225	0	Resolved
FY14	2014-064	The Department For Workforce Investment Failed To Implement Adequate Internal Controls Over The Approval And Maintenance Of Timesheets	17.225 17.207 17.801 17.804	0	Resolved
FY14	2014-067	The Kentucky Transportation Cabinet Failed To Perform Quality Assurance Reviews Of Each District Offices' Procedures For Property Acquisitions	20.205 20.219	0	Resolved

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Significant Deficiencies/Noncompliances (Continued)</u></b>					
<i>(2) Audit findings not corrected or partially corrected</i>					
FY13	13-TC-74	The Transportation Cabinet's Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely	20.205 20.219	\$0	Due to improvements, this finding is downgraded to an informal finding for FY15. This finding is no longer required to be reported under Government Auditing Standards.
FY14	2014-069	The Kentucky Transpiration Cabinet Failed To Ensure The Required Contractor Performance Reports Were Completed And Maintained	20.205 20.219	0	Due to improvements, this finding is downgraded to an informal finding for FY15. This finding is no longer required to be reported under Government Auditing Standards.
FY14	2014-060	The Department of Military Affairs' Internal Controls Over The Installation Management Fund Accounts Were Not Functioning As Designed	12.401	0	Due to improvements, this finding is downgraded to an informal finding for FY15. This finding is no longer required to be reported under Government Auditing Standards.
FY14	2014-061	The Department Of Military Affairs' Work Order System Is Not Functioning Properly	12.401	0	Due to improvements, this finding is downgraded to an informal finding for FY15. This finding is no longer required to be reported under Government Auditing Standards.
FY13	13-CHFS-48	The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program	10.551 10.561	0	Not Resolved see finding 2015-048

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Significant Deficiencies/Noncompliances (Continued)</u></b>					
<i>(2) Audit findings not corrected or partially corrected (Continued)</i>					
FY14	2014-051	The Cabinet For Health And Family Services Did Not Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program	10.551 10.561	\$0	Not Resolved see finding 2015-048
FY14	2014-052	The Cabinet For Health and Family Services Department For Community Based Services Did Not Have Adequate Internal Controls In Place For The Workers Information System	93.658 93.659	0	Not Resolved see finding 2015-049
FY14	2014-053	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Eligibility Determinations	93.659	385	Not Resolved see finding 2015-051
FY14	2014-055	The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families	93.558	0	Not Resolved see finding 2015-052
FY14	2014-056	The Cabinet For Health And Family Services Department For Community Based Services Did Not Have Proper Internal Controls In Place For Reporting Procedures	93.658 93.659	0	Not Resolved see finding 2015-050
FY13	13-CHFS-51	The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations	93.767 93.775 93.777 93.778	0	Not Resolved see finding 2015-053

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Significant Deficiencies/Noncompliances (Continued)</u></b>					
<i>(2) Audit findings not corrected or partially corrected (Continued)</i>					
FY14	2014-057	The Cabinet For Health And Family Services Did Not Maintain Documentation Supporting Member Eligibility Determinations	93.767 93.775 93.777 93.778	\$0	Not Resolved see finding 2015-053
FY14	2014-058	The Cabinet For Health And Family Services Is Not Receiving Drug Rebate Payments Timely	93.775 93.777 93.778	0	Not Resolved see finding 2015-054
FY14	2014-059	The Department Of Local Government Did Not Ensure The Audits Of Three Subrecipients Were Submitted Within Nine Months Of The End Of The Fiscal Year As Required By OMB Circular A-133	14.228 14.255	0	Not Resolved see finding 2015-056
FY14	2014-065	The Department For Workforce Investment Failed To Ensure Adequate Internal Controls Were In Place To Monitor Subrecipients And Communicate Identified Instances Of Non-Compliance	17.258 17.259 17.278	798	Not Resolved see finding 2015-047
FY13	13-TC-76	The Transportation Cabinet Does Not Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations	20.205 20.219	0	Not Resolved see finding 2015-062
FY14	2014-066	The Kentucky Transportation Cabinet Failed To Have A System Of Internal Controls In Place To Monitor The Implementation Of Value Engineering Recommendations	20.205 20.219	0	Not Resolved see finding 2015-062
FY13	13-TC-75	The Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements	20.205 20.219	0	Not Resolved see finding 2015-063

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Significant Deficiencies/Noncompliances (Continued)</u></b>					
<i>(2) Audit findings not corrected or partially corrected (Continued)</i>					
FY14	2014-068	The Kentucky Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements	20.205 20.219	\$0	Not Resolved see finding 2015-063
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings to report in this category.					
<i>(4) Audit finding no longer valid or does not warrant further action:</i>					
FY12	12-CHFS-59	The Department For Community based Services Did Not Maintain Supporting Documentation Required To Determine Member Eligibility For Medicaid	93.720 93.767 93.775 93.777 93.778	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY12	12-CHFS-66	The Cabinet For Health And Family Services Failed To Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program	10.551 10.561	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY12	12-TC-82	Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely	20.205 20.219	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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**Significant Deficiencies/Noncompliances (Continued)**

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

FY12	12-TC-85	The Kentucky Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements	20.205 20.219	\$0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
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## **APPENDIX**



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

This report is available on the APA's website, [www.auditor.ky.gov](http://www.auditor.ky.gov) in PDF format. For other requests, please contact Gregory Giesler, Open Records Administrator, with the APA at (502) 564-5841 or [Gregory.Giesler@ky.gov](mailto:Gregory.Giesler@ky.gov). If copies of the Commonwealth's FY 15 Comprehensive Annual Financial Report are required, please contact William M. Landrum III, Finance and Administration Cabinet Secretary, at (502) 564-4240 or [William.Landrum@ky.gov](mailto:William.Landrum@ky.gov).

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

<b>Agency</b>	<b>Contact</b>
Cabinet for Health and Family Services	Kelli Hill, Assistant Director Division of General Accounting Cabinet for Families and Health Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone: (502) 564-8890
Department of Local Government	Mark Williams, Director Compliance Branch Department for Local Government 1024 Capital Center Drive, Suite 340 Frankfort, KY 40601 Phone: (502) 573-2382
Education and Workforce Development Cabinet	David Morris, Director Office of Fiscal Services 500 Mero St., 2nd Floor Frankfort, KY 40601 Phone: (502) 564-2618
Kentucky Transportation Cabinet	Lori Mann, Division Director Office of Audits Transportation Cabinet 200 Mero Street 4E Frankfort, KY 40622 Phone: (502) 782-4041

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