

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

VOLUME II

**For the Year Ended
June 30, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

March 22, 2018

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

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, 2017. 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 the Uniform Guidance* and federal award findings and questioned costs identified during our audit.

The Auditor of Public Accounts also calculates a dollar threshold, based on Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, to determine the federal programs to be audited for internal controls and compliance. For FY 2017, the threshold for auditing federal programs was \$30,000,000.

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

Respectfully Submitted,

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

Mike Harmon
Auditor of Public Accounts



CONTENTS

Page

Introduction.....	1
Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With the Uniform Guidance.....	5
Schedule Of Findings And Questioned Costs.....	11
Section 1 - Summary Of Auditor's Results	11
Section 2 - Financial Statement Findings	13
Section 3 - Federal Award Findings And Questioned Costs.....	14

Material Weaknesses Relating to Internal Controls and/or Noncompliances

<u>FINDING 2017-028</u> : The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence.....	14
<u>FINDING 2017-029</u> : The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year.....	18
<u>FINDING 2017-030</u> : The Department Of Workforce Investment Was Unable To Substantiate The Accuracy And Completeness Of Submitted Rehabilitation Program Cost Reports.....	25

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

<u>FINDING 2017-031</u> : The Cabinet For Health And Family Services Incorrectly Charged Expenditures To The Immunizations Cooperative Agreement After The 90-Day Liquidation Period.....	28
<u>FINDING 2017-032</u> : The Cabinet For Health And Family Services Did Not Identify All Required Grant Information And Provide To Subrecipients At The Time Of Federal Award	30
<u>FINDING 2017-033</u> : The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits	35
<u>FINDING 2017-034</u> : The Cabinet For Health And Family Services Did Not Properly Secure, Destroy, Or Maintain Segregation Of Duties For Electronic Benefit Transfer Cards.....	39
<u>FINDING 2017-035</u> : The Cabinet For Health And Family Services Did Not Maintain All Required Supplemental Documentation For Parent Eligibility On Foster Care.....	42
<u>FINDING 2017-036</u> : The Cabinet For Health And Family Services Failed To Have Written Procedures Over Federal Compliance On Certain Major Programs.....	44
<u>FINDING 2017-037</u> : The Cabinet For Health And Family Services Failed To Provide Timely System Access To Auditors During The Audit	46
<u>FINDING 2017-038</u> : The Cabinet For Health And Family Services Did Not Take Timely Action Toward Vendors Who Committed Violations During Compliance Buy Investigations	49

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

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

FINDING 2017-039: The Department Of Workforce Investment Failed To Prevent Payment To Ineligible Claimants 51

FINDING 2017-040: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports 52

FINDING 2017-041: The Department Of Workforce Investment Failed To Prevent Claimants From Receiving Benefits When Eligibility Review Requirements Were Not Met 55

FINDING 2017-042: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data Reported In The Trade Activity Participation Report..... 56

FINDING 2017-043: The Kentucky Department Of Education Transferred Expenditures To A Federal Program Subsequent To The End Of The Close Of The Grant 59

FINDING 2017-044: The Kentucky Department Of Education Did Not Accurately Calculate The Required State Match Of State Level Administrative Expenditures For The Career And Technical Education Federal Grant 61

FINDING 2017-045: The Kentucky Department Of Education Did Not Adequately Document The Maintenance Of Effort Calculation For The Career And Technical Education Grant 64

FINDING 2017-046: The Kentucky Department Of Education Did Not Meet The Non-Traditional Earmarking Requirement For The Career And Technical Education Federal Grant..... 67

Appendix..... 71

INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2017**

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 Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 the Uniform Guidance, including the *Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance*, 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. Management responses are presented after each Financial Statement and Federal Award Finding, if provided.

Corrective Action Plans and the Summary Schedule of Prior Audit Findings

Corrective Action Plans, prepared by management of the various agencies audited, related to audit findings reported in the Schedule of Findings and Questioned Costs for FY 2017, as well as the Summary Schedule of Prior Audit Findings, are included in the data package submitted to the Federal Audit Clearinghouse and can be found at <https://harvester.census.gov/facweb/>.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2017**

Audit Approach

The scope of the FY 2017 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 controls 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) Compliance Supplement* that could have a direct and material effect on each major federal program; and
- Tests of internal control over compliance in accordance with the Uniform Guidance.

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 the Uniform Guidance, if applicable.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance

Independent Auditor's Report

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

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, 2017. 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.



Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance
(Continued)

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

Basis for Qualified Opinion on CFDA 10.551, 10.561, 84.126

As described in the accompanying Schedule of Findings and Questioned Costs, the Commonwealth did not comply with requirements regarding Reporting for CFDA 10.551 Supplemental Nutrition Assistance Program and CFDA 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program as described in Findings 2017-028 and 2017-029. The Commonwealth also did not comply with requirements regarding Reporting for CFDA 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States as described in Finding 2017-030. 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 10.551, 10.561, 84.126

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, 2017.

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, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-029, 2017-031, 2017-032, 2017-033, 2017-034, 2017-035, 2017-036, 2017-037, 2017-038, 2017-039, 2017-040, 2017-041, 2017-042, 2017-043, 2017-044, 2017-045, and 2017-046. Our opinion on each major federal program is not modified with respect to these matters.

Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance
(Continued)

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.

We performed additional audit testing on the following major federal programs: CFDA 10.551 Supplemental Nutrition Assistance Program, CFDA 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, CFDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 93.044 Special Programs for the Aging – Title III, Part B Grants for Supportive Services and Senior Centers, CFDA 93.045 Special Programs for the Aging – Title III, Part C Nutrition Services, CFDA 93.053 Nutrition Services Incentive Program, CFDA 93.268 Immunization Cooperative Agreements, CFDA 93.558 Temporary Assistance for Needy Families, CFDA 93.568 Low-Income Home Energy Assistance, and CFDA 93.658 Foster Care Title IV-E. The audit work was completed on March 16, 2018 which resulted in the dual-dating of our audit report.

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 to determine 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been 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 a 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 2017-028, 2017-029, and 2017-030 to be material weaknesses.

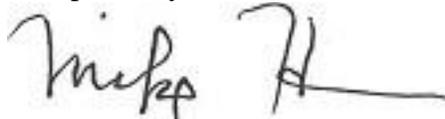
Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance
(Continued)

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 2017-029, 2017-031, 2017-032, 2017-033, 2017-034, 2017-035, 2017-036, 2017-037, 2017-038, 2017-039, 2017-040, 2017-041, 2017-042, 2017-043, 2017-044, 2017-045, and 2017-046 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully Submitted,

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

Mike Harmon
Auditor of Public Accounts

March 2, 2018, except for additional testing described in the Other Matters paragraph above as to which the date is March 16, 2018.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Financial Statements: We issued unmodified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2017.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth's internal control over financial reporting disclosed two material weaknesses and 25 significant deficiencies.

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

Federal Awards

Compliance: We issued a qualified opinion on the Commonwealth's compliance with the following major federal programs: CFDA 10.551, 10.561, and 84.126. The results of our auditing procedures resulted in three findings that disclosed material noncompliances. The results of our auditing procedures resulted in 16 additional findings which disclosed noncompliances which are required to be reported in accordance with the Uniform Guidance.

Internal Control Over Compliance: Our consideration of the Commonwealth's internal control over compliance disclosed 16 significant deficiencies and three material weaknesses.

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

CFDA	Cluster or Program Title
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
84.010	Title I Cluster
84.011	Migrant Education State Grant Program
84.048	Career and Technical Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
93.044, 93.045, 93.053	Aging Cluster
93.268	Immunization Cooperative Agreements
93.558	Temporary Assistance for Needy Families Cluster
93.568	Low-Income Home Energy Assistance
93.658	Foster Care Title IV-E
93.767	Children's Health Insurance Program
93.775, 93.777, 93.778	Medicaid Cluster

Type B Major Programs are highlighted in gray.

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

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

Auditee Risk

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

SECTION 2 - FINANCIAL STATEMENT FINDINGS

See the Report of the Statewide Single Audit of the Commonwealth of Kentucky Volume I for Financial Statement Findings 2017-001 through 2017-027.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

Finding 2017-028: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP)
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: Reporting
 Questioned Costs: \$0

This is a repeat finding. The original finding, 2016-005, was included in Volume I of the fiscal year 2016 SSWAK report. The Cabinet for Health and Family Services (CHFS) is required to submit the FNS-209, Status Claims Against Households, within 30 days of the end of each quarter. This report summarizes those Supplemental Nutrition Assistance Program (SNAP) cases where an overpayment has occurred and payment or benefit reductions applied.

CHFS, at the end of February 2016, implemented the Integrated Enrollment and Eligibility System (IEES), which is comprised of the various modules including Benefind and Worker Portal. The FNS-209 report uses information from the IEES to support and complete this report. During the fiscal year, CHFS staff were unable to correctly complete three of the four FNS-209 quarterly reports. CHFS staff were unable to extract accurate supporting data from IEES within the required 30-day submission time frame at the end of each quarter. The staff responsible for creating the report were relying upon an outside contractor to generate the supporting documentation for the FNS-209 quarterly reports. Furthermore, these reports were generated directly from the data tables within IEES and the required documentation necessary to reconcile or verify the report was not always generated. CHFS staff did not have the access or expertise necessary to perform this task. During the spring of 2017, United States Department of Agriculture Food and Nutrition Services (FNS) staff performed a review of fiscal year 2017 quarterly FNS-209 reports and discovered the reports failed to have claim numbers to support the claims reported by CHFS on the FNS-209 report. At the time of our request, in August 2017, CHFS staff were not able to provide the FNS-209 reports to auditors for three of the four quarters applicable for fiscal year 2017 due to the known errors detected by the FNS review.

In addition, the FNS-209 reports were not submitted timely. They are required to be submitted 30 days after the end of each quarter. The FNS-209 report for April to June 2017 was submitted 41 days past the end of the period. The FNS-209 report for October to December 2016 was submitted 51 days past the end of the period.

The FNS-209 quarterly reports should agree to and be reconciled against supporting records. Without these functions operating effectively in the IEES, CHFS staff are not able to verify the accuracy of the quarterly FNS-209 reports. This creates a risk that the amounts reported to the United States Department of Agriculture could contain inaccurate information.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2017-028: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence (Continued)**

Proper internal controls over financial reporting dictate that all supporting financial data be reconcilable to the underlying records. Additionally, internal controls are necessary to ensure compliance with laws and regulations related to applicable federal programs.

7 CFR 273.18(m) states:

- (1) As a State agency, you must maintain an accounting system for monitoring recipient claims against households. This accounting system shall consist of both the system of records maintained for individual debtors and the accounts receivable summary data maintained for these debts.
- (2) At a minimum, the accounting system must document the following for each claim:
 - (i) The date of discovery;
 - (ii) The reason for the claim;
 - (iii) The calculation of the claim;
 - (iv) The date you established the claim;
 - (v) The methods used to collect the claim;
 - (vi) The amount and incidence of any claim processing charges;
 - (vii) The reason for the final disposition of the claim;
 - (viii) Any collections made on the claim;
 - (ix) Any correspondence, including follow-up letters, sent to the household.
- (3) At a minimum, your accounting or certification system must also identify the following for each claim:
 - (i) Those households whose claims have become delinquent;
 - (ii) Those situations in which an amount not yet restored to a household can be used to offset a claim owed by the household; and
 - (iii) Those households with outstanding claims that are applying for benefits.
- (4) When requested and at intervals determined by us, your accounting system must also produce:
 - (i) Accurate and supported outstanding balances and collections for established claims; and
 - (ii) Summary reports of the funds collected, the amount submitted to FNS, the claims established and terminated, any delinquent claims processing charges, the uncollected balance and the delinquency of the unpaid debt.
- (5) On a quarterly basis, unless otherwise directed by us, your accounting system must reconcile summary balances reported to individual supporting records.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-028: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence (Continued)

According to the FNS-209 instructions:

This report shall cover the State's activities relating to recipient claims during the report quarter and the status of claims from previous reports. Submission to the Food and Nutrition Service (FNS) of a consolidated State level report is required. Each State Agency (SA) shall prepare an original and two copies. The original and one copy shall be submitted to the FNS Regional office so that it will be received in that office by the 30th day following the end of the report quarter. State agencies shall retain the second copy for audit purposes. The report must be submitted even if no payments are collected during the quarter.

Recommendation

We recommend CHFS:

- Ensure procedures reflect that the FNS-209 is due 30 days after the quarter end.
- Ensure procedures include a requirement for federal reports including the FNS-209 to be reviewed by a knowledgeable supervisor/manager before submission.
- Ensure the reporting functions necessary to adequately support and reconcile the report are created within IEES. These should include: supporting reports by individual claims; Intentional Program Violation (IPV), Inadvertent Household Error (IHE), and State Agency Administrative Error (AE).
- Ensure the supporting documents necessary to reconcile the FNS-209 report can be generated and allow the user to agree the report to actual collections accounts. Documentation of this reconciliation should be performed and documented to support each report prior to submission.

Once both reporting functions are operational, reports for all previously submitted FNS-209 reports should be generated and reconciled to the reports submitted. If necessary, corrections should be submitted for any errors found in the previously submitted reports.

Management's Response and Planned Corrective Action

The Division of Family Support worked with the Office for Administrative and Technology Services (OATS) and the contractor to correct functionality for the FNS-209 and ensure supporting data is available for validation at time of receipt. All submissions were corrected prior to the 4th Qtr FNS-209 submission in October 2017. The 4th Qtr report was submitted on time and accurately.

- *All information is available to OATS staff to validate the FNS 209 report the week after the quarter ends. After their validation, the Department for Community Based Services (DCBS) reviews and submits within 30 days of the end of the quarter.*
- *The Claims Management Supervisor or the Nutrition Assistance Branch Manager reviews the FNS-209 report prior to submission to Food and Nutrition Services (FNS).*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Material Weaknesses Relating to Internal Controls and/or Noncompliances***FINDING 2017-028: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence (Continued)**

Management's Response and Planned Corrective Action (Continued)

- *All supporting documentation for the FNS 209 report is now available to review and reconcile each line item of the report at the time the report is received, i.e. correctly identifying the number of claims and collections by category.*
- *As stated in the first bullet, to ensure the report and supporting data is corrected ongoing, OATS is validating prior to providing the report to DCBS and then the Nutrition Assistance Branch (NAB) staff review and reconcile before submitting to FNS.*

Proper internal controls are in place to ensure the FNS 209 report is reconciled and agrees to the underlying data. Additionally, internal controls are in place to ensure compliance with laws and regulations for this federal program.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-029: The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP)</u> <u>CFDA 10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program</u> <u>CFDA 93.558 – Temporary Assistance for Needy Families</u> <u>CFDA 93.775 – State Medicaid Fraud Control Unit</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>
Federal Agency:	<u>U.S. Department of Agriculture</u> <u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Activities Allowed, Eligibility, Reporting</u>
Questioned Costs:	<u>\$0</u>

This is a repeat finding. The original finding, 2016-001 was included in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume I report. The Cabinet for Health and Family Services (CHFS), at the end of February 2016, implemented the Integrated Enrollment and Eligibility System (IEES), which is comprised of various modules including Benefind and Worker Portal. Upon the go-live date, there were numerous errors, defects, and workarounds that caused disruptions to health coverage for citizens, food stamps, and other related forms of assistance. Many of the defects were identified and resolved during fiscal year 2016; however, some defects still remained in fiscal year 2017.

- The IEES system revealed weaknesses in key functions such as social security verification and citizenship verification for individual Medicaid recipients. These functions are key components for eligibility determinations and redetermination. In addition, the verification date was not always being obtained and documented in the appropriate data fields of the application. This resulted in data fields within the application review of Worker Portal (WP), within the IEES system, showing the information as verified, without having a supporting date of verification. Upon inquiry with CHFS, it was discovered the verification date was captured in a system table that is maintained in the background. System tables are only accessible to limited staff within the agency and the software developer. Furthermore, the agency was unaware of the table issue until the auditor brought it to the agency's attention. CHFS indicated the coding fix is slated for production on March 2, 2018.
- The IEES system also has an issue with extracting data for reporting. CHFS staff did not have the access or ability to generate supporting data from IEES to support the quarterly federal reports (FNS-209) for the Supplemental Nutrition Assistance Program (SNAP). CHFS staff were reliant on an outside contractor to generate the supporting documentation. A non-compliance finding related to reporting has been presented in Finding 2017-028.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-029: The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year (Continued)

- For Temporary Assistance for Needy Families (TANF), a system defect was in effect from July 2016 through March 2017 that permitted the system to automatically issue supplemental payments to participants who had been sanctioned for non-compliance. When the appropriately lowered payment was due to a sanction, the system would automatically issue a supplemental payment equal to the full amount. This defect was rectified on April 3, 2017; however, it was an active defect prior to that date.
- For TANF, specifically the Kentucky Transitional Assistance Program (K-TAP), the report used for safety net services was not reporting accurate and reliable information. Safety Net services are provided by CHFS in cases where K-TAP has been discontinued due to the full family sanction or reaching the life time limit of 60 months. During fiscal year 2017, the report used for safety net referrals did not have the appropriate information to identify cases that are potentially eligible.

The IEES software has system design errors and is still operating with several defects that have not been addressed since the system's implementation.

The agency continues to rely on a contractor for basic information and functions that were delegated as necessary in the original design plan. This creates risk in the various areas:

- Without proper social security and citizenship status verification, the agency could be non-compliant with federal regulations.
- The FNS-209 quarterly reports should be reconciled to supporting records. Without these functions operating effectively in the IEES, CHFS staff are not able to verify the accuracy of the quarterly FNS-209 reports. There is a risk that the amounts reported to the United States Department of Agriculture could contain inaccuracies which results in a material non-compliance for Reporting on the SNAP program.
- Furthermore, for the TANF program, system defects cause two issues:
 - For Sanctioned Cases, supplemental payments were issued which exceeded the allowed payment amount for the sanctioned participants who were non-compliant.
 - K-TAP Safety Net referral reports were created incorrectly and did not contain the appropriate information. The auditors could not verify that all safety net participants were identified and paid appropriately.

Proper internal controls are necessary to ensure compliance with laws and regulations related to applicable federal programs.

42 CFR 435.910 states:

- (a) ...[T]he agency must require, as a condition of eligibility that each individual (including children) requesting Medicaid services furnish each of his or her social security numbers (SSN).
- (b) The agency must advise the applicant of—
 - (1) [Reserved]
 - (2) The statute or other authority under which the agency is requesting the applicant's SSN; and

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-029: The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year (Continued)

- (3) The uses the agency will make of each SSN, including its use for verifying income, eligibility, and amount of medical assistance payments under §§435.940 through 435.960.
- (c)–(d) [Reserved]
- (e) If an applicant cannot recall his SSN or SSNs or has not been issued an SSN the agency must
 - (1) Assist the applicant in completing an application for an SSN;
 - (2) Obtain evidence required under SSA regulations to establish the age, the citizenship or alien status, and the true identity of the applicant; and
 - (3) Either send the application to SSA or, if there is evidence that the applicant has previously been issued a SSN, request SSA to furnish the number.
- (f) The agency must not deny or delay services to an otherwise eligible individual pending issuance or verification of the individual’s SSN by SSA or if the individual meets one of the exceptions in paragraph (h) of this section.
- (g) The agency must verify the SSN furnished by an applicant or beneficiary with SSA to ensure the SSN was issued to that individual, and to determine whether any other SSNs were issued to that individual.
- (h) Exception.
 - (1) The requirement of paragraph (a) of this section does not apply and a State may give a Medicaid identification number to an individual who –
 - (i) Is not eligible to receive an SSN;
 - (ii) Does not have an SSN and may only be issued an SSN for a valid non-work reason in accordance with 20 CFR 422.104; or
 - (iii) Refuses to obtain an SSN because of well-established religious objections.

42 USC 1320b-7(d) states:

- (d) Citizenship or immigration status requirements; documentation; verification by Immigration and Naturalization Service; denial of benefits; hearing
The requirements of this subsection, with respect to an income and eligibility verification system of a State, are as follows:
 - (1)(A) The State shall require, as a condition of an individual’s eligibility for benefits under a program listed in subsection (b) of this section, a declaration in writing, under penalty of perjury—
 - (i) by the individual,
 - (ii) in the case in which eligibility for program benefits is determined on a family or household basis, by any adult member of such individual’s family or household (as applicable), or

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-029: The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year (Continued)

- (iii) in the case of an individual born into a family or household receiving benefits under such program, by any adult member of such family or household no later than the next redetermination of eligibility of such family or household following the birth of such individual, stating whether the individual is a citizen or national of the United States, and, if that individual is not a citizen or national of the United States, that the individual is in a satisfactory immigration status.

7 CFR 273.18(m) states:

- (1) As a State agency, you must maintain an accounting system for monitoring recipient claims against households. This accounting system shall consist of both the system of records maintained for individual debtors and the accounts receivable summary data maintained for these debts.
- (2) At a minimum, the accounting system must document the following for each claim:
 - (i) The date of discovery;
 - (ii) The reason for the claim;
 - (iii) The calculation of the claim;
 - (iv) The date you established the claim;
 - (v) The methods used to collect the claim;
 - (vi) The amount and incidence of any claim processing charges;
 - (vii) The reason for the final disposition of the claim;
 - (viii) Any collections made on the claim;
 - (ix) Any correspondence, including follow-up letters, sent to the household.
- (3) At a minimum, your accounting or certification system must also identify the following for each claim:
 - (i) Those households whose claims have become delinquent;
 - (ii) Those situations in which an amount not yet restored to a household can be used to offset a claim owed by the household; and
 - (iii) Those households with outstanding claims that are applying for benefits.
- (4) When requested and at intervals determined by us, your accounting system must also produce:
 - (i) Accurate and supported outstanding balances and collections for established claims; and
 - (ii) Summary reports of the funds collected, the amount submitted to FNS, the claims established and terminated, any delinquent claims processing charges, the uncollected balance and the delinquency of the unpaid debt.
- (5) On a quarterly basis, unless otherwise directed by us, your accounting system must reconcile summary balances reported to individual supporting records.

45 CFR 264.30(a)(1) states:

The state agency must refer all appropriate individuals in the family of a child, for whom paternity has not been established or for whom a child support order needs to be established, modified, or enforced, to the child support enforcement agency (i.e., the IV-D agency).

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-029: The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year (Continued)

45 CFR 264.30(b)-(c) states:

If the IV-D agency determines that an individual is not cooperating, and the individual does not qualify for a good cause or other exception established by the State agency responsible for making good cause determination in accordance with section 454 (29) of the Act or for a good cause domestic violence waiver granted in accordance with 260.52 of this chapter, then the IV-D agency must notify the IV-A agency promptly.

(c) The IV-A agency must then take appropriate action by:

- (1) Deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or
- (2) Denying the family any assistance under the program.

922 KAR 1:400 Section 6 states:

- (2) A safety net service shall include contact with the family and may address the following:
 - (a) Assistance to the individual or family to identify the problem and resources available to improve the situation;
 - (b) Linkage to the appropriate resources; or
 - (c) Intervention in a crisis situation including:
 1. Fuel shortage;
 2. Utility shutoff;
 3. Insufficient food, clothing, housing, or employment; or
 4. Response to an inquiry regarding the family situation.
- (3)(a) The cabinet may authorize fund distribution to an appropriate vendor, in order to provide for a family's safety net services.
- (b) Up to a total of \$635 may be paid over four (4) months during the twelve (12) month period following an event specified in subsection (1)(b) of this section.

Per the Department of Family Support Operation Manual 2025:

KTAP cases discontinued due to a full family sanction or receipt of the 60 month lifetime limit are referred to Protection and Permanency (P&P) for an evaluation of Safety Net Services. The purpose of the referral is to ensure the children in the home are not threatened due to discontinuance of the KTAP case.

It also states:

To be eligible for Safety Net Services, the family must have a child in the household and have income at or less than 200% of the federal poverty level.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-029: The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year (Continued)

Recommendation

We recommend CHFS:

- Ensure verification dates obtained from federal hubs are captured in data tables that are visible to agency staff.
- Obtain a random sample and test cases to verify that correct dates are filled in from the data tables once coding is designed to correct the verification date error.
- Ensure the reporting functions necessary for SNAP to adequately support and reconcile the FNS-209 report are created within IEES. CHFS staff should be able to create the report and agree the report to actual collection accounts.
- Ensure the system does not permit sanctioned participants that were non-compliant to receive supplemental payments which exceed the allowable payment amount. The system should also correctly identify cases as sanctioned while not creating a supplemental payment.
- Ensure proper system configuration for safety net participants. CHFS should be able to identify the safety net participants so payments for families who have exhausted their lifetime limit of K-TAP payments are paid to those who are eligible to receive them during the fiscal year.

Management’s Response and Planned Corrective Action

The Office of Administrative and Technology Services (OATS) worked with the system vendor to identify and correct system functionality regarding SSN and Citizenship verification dates, FNS-209 Reporting requirements and validation, supplemental issuance for TANF and TANF Safety Net Reporting.

SSN Verification and Citizenship Verification Verified Dates

- A. *System changes for SSN verification date and Citizenship verification date have been split into two separate code fixes to assure the system is properly populating the verification dates.*
 1. *The SSN verification date code fix is under defect # 228473 and will be implemented into production with release 10.2 on March 2, 2018.*
 2. *The citizenship verification date code fix is under defect # 234568 and will be implemented into production with release 11.1 on May 4, 2018.*
- B. *Datafixes will be completed to affect all existing records with SSN and citizenship verified through SSA for which the verification dates are not displaying.*
 1. *Datafix # 235846 will run to update the SSN verification dates and will be completed no later than March 30, 2018.*
 2. *Datafix # 235895 will run to update the citizenship verification dates and will be completed for all existing records no later than March 30, 2018.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-029: The Cabinet For Health And Family Services Failed To Ensure The Integrated Enrollment And Eligibility System Was Operating Properly During The Fiscal Year (Continued)

Management's Response and Planned Corrective Action (Continued)

3. *Upon completion of the Datafix # 235895, a weekly run will be completed to affect the verification date to display until the permanent code fix is implemented on May 4, 2018.*
- C. *Sampling of both SSN verification dates and Citizenship dates will be completed upon the completion of the datafixes to update the existing cases/members without the verification date displayed.*

Monthly scans will be completed for the next six months to monitor to assure that all issues have be addressed.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-030: The Department Of Workforce Investment Was Unable To Substantiate The Accuracy And Completeness Of Submitted Rehabilitation Program Cost Reports

State Agency: Department of Workforce Investment
 Federal Program: CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
 Federal Agency: U.S. Department of Education
 Pass-Through: Not Applicable
 Compliance Area: Reporting
 Questioned Costs: \$0

This is a repeat of Finding 2016-047 as reported in the 2016 Statewide Single Audit of Kentucky (SSWAK) Volume II. The Department of Workforce Investment (DWI) prepares and submits federal financial reports to the United States Department of Education including Standard Form 425 (SF-425) and Annual Vocational Rehabilitation Program/Cost Reports (RSA-2) for Rehabilitation Services. The following discrepancies and weaknesses in internal controls over the preparation and accuracy of submitted reports were identified:

- Several line items on the RSA-2 report lacked adequate supporting documentation to substantiate the amounts reported, and a clear methodology was not established to enable reporting information to be recreated. In instances where documentation was provided, there was limited detail supporting how spreadsheets were generated or how amounts were calculated. As a result, the accuracy of the information provided on the RSA-2 could not be verified against underlying records within the accounting system. It could not be confirmed if the information reported was materially accurate.
- DWI failed to establish adequate policies and procedures to provide guidance in preparing the SF-425 and RSA-2 reports. While report instructions are included as part of the federal report documentation, they do not provide agency specific detail on report queries or establish internal controls. DWI provided draft policies and procedures towards the conclusion of the audit; however, these did not provide sufficient detail or direction to resolve identified discrepancies.

DWI failed to develop adequate policies and procedures over the preparation and review of financial reports in order to ensure information was complete and accurate. Key personnel responsible for preparing the RSA-2 and SF-425 financial reports left DWI after fiscal year 2017. Without sufficient procedures documented, DWI could not identify how the supporting documentation was created and utilized in preparing the financial reports.

Failure to ensure the accuracy of financial reports submitted to the United States Department of Education has resulted in noncompliance with federal reporting requirements and regulations. Additionally, inaccurate reporting information could impact determinations made by the federal government in managing and evaluating the activities and effectiveness of the Rehabilitation Act.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2017-030: The Department Of Workforce Investment Was Unable To Substantiate The Accuracy And Completeness Of Submitted Rehabilitation Program Cost Reports (Continued)**

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States (Green Book), or the Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Section 13.04 – Relevant Data from Reliable Sources, within the Green Book states in part:

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability.

34 CFR 361.40 - Reports; Evaluation standards and performance indicators, states in part:

(a) Reports.

- (1) The vocational rehabilitation services portion of the Unified or Combined State Plan must assure that the designated agency will submit reports, including reports required under sections 13, 14, and 101(a)(10) of the Act. [...]
- (2) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

Recommendation

We recommend DWI implement adequate policies and procedures over the preparation and review of SF-425 and RSA-2 reports to ensure information is complete, accurate, and complies with federal regulations. DWI should ensure that reports are adequately supported by the underlying accounting records, and supporting documentation is available and easily traceable to allow a sufficient audit trail. Implemented policies and procedures should establish a sound methodology for preparing federal reports and provide sufficient detail to enable reporting information to be easily recreated.

Management's Response and Planned Corrective Action

An experienced individual who is no longer with the agency prepared the RSA-425 and the RSA-2 reports. We are confident the reports are accurate, no errors were documented; however, an employee new to the process was unable to recreate the backup documentation using the existing policy and procedure. DWI undertook an extensive exercise to create manuals and step-by-step procedures that will allow any individual to prepare, review, submit, and re-create (if needed) the SF-425 and RSA-2 reports to ensure information is complete, accurate, and complies with federal regulations. Implemented policies and procedures will establish a sound methodology for preparing federal reports and provide sufficient detail to enable reporting information to be easily recreated.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2017-030: The Department Of Workforce Investment Was Unable To Substantiate The Accuracy And Completeness Of Submitted Rehabilitation Program Cost Reports (Continued)**

Auditor's Reply

Management's response and planned corrective action identified DWI is confident that reports are accurate and no errors exist. Support provided lacked sufficient detail to provide a clear methodology to link the underlying accounting records to the RSA-2 report. Since supporting documentation, including reports from accounting system, could not be recreated, it could not be determined if the RSA-2 was accurate.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-031: The Cabinet For Health And Family Services Incorrectly Charged Expenditures To The Immunizations Cooperative Agreement After The 90-Day Liquidation Period

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.268 – Immunization Cooperative Agreements
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Period of Performance, Reporting
 Questioned Costs: \$166,774

As a part of the Cabinet for Health and Family Services (CHFS) audit, the Immunizations Cooperative Agreement grant period historically runs on a 12 month basis. During this fiscal year, CHFS switched from a 12 month grant period to a 15 month period, with the grant award period running from January 1, 2016 through March 31, 2017. The program is given a 90-day liquidation period after the date of the completion of the award. During the review of expenditures, 77 expenditures totaling \$166,774 had been charged to the Immunizations Cooperative Agreement grant after the 90-day liquidation period had ended on June 30, 2017.

In addition, the staff preparing the Federal Financial Report (SF-425) was not made aware of the extended grant period. The final SF-425 was submitted on March 31, 2017, but it was not due until June 30, 2017. Therefore, it did not capture all the expenditures from the grant award period. CHFS submitted the corrected SF-425 in October 2017 after the auditor brought it to their attention.

The grant accounting templates set up in the state's accounting system (eMARS) for the Immunizations Cooperative Agreement grant were incorrectly set to the wrong program period code. This was due to staff oversight when setting up the accounting templates.

Also, not all appropriate CHFS staff were made aware of the change to the grant award budget period in order to comply with the reporting requirement.

Immunizations Cooperative Agreement grant expenditures were charged to the incorrect accounting program period code and grant period. Also, they did not accurately reflect the true expenditure amount for the Immunizations Cooperative Agreement grant for the period. In total, \$166,774 of expenditures were charged to the incorrect program code, thus creating a noncompliance in Period of Performance for the grant period.

The SF-425 that was initially submitted did not capture all expenditures charged to the budgeted grant award period and created a non-compliance in reporting.

Failure to liquidate all obligations within 90 days of the end of the grant period constitutes a noncompliance. 2 CFR 200.343 states:

- a) The non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by or the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-031: The Cabinet For Health And Family Services Incorrectly Charged Expenditures To The Immunizations Cooperative Agreement After The 90-Day Liquidation Period (Continued)

- (b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.
- (c) The Federal awarding agency or pass-through entity must make prompt payments to the non-Federal entity for allowable reimbursable costs under the Federal award being closed out.
- (d) The non-Federal entity must promptly refund any balances of unobligated cash that the Federal awarding agency or pass-through entity paid in advance or paid and that is not authorized to be retained by the non-Federal entity for use in other projects. See OMB Circular A-129 and see § 200.345 Collection of amounts due for requirements regarding unreturned amounts that become delinquent debts.

Recommendation

We recommend CHFS:

- Review the processes and procedures used for setting up the accounting templates for the Immunization Cooperative Agreement, with special attention given to the grant period and program period codes.
- Review the process for liquidating obligations during the 90-day closeout period for the grant, while ensuring expenditures are charged to the correct period and not exceeding the 90-day liquidation window for the grant.
- Implement controls so all appropriate staff are made aware when a grant period changes for federal reporting purposes.
- Work with the federal grantor to resolve any questioned costs.

Management's Response and Planned Corrective Action

*Journal Vouchers were completed to move \$220,063.51 which included the questioned cost and additional expenditures. These expenditures were moved out of 2015 and into 2016 on JV2E 18*2329 and JV2E 18*2440. In addition, JV2E 18*2449 was completed to move allowable expenditures back in to the 2015 grant. The Final Federal Report, the eMARS expenditures, and the federal draws are all reconciled. There is no further action needed for this audit finding because all issues have been resolved. In addition, all templates have been updated to reflect the correct program period code.*

In the future, the Grant Monitoring System will ensure that the amount of budget in eMARS for major programs agrees with the amount of funds awarded by the Federal awarding agency. This will prevent any overspending of grants.

Effective 3/2018, a grants section will be operational in the Procurement, Payables, and Assets Tracking System (PPATS). PPATS will allow CHFS to track a grant from the application to the notice of award. This system will ensure that the budget/program person as well as the grant accountant will be notified of any changes in the awards.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-032: The Cabinet For Health And Family Services Did Not Identify All Required Grant Information And Provide To Subrecipients At The Time Of Federal Award

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
 Federal Agency: U.S. Department of Agriculture
 Pass-Through: Not Applicable
 Compliance Area: Subrecipient Monitoring
 Questioned Costs: \$0

During the fiscal year 2017 Cabinet for Health and Family Services (CHFS) audit, two contracts related to the Women, Infants, and Children’s (WIC) federal grant were reviewed, one for \$78,813,322 and another for \$80,869,843. Multiple federal programs were included in the contracts. The contracts were for services related to the Department of Public Health (DPH) and Local Health Departments. The following issues were identified:

- The contracts were for multiple providers, including both subrecipients and contractors; however, there was not a list in the contract or addendum identifying the names of the multiple providers.
- The contract failed to identify how much each subrecipient or contractor would receive as part of the contract. The contracts did not provide evidence the subrecipients are presented with all of the required federal information, such as the specific dollar amount awarded for individual federal programs (Code of Federal Domestic Assistance [CFDA] name and number). A subrecipient or contractor could potentially receive any amount from any source listed.
- As parties to the contract, representatives of the subrecipients and contractors sign the contract. No signature pages were located in the state’s accounting system; however, upon request, signature pages were provided. The name of the subrecipient or contractor was not identified on the page. Also, contract numbers were not on the signature pages provided to verify they were the correct signature pages.

Internal controls over federal compliance were not sufficient to ensure contracts were properly prepared and administered.

The contract process does not operate effectively to ensure compliance with federal grant award requirements.

CHFS was not in compliance with federal requirements for communicating required information to subrecipients. The lack of internal control procedures and compliance could result in subrecipients or contractors receiving improper payments from funding sources. An incorrect subrecipient or contractor could receive a payment. Also, the various subrecipients or contractors could receive more or less funding than CHFS awarded.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-032: The Cabinet For Health And Family Services Did Not Identify All Required Grant Information And Provide To Subrecipients At The Time Of Federal Award (Continued)

Documentation is a necessary part of an effective internal control system. CHFS did not link the contracts to the supporting documentation including the signature pages. This is a design issue that could potentially allow funds to be improperly spent and could lead to questioned costs.

Good internal controls dictate procedures be in place to ensure the contracting process adequately documents the legal and federal compliance requirements of the contract for each subrecipient and contractor.

2 CFR 200.331 states:

All pass-through entities must:

- (a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:
 - (1) Federal Award Identification.
 - (i) Subrecipient name (which must match the name associated with its unique entity identifier);
 - (ii) Subrecipient's unique entity identifier;
 - (iii) Federal Award Identification Number (FAIN);
 - (iv) Federal Award Date (see § 200.39 Federal award date) of award to the recipient by the Federal agency;
 - (v) Subaward Period of Performance Start and End Date;
 - (vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
 - (vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
 - (viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
 - (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
 - (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity;
 - (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
 - (xii) Identification of whether the award is R&D; and
 - (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per § 200.414 Indirect (F&A) costs).

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-032: The Cabinet For Health And Family Services Did Not Identify All Required Grant Information And Provide To Subrecipients At The Time Of Federal Award (Continued)

Recommendation

We recommend CHFS:

- Strengthen internal controls over contracts. This should include attaching the signature page to each contract identifying the organization the signature represents.
- Ensure compliance with federal regulations and ensure all required elements are included in the contract to communicate the award to the subrecipients.

Management’s Response and Planned Corrective Action

CHFS partially concurs with the Record of Control Weakness, as described above. CHFS agrees that while all subrecipients were provided an avenue to receive grant information outlined in 2 CFR §200.331 upon request, some of the required information was not initially distributed with the contract.

Regarding the finding that “the contracts were for multiple providers, including both subrecipients and contractors; however, there was not a list in the contract or addendum identifying the names of the multiple providers”, CHFS concurs with this statement related to the state’s accounting system (eMARS) contract document for the 2017 year under audit. For state fiscal year (SFY) 2018 currently in process, each DPH Multi-Provider contract includes an attachment listing all Health Departments that are paid through the Multi Provider contract.

Regarding the finding that “the contract failed to identify how much each subrecipient or contractor would receive as part of the contract; the contracts did not provide evidence the subrecipients are presented with all of the required federal information, such as the specific dollar amount awarded for individual federal programs (Code of Federal Domestic Assistance [CFDA] name and number)”, CHFS partially concurs with this statement. CHFS agrees that the eMARS Multi-Provider contract does not identify amounts by subrecipient, and that the individual Memorandum of Agreements (MOA) between DPH and each individual Health Department did not reference the eMARS contract numbers that the MOAs supported. However, the MOAs summarized all funding initially allocated to each Health Department, including initial authorized amounts by program within the schedules attached to the individual MOAs. The MOAs contained CFDA numbers, but not CFDA official titles that are publically available on www.cfda.gov. Updates to allocations were provided to Health Departments separately during the year. The MOAs were signed by all parties, although as the Auditor has observed, signature pages were not adequately titled to indicate the Health Department being represented.

By design, the Multi-Provider eMARS contract omits second party identification within the Commodity Lines that appear on the face of the contract, which reduces the number of formal contract modifications needed. This allows DPH to efficiently reallocate funds among 61 Health Departments statewide in order to quickly utilize grant funding as need arises and within the time constraints of the grant. Total allocations to all Health Departments by project/grant are authorized through the legislative contract review process using the eMARS Multi-Provider contract.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-032: The Cabinet For Health And Family Services Did Not Identify All Required Grant Information And Provide To Subrecipients At The Time Of Federal Award (Continued)

Management’s Response and Planned Corrective Action (Continued)

Data systems (Grant Pay) maintained within the Department for Public Health denote the Allocations to each of the Health Departments, which are reconciled to the total authorized by each Commodity Line of the eMARS Multi-Provider contracts. When payments are made to Health Departments, payments post against the eMARS contract, complete with payee identification, ensuring that total project/grant allocations by commodity line may not exceed the authorized amount. At least three DPH staff participate in the payment process, with two Financial staff members entering or approving payments and one Program staff member verifying payment amounts and reconciling eMARS balances to Program records. CHFS holds that the risk of an incorrect subrecipient or contractor receiving a payment is no higher in the WIC program area than with any other payments that are made through eMARS.

Regarding the finding that “a subrecipient or contractor could potentially receive any amount from any source listed”, CHFS does not concur with this statement. Payments are possible only to the limit of allocations to each Health Department, as recorded in the database maintained by DPH. Payments to all Health Departments cannot exceed the total authorized for each eMARS contract Commodity Line. A review of the 2017 WIC allocations per the database in comparison with the eMARS contract lines revealed that allocations per the database did not exceed the amount authorized by the contract Commodity Line, which is the amount legally authorized by the contract and the maximum amount that can be disbursed to WIC providers. The system of allocations and payments within the DPH database helps ensure payment errors will be prevented.

Regarding the finding that “no signature pages were located in the state’s accounting system, the name of the subrecipient or contractor was not identified on the page and contract numbers were not on the signature pages provided to verify it the correct signature page”, CHFS concurs with this statement and has implemented steps to improve the signature collection and identification process, ensuring that all signature pages are attached to the header of the eMARS PON2 document.

Corrective Action Plan

- *For SFY 2019 and later, CHFS will expand the existing contract boilerplate Subrecipient Provisions, section 5.01.07—Additional information required under 2 CFR §200.331(a)(1) to include explanation and access points for each of the specific data elements. The expanded contract clause will be submitted to the CHFS OATS Division of Grants and Contracts to be included in the boilerplate Subrecipient Provisions for all CHFS contracts.*
- *For SFY 2018 in progress, Subrecipients included under the WIC program will be provided access instructions via direct correspondence between the Department for Public Health (DPH) and the Subrecipients.*
- *DPH will review reconciliation procedures with DPH staff members, ensuring coordination between AFM staff members who enter and approve WIC payments through eMARS and WIC program staff, who independently confirm that WIC payments and contract balances agree with program records.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-032: The Cabinet For Health And Family Services Did Not Identify All Required Grant Information And Provide To Subrecipients At The Time Of Federal Award (Continued)****Auditor's Reply**

During the audit, the Auditor of Public Accounts (APA) requested all information pertinent to the contract with the multiple providers to ensure their compliance with the Uniform Guidance. It is from the information provided that we test and evaluate internal controls to ensure they are adequately designed and effective. If CHFS had other compensating controls in place, they were not identified and communicated to the APA during the audit.

During the response period, CHFS provided supporting documentation in the form of a MOA. These MOAs were not mentioned in the contract, nor did they clearly identify the amount specifically allocated to each subrecipient per CFDA number, as required. In addition, the CHFS internal system, Grant Pay, was not mentioned until the response period. Although CHFS is using the internal system to monitor contract allocation, we were not able to verify or reconcile the Grant Pay system to eMARS to ensure allocations were appropriate per subrecipient and CFDA number.

The APA reiterates without proper procedures in place there is a risk that a subrecipient or contractor could receive a payment from an improper funding source.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-033: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.558 – Temporary Assistance for Needy Families
 Federal Agency: Department for Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Eligibility
 Questioned Costs: \$24,600

This is a repeat of Finding 2016-051, as reported in the Statewide Single Audit of Kentucky (SSWAK) Volume II related to the Kinship Care issues.

During the fiscal year 2017 Temporary Assistance for Needy Families (TANF) audit, member eligibility case files were reviewed for the following programs: Kentucky Transitional Assistance Program (K-TAP), Kinship Care (KC), Family Alternative Diversion (FAD), Kentucky Works Program (KWP), and Kentucky Works Incentive Program (WIN). Of 118 case files reviewed, 22 case files did not have the appropriate supporting documentation required by the Cabinet for Health and Family Services' (CHFS) Division of Family Support to verify eligibility for participation in the programs and comply with program requirements. Specifically the following documentation was missing from the Electronic Case Files (ECF):

K-TAP:

- Three cases were missing a NCP Fact/Information Sheet and Assignment of Rights (KIM-125 form).
- One case was missing the school verification for a participant over the age of 15.

KC:

- Eight cases were missing the application for Kinship Care (KIM-101 or KIM-78KC form).
- Two cases were missing the Statement of Rights & Responsibilities (KC-01).
- One case did not document the verification of the pursuit of permanent custody by the caregiver.
- One case did not document a written statement to verify that both parents are absent from the caregiver's home (PAFS-76 or PAFS-21 form).

KWP:

- Two cases did not document the Verification of Kentucky Works Participation (PA-33 form).
- Four cases did not document the KTAP Transitional Assistance Agreement (KW 202 form).

CHFS did not maintain the required documentation to support and verify eligibility. Policies and procedures requiring the forms to be documented in the electronic case file were not followed.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-033: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits (Continued)

If CHFS does not maintain adequate case documentation it cannot verify the determination of the recipient's eligibility to receive benefit payments. Inadequate case documentation and improper eligibility determination procedures lead to an increased risk of improper benefits being issued to ineligible recipients. The participants in the 22 case files that do not contain the appropriate and required supporting documentation may be ineligible for participation in the programs within TANF. The eight case files that did not have an application on file resulted in questioned costs of \$24,600.

The Division of Family Support Operations Manual MS 2158 section A parts 1 and 5 states:

At a minimum ECF should contain the following documents for K-TAP, FAD, and Kinship Care:

1. A signed application for each eligibility period when an electronic or voice signature is not used.

For K-TAP, it further states the ECF should contain Form KTAP-125/KC-125 NCP Fact/Information Sheet and Assignment of Rights, signed by the appropriate individual.

The Operations Manual MS 2210 section A parts 1 and 2 states:

In order for a CHILD to be technically eligible for KTAP, the child must be:

1. Age 15 or younger
2. Age 16, 17, or 18 complying with school attendance requirements.

Related to KC, the Operations Manual MS 2158 section A parts 1, 2, and 4 states:

Documents specific to KC that should be in ECF are:

1. Form KIM-78KC
2. Form KC-01
3. Verification that the caretaker relative is pursuing permanent custody.

Further, for KC, the Operations Manual MS 5050 section G states:

The child must also meet the following KTAP technical eligibility requirements:

- G. Both parents must be absent from the KC caregiver's home. Referrals to Child Support Enforcement are completed unless a good cause reason exists.

For the KWP, the Operations Manual MS 2158 section D parts 3 & 4 states:

Documents specific to the Kentucky Works program (KWP) that should be in ECF are:

3. Documents that verify KWP participation, such as form KWET-241, WEP Training Site Agreement, form KW-33, Verification of Kentucky Works Program Participation, or other participation verification
4. The signed Transitional Assistance Agreement (TAA) for the most recent application.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-033: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits (Continued)**

Recommendation

We recommend CHFS strengthen their internal controls to ensure all required supporting documentation is in the electronic case file in order to appropriately determine participant eligibility. In addition, CHFS should work with the United States Department for Health and Human Services to resolve the questioned costs.

Management's Response and Planned Corrective Action

During the first few months of implementation of the new system, Worker Portal, there were issues with Correspondence and how the documents were uploaded for the cases.

The findings regarding the missing forms KTAP-125, applications, and forms KW-202 were related to the system issues. Clients sign documents either by Voice Signature or E-Signature. Voice signature applies only to applications taken on the phone. Once the signature is captured, a copy of the form is uploaded to Correspondence and can be viewed or printed from Worker Portal. For the cases on the list, there was indication from Case Comments or Signature History that the documents were either e-signed or signed by voice signature but the signed document was not uploaded to Correspondence. This includes the eight Kinship Care cases that were missing the KIM-78C or KIM 101 Application for Income Maintenance.

The defect surrounding the signatures has been resolved and the documents with the captured signature are uploaded correctly to Correspondence for the cases. The Division of Family Support (DFS) continues to work with the Office for Administrative and Technology Services (OATS) and the contractor to resolve these issues as they arise. DCBS workers have also been advised to contact OATS Help Desk as they identify any problems with Worker Portal functionality. This ensures the system works correctly.

On the finding for the two Kinship Care cases missing form KC-01. There should only be one as the request for one was for an adult who has never received Kinship Care. After researching ECF, the case worker found the other missing KC-01. Some documents are filed under the wrong document type in ECF which makes it difficult to find.

On the finding of missing verification of absence of parents for a Kinship Care case, verification provided during the time of the audit was not found. For the case missing verification of pursuit of permanent custody, the local office contacted the client who returned a copy of permanent custody order. This has been scanned to ECF.

Through questions from regional program specialists, Division of Family Support (DFS) policy analysts review cases for correctness. If the policy analysts find an error, such as income verification, they include a reminder in their response, to the program specialists to ensure workers understand policy.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-033: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits (Continued)**

Management's Response and Planned Corrective Action (Continued)

The Division of Family Support also holds policy panels that include the program specialists. DFS addresses any error trends and policy that need clarifying or attention. During policy panel, the Family Self-Sufficiency Branch (FSSB) reminded field staff they need to review Kinship Care cases, to ensure Kinship Care documents, such as KC-01 and verification of permanent custody was pursued or obtained, were in the case record.

In regard to the missing form KW-33 for the two individuals, documentation of form KW-33 was not needed. Both individuals were not participating in a KWP activity. Neither of them attended a meeting requested by the case managers. Therefore, form KW-33 would not have been generated and given to the clients. As they were not in a KWP activity, they were not eligible for transportation assistance, which is requested using form KW-33. Inquiry in our Online Tracking Information System (OTIS) shows form KW-33 was not created for either individuals and no payments were made.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-034: The Cabinet For Health And Family Services Did Not Properly Secure, Destroy, Or Maintain Segregation Of Duties For Electronic Benefit Transfer Cards

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP)
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 and Provisions
 Questioned Costs: \$0

This is a repeat finding. The original finding, 2016-046, was included in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume II report. Electronic Benefit Transfer (EBT) cards are utilized by Supplemental Nutrition Assistance Program (SNAP) recipients to purchase food at authorized retail stores. The EBT cards that are not mailed to the eligible member are maintained at local Department of Community Based Service (DCBS) offices. The Cabinet for Health and Family Services (CHFS) is required to provide adequate security over the EBT cards at the DCBS offices and maintain adequate documentation to prevent theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or improper use of SNAP benefits. Audit tests of CHFS procedures over EBT card security indicate that CHFS had not complied with this federal requirement.

We noted the following exceptions:

- One DCBS office failed to safeguard the EBT cards. EBT cards were locked in a cabinet; however, the entire staff had access to the cabinet that contained the EBT cards.
- One DCBS office failed to maintain segregation of duties. Employees should be independent in regards to requesting cards, receiving cards, and issuing cards.
- Eight instances were found in which the DCBS office failed to destroy EBT cards after 30 days of the card not being retrieved by the client.
- One participant had two active cards per the Integrated Enrollment and Eligibility System (IEES).

DCBS offices and staff members were not aware or were not following correct EBT card handling procedures. Staff did not follow procedures in the operational manual for the handling and destruction of EBT cards.

The documented policies at DCBS may be written appropriately, but without training or enforcement by DCBS office staff, the policy is ineffective. Failure to follow proper procedures increases the risk for an EBT card to be stolen, misplaced, and improperly used.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-034: The Cabinet For Health And Family Services Did Not Properly Secure, Destroy, Or Maintain Segregation Of Duties For Electronic Benefit Transfer Cards (Continued)

7 CFR 274.5(c)(1) states:

(1) 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 Division of Family Support Operation Manual MS 0290 states:

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 logging each card into WorkerPortal;
2. Ensures EBT cards are NEVER left unsecured;
3. Routinely inspects the secure storage area;
4. Destroys or witnesses the destruction of EBT cards as the cards are returned to the local office, received damaged, or not picked up by close of business on the 30th day;
5. Updates information on Worker Portal at the time of destruction;
6. Creates and reviews an adhoc report at the end of each month to reconcile the number of EBT cards remaining in the local office; and
7. Annotates the report and emails it to CHFS.FoodBenefitsPolicy@ky.gov.

Regional Staff (SRAA and/or PAPS) will ensure the EBT cards are being stored securely with limited access. They may also run ad hoc reports to check the count of on-hand cards at any point in time.

The Division of Family Support Operation Manual MS 0290 states:

The client has 30 days from the date the card was received to pick up the EBT card. If the client fails to pick up the EBT card by close of business on the 30th day, a task is generated to the supervisor to destroy the card the following business day. If the client comes into the local office to pick up the card and the EBT card has been destroyed, request another card.

The Division of Family Support Operation Manual MS 0270 states:

D. Only one EBT card is issued per individual regardless of the number of cases in the individual's name and SSN. Individuals who have an active EBT account for one type of benefit will not have a separate EBT account or be issued a separate EBT card for other types of benefits. The same EBT card is used to access SNAP, K-TAP and Kinship Care benefits and KWP transportation and WIN payments.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-034: The Cabinet For Health And Family Services Did Not Properly Secure, Destroy, Or Maintain Segregation Of Duties For Electronic Benefit Transfer Cards (Continued)

Recommendation

We recommend CHFS strengthen internal controls to ensure compliance by:

- Reviewing the policy for how EBT cards should be stored with all local DCBS supervisors.
- Reviewing the policies and procedures on the process of requesting, receiving, and issuing EBT cards through the local office. Ensure this segregation of duties is implemented at all DCBS offices.
- Reviewing the policy for how EBT cards should be destroyed with all local DCBS supervisors.
- Reviewing policies and procedures to prevent a participant from having two active cards at one time.

Management's Response and Planned Corrective Action

The Division of Family Support worked with the Office for Administrative and Technology Services (OATS) and the contractor to correct the system processing for EBT cards sent to DCBS local offices. All EBT related defects within the Integrated Eligibility and Enrollment System (IEES) were fixed during calendar year 2017. The Division of Service Region Administrators have reemphasized the EBT security protocols with local office Supervisors and field staff. The Division of Family Support continues to monitor reports from each Region regarding the number of EBT cards sent to each local office and the proper handling and storage of EBT cards in each office as Service Region Administrator Associates (SRAA) and Public Assistance Program Specialists (PAPS) visit each county and observe EBT card handling practices.

- *SRAAs and PAPS are currently discussing policy on how EBT cards must be stored with each local office Supervisor in their Region.*
- *The IEES no longer allows overlap in EBT card handling duties. This defect was fixed in Release 7.2 on 5/26/17.*
- *The task for a Supervisor to destroy a card now appears on the 29th day for the Supervisor to destroy the card on the 30th day if not picked up by the client. This change was moved to production on 12/4/17 and should assist in cards being destroyed timely as required.*

This duplication of active EBT cards only occurred due to an error in the conversion of data from Kentucky Automated Management and Eligibility System (KAMES) to IEES and then the conversion from our previous contractor to a new contractor. Although only one card was receiving ongoing benefits, the prior cards did not inactivate upon request of a new card. The EBT accounts with this issue were identified and the previous EBT cards were manually deactivated. The interaction processes between the new contractor and IEES will prevent this from recurring.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-035: The Cabinet For Health And Family Services Did Not Maintain All Required Supplemental Documentation For Parent Eligibility On Foster Care

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 93.658 – Foster Care – Title IV-E
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Eligibility
 Questioned Costs: \$0

During fiscal year 2017 eligibility testing of the Foster Care Title IV-E program, the Cabinet for Health and Family Services (CHFS) had missing required documentation in three parent eligibility files that were reviewed. Parent files are required to have documented evidence of an annual criminal registry check which includes a check of the Criminal Abuse and Neglect (CAN) registry, Annual Strength and Needs Assessment (ASNA), and required training hours. The lack of documentation is noted below:

- Three parent files were missing the Annual Strength and Needs Assessment.
- Two parent files failed to have the required training hours for the year documented.
- Two parent files were missing the required Criminal Abuse and Neglect registry check.

CHFS neglected to ensure all required documentation was maintained in the file, or the required element was performed, to support parent eligibility for the Foster Care Title IV-E program.

Failure to complete and maintain the required parent eligibility file documentation increases the chances CHFS makes payments to ineligible parents and increases the risk of placing a foster care child in an unauthorized home.

45 CFR 1355.34(c)(5) states:

Service array: Information from the assessment and on-site review determines that the title IV-E agency has in place an array of services (45 CFR 1357.15(n) and section 422(b)(8)(A)(iii) and (iv) of the Act) that includes, at a minimum:

- (i) Services that assess the strengths and needs of children and families assisted by the agency and are used to determine other service needs[.]

Per 922 KAR 1:495 Section 3. General Annual Training Requirements:

- (1) Prior to or during the month of the second anniversary date of a foster or adoptive parent's initial approval, the foster or adoptive parent shall complete a minimum of thirty (30) hours of training [...]

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-035: The Cabinet For Health And Family Services Did Not Maintain All Required Supplemental Documentation For Parent Eligibility On Foster Care (Continued)**

45 CFR 1356.30 states:

- (a) The title IV-E agency must provide documentation that criminal records checks have been conducted with respect to prospective foster and adoptive parents.
- (b) The title IV-E agency may not approve or license any prospective foster or adoptive parent, nor may the title IV-E agency claim FFP (federal financial participation) for any foster care maintenance or adoption assistance payment made on behalf of a child placed in a foster home operated under the auspices of a child placing agency or on behalf of a child placed in an adoptive home through a private adoption agency, if the title IV-E agency finds that, based on a criminal records check conducted in accordance with paragraph (a) of this section, a court of competent jurisdiction has determined that the prospective foster or adoptive parent has been convicted of a felony involving:
 - (1) Child abuse or neglect;
 - (2) Spousal abuse;
 - (3) A crime against a child or children (including child pornography); or,
 - (4) A crime involving violence, including rape, sexual assault, or homicide, but not including other physical assault or battery.

Recommendation

We recommend CHFS improve internal controls and compliance by ensuring all required procedures are performed and documentation is on file in order to be in compliance with applicable regulations and standards.

Management's Response and Planned Corrective Action

As part of the Child and Family Services Review (CFSR), DCBS has reviewed the Continuous Quality Improvement (CQI) tool and will reinstitute this as a secondary qualitative review measure for foster care cases. There will be a random selection of cases to identify trends and ensure proper documentation is in the case files for the foster care cases. In addition, the tool will be used as a supervision and mentoring tool to guide practice. This should be implemented in 2018.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-036: The Cabinet For Health And Family Services Failed To Have Written Procedures Over Federal Compliance On Certain Major Programs

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP)</u> <u>CFDA 10.561 – State Administrative Matching Grants for Supplemental Nutrition Assistance Program</u> <u>CFDA 93.658 – Foster Care – Title IV-E</u>
Federal Agency:	<u>U.S. Department of Agriculture</u> <u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Matching, Reporting, Period of Performance</u>
Questioned Costs:	<u>\$0</u>

During the fiscal year 2017 Cabinet for Health and Family Services (CHFS) audit, there were two instances in which CHFS failed to have written procedures for federal programs. The Foster Care Title IV-E program did not have written procedures over the federal compliance areas of reporting, matching, and period of performance. The SNAP program also failed to have complete and accurate written reporting procedures in place for the required Food and Nutrition Services (FNS) FNS-209 federal report for fiscal year 2017. CHFS was not able to promptly respond to inquiries, and multiple meetings were required to find staff that could explain these compliance areas. For SNAP, CHFS staff had to contact a contractor to send directions on how to extract data from the system because they were not able to do so.

Time constraints and competing job demands to complete tasks, lack of prioritizing the need for updating written procedures, and retirements or transfers of knowledgeable employees, resulted in the lack of written procedures.

The lack of written procedures creates a risk for a breakdown in the internal control structure. The likelihood of mistakes occurring and errors going undetected increases. Without written policies employees may fail to realize an error occurred.

Required reports may contain inaccurate information, matching rates could be incorrectly calculated, and transactions could occur outside the period of performance. These issues could lead to questioned costs. New employees attempting to fill the duties of those who have left or transferred have difficulty accomplishing daily tasks when written procedures are not available for reference.

Good internal controls ensure, at a minimum, clear lines of authority are present, proper segregation of duties is maintained, and that written procedures exist to guide staff in making decisions. Good internal controls also facilitate the submission of accurate and timely reports, proper calculation of matching requirements, and that expenditures occur in the proper period of performance.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-036: The Cabinet For Health And Family Services Failed To Have Written Procedures Over Federal Compliance On Certain Major Programs (Continued)**

Recommendation

We recommend CHFS:

- Develop written procedures for Foster Care reporting, matching, and period of performance as well as SNAP reporting.
- Identify other potential federal programs and compliance areas where written procedures need to be developed or updated.
- Review and update established written procedures.

Management's Response and Planned Corrective Action

SNAP:

As of October 2017, the Division for Family Support (DFS) developed written procedures for the FNS 209 report as cited in this finding. DFS is currently working to develop written procedures for federal and state reports as needed, and will continue to work towards ensuring all procedures and processes are fully documented for federal and state compliance.

Foster Care Title IV-E:

Title IV-E reporting which includes the CB-496 is currently being prepared by an outside vendor. The vendor has shared their standard operating procedures (SOPs) with DCBS and a copy of this manual is housed in the Department for Community Based Services/Division of Administration and Financial Management (DCBS/DAFM). DAFM will begin writing SOPs for all our activities and particularly activities related to IV-E Matching and Period of Performance. DAFM will continue to write processes until all activities have been addressed.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-037: The Cabinet For Health And Family Services Failed To Provide Timely System Access To Auditors During The Audit

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP)
CFDA 10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
CFDA 93.558 – Temporary Assistance for Needy Families
CFDA 93.767 – Children’s Health Insurance Program
CFDA 93.775 – State Medicaid Fraud Control Units
CFDA 93.777 – State Survey and Certification of Health Care Providers and Suppliers
CFDA 93.778 – Medical Assistance Program
 Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Eligibility
 Questioned Costs: \$0

In the fiscal year 2017 audit, the Cabinet for Health and Family Services (CHFS) delayed providing the required system access necessary for audit purposes for approximately four months.

- Access to the Kentucky Medicaid Management Information System (KYMMIS), Worker Portal (WP) and Kentucky Automated Management Eligibility System (KAMES) was requested in the middle of July 2017, mirroring previous requests.
- In late August 2017, CHFS instructed our office on the procedures for access. The appropriate steps were taken, as requested, but access was still not granted.
- System access was scheduled to be completed in the beginning of October. The required system applications were installed on auditors’ computers; however, auditors continued to receive errors, and access was denied. CHFS stated they would work to resolve the issue, but this problem persisted through the month of October.
- Access was granted in November 2017 to some auditors; however, the issues continued for other auditors until December 2017.

Based on the delays, CHFS does not have adequate procedures to ensure authorized personnel gain access to computer systems timely. Further, CHFS is required to provide auditors access to records necessary to perform audits.

The process and procedures used by CHFS to grant system access failed to work appropriately.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-037: The Cabinet For Health And Family Services Failed To Provide Timely System Access To Auditors During The Audit (Continued)**

The agency does not have adequate training on the system access to ensure appropriate access is granted. As a result, auditors were delayed in gaining access to significant computer systems. Left unresolved, this limitation could have resulted in a limitation of the audit scope and a potential impact on the audit opinion of these major federal programs.

Per KRS 43.050:

(2) The Auditor shall:

- (a) Audit annually, and at such other times as may be deemed expedient, the accounts of all state agencies, all private and semiprivate agencies receiving state aid or having responsibility for the handling of any state funds, the accounts, records, and transactions of the budget units, and the general accounts of the state.

KRS 43.080 Access to books and records states:

- (1) The Auditor and his authorized agents shall have access to and may examine all books, accounts, reports, vouchers, correspondence files, records, money and property of any state agency. Every officer or employee of any such agency having such records or property in his possession or under his control shall permit access to and examination of them upon the request of the Auditor or any agent authorized by him to make such request.

Proper procedures help prevent mistakes and ensure job tasks and processes are performed efficiently and effectively. Procedures save time, provide staff with guidance on completing tasks, ensure consistency, improve quality, and provide accurate timely results for tasks.

Recommendation

We recommend CHFS review procedures for granting system access requests and determine an efficient method to accomplish this task in order to ensure timely compliance with KRS 43.050.

Management's Response and Planned Corrective Action

CHFS takes audit requests seriously for system access. After unsuccessful attempts to address on-boarding the auditors, two members of the CHFS Kentucky Online Gateway team visited the Kentucky Auditor of Public Accounts (APA) office to further investigate potential on-boarding issues.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-037: The Cabinet For Health And Family Services Failed To Provide Timely System Access To Auditors During The Audit (Continued)**

Management's Response and Planned Corrective Action (Continued)

The APA auditors have existing active directory (AD) accounts in a foster domain (KYFD01) within the Commonwealth Office of Technology (COT) forest. As a result of the auditors having existing AD accounts outside of the CHFS domain, the standard process to provide access behind the CHFS firewall could not be followed. In addition, due to CHFS implementing an Enterprise Identity Management solution in 2017, it was determined a change was needed in the process to on-board the APA auditors. Having worked through a new process to on-board the auditors for the 2017 financial audit, future audit related requests for system access should be more routine with timely access provided to auditors.

Auditor's Reply

The issue is complex, and we agree there needs to be a more routine process to ensure timely access to auditors. Two members of the CHFS Kentucky Online Gateway team visited the APA office two years ago when the process was initiated in the FY 2016 audit, which took three months after the request to get in the systems. CHFS wanted to try another approach for the FY 2017 audit that did not work as efficiently; therefore, the process took four months to get access for the FY 2017 audit. The Enterprise Identity Management solution should not have an impact on creating user accounts. The APA domain was the same as prior year, and several of the same auditors were assigned. To reiterate, a more efficient process is needed to ensure timely access to information for audit purposes.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-038: The Cabinet For Health And Family Services Did Not Take Timely Action Toward Vendors Who Committed Violations During Compliance Buy Investigations

State Agency: Cabinet for Health and Family Services
 Federal Program: CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
 Federal Agency: U.S. Department of Agriculture
 Pass-Through: Not Applicable
 Compliance Area: Special Tests and Provisions
 Questioned Costs: \$0

The Women Infants and Children (WIC) program requires the Cabinet for Health and Family Services (CHFS) to conduct compliance buy investigations at WIC retail food vendors. During fiscal year 2017, CHFS performed compliance buy investigations for 62 vendors. Ten compliance buy investigations were reviewed by auditors, and there were four instances in which violations were noted during the investigations. CHFS failed to notify vendors of violations discovered during WIC compliance buy investigations as prescribed by 902 KAR 18:061, and only did so after this was brought to the attention of CHFS by the auditor. This notification took place five to six months after the compliance buy investigation took place.

CHFS does not have effective procedures in place to comply with applicable state and federal regulations. After the compliance buy investigations were completed, CHFS chose to not take action due to uncertainty regarding cases involving the sanctioning of vendors still in court.

CHFS' failure to take action or provide written notification to non-compliant WIC retail vendors allows the vendors to incorrectly charge for WIC-approved goods and potentially overcharge WIC participants. Further, by not taking action, CHFS is in direct violation of 902 KAR 18:061 and 7 CFR 246.12 which states CHFS is required to send out notification letters to retail vendors within 120 days of detection of violations.

902 KAR 18:061 Section 2 states:

- (1) Except for violations identified in Section 1(1)(a) through (c), (f) through (j), (r), and (s) of this administrative regulation, the state WIC agency shall notify a vendor in writing if an investigation reveals a potential initial violation.
- (2) The vendor shall be notified before another violation is documented unless the state WIC agency determines that notifying the vendor would compromise the investigation.
 - (a) The notification determination shall be made on a case by case basis.
 - (b) A notification of a potential initial violation shall not be issued if:
 1. The vendor is identified as a high-risk vendor in accordance with 902 KAR 18:090;
 2. One (1) or more of the same type of violation occurred within the same federal fiscal year or prior federal fiscal year and the vendor has received prior notification; and

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-038: The Cabinet For Health And Family Services Did Not Take Timely Action Toward Vendors Who Committed Violations During Compliance Buy Investigations (Continued)

3. Sending a notification letter would divulge the identity of the investigator.

7 CFR 246.12(k)(1) states in part:

The State agency must take follow-up action within 120 days of detecting any questionable food instruments or cash-value vouchers, suspected vendor overcharges, and other errors and must implement procedures to reduce the number of errors when possible.

Recommendation

We recommend CHFS update and document effective procedures to ensure that regulations are followed and that employees are knowledgeable of the process. These procedures should ensure compliance with 7 CFR 246.12 and 902 KAR 18:061 so that violations are communicated to vendors within 120 days of their discovery.

Management's Response and Planned Corrective Action

Division Office leadership has met with the WIC Program to review the findings and develop a plan to prevent the issue from occurring in future.

While all four issues should have required notification, our internal discussions were that three of the four late violation notices were unusual circumstances compounded by new program leadership and discussion with the federal agency on appropriate next steps. The remaining violation notification was unduly delayed because of new program leadership.

Changes to onboarding new program leadership are being addressed to include discussion on regulations, how those regulations must be strictly upheld, and how exceptions to the regulations must be documented and approved by the Cabinet's legal office. We anticipate this to be completed by the onboarding of the new program leadership pending personnel approval; estimated date of completion is April 30, 2018.

Division leadership has met with WIC Program staff and advised them that the regulations must always be adhered to, and that future instances of management causing delay in meeting regulations and required timelines must always be brought to the attention of the next line of management. Division leadership has also had this discussion with all program leadership, and will be addressed in the next meeting with all program staff.

Division leadership has started discussions with the Cabinet's Office of Administrative and Technology Services (OATS) to provide an updated system for monitoring the timeline of OIG findings to provide staff and leadership with an improved way to monitor compliance with regulation and issuing notices of violations to prevent this from occurring in the future. Due to the nature and the prioritization of projects within the Cabinet, it is difficult to assign a completion date but this should be in place prior to the beginning of the next calendar year; estimated date of completion is January 1, 2019.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-039: The Department Of Workforce Investment Failed To Prevent Payment To Ineligible Claimants**

State Agency: Department of Workforce Investment
Federal Program: CFDA 17.225 – Unemployment Insurance
Federal Agency: U.S. Department of Labor
Pass-Through: Not Applicable
Compliance Area: Allowable Costs, Eligibility
Questioned Costs: \$102,073

This finding was reported in the 2017 Report of the Statewide Single Audit of Kentucky (SSWAK) Volume I as financial statement Finding 2017-018. Management's response and planned corrective action for Finding 2017-018 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

During fiscal year 2017 the Department of Workforce Investment (DWI) became aware of certain vulnerabilities within its internal control structure allowing ineligible individuals to receive Unemployment Insurance (UI) benefits. Detailed information that could possibly increase the risk of loss was intentionally omitted from this comment. A review completed by DWI identified \$155,193 of fraudulently obtained UI benefit payments dating back to 2016. Of the identified fraudulent payments, \$102,073 occurred during fiscal year 2017 which are being reported as known questioned costs in the current audit period.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-040: The Department of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports

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

This is a repeat of Finding 2016-057 as reported in the 2016 Statewide Single Audit of Kentucky (SSWAK) Volume II. The Department of Workforce Investment (DWI) failed to ensure the accuracy of data provided by the Local Workforce Development Areas (LWDA) as utilized in the preparation of financial reports for the Workforce Innovation and Opportunity Act (WIOA) program.

The United States Department of Labor (USDOL) Employment and Training Administration (ETA) 9130 financial reports are submitted quarterly by DWI to report LWDA expenditures. The LWDA's 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 LWDA's.

DWI's current procedure for verifying the accuracy of information utilized in preparing quarterly ETA 9130 reports involves reconciling annual LWDA audit reports to WORKS. Since LWDA annual audits are performed after fiscal year end, DWI is not able to reconcile this information timely. With the current process, fiscal year 2017 information will not be reconciled and reviewed until well into fiscal year 2018, after the 2017 audit reports are released. Additionally, a spreadsheet provided by DWI identified the following unreconciled differences between fiscal year 2016 expenditures reported in WORKS and expenditures identified within the LWDA annual compliance audit:

Barren River LWDA	\$ 746,818
Bluegrass LWDA	168,138
Cumberland LWDA	16,410
EKCEP LWDA	176,268
Kentuckiana Works LWDA	60,679
Northern Kentucky LWDA	<u>2,392</u>
Total	<u><u>\$ 1,170,705</u></u>

DWI failed to implement adequate internal controls over the monitoring and review of data utilized in preparing financial reports in order to ensure information was complete and accurate. LWDA annual compliance audit reports are not issued until months after the end of fiscal year. The current internal control structure does not allow the data in WORKS to be reconciled until months after it is used to populate ETA 9130 reports submitted to USDOL. Failure to ensure the accuracy of financial 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 WIOA.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-040: The Department of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports (Continued)

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States (Green Book), or the Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Section 13.04 – Relevant Data from Reliable Sources, within the Green Book states, in part:

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability.

WIOA Sec. 185 Reports; Recordkeeping; Investigations, states, in part:

- (c) Grantee Information Responsibilities – Each State, each local board, and each recipient (other than a subrecipient, subgrantee, or contactor of a recipient) receiving funds under this title – [...]
 - (2) shall prescribe and maintain comparable management information systems, in accordance with guidelines that shall be prescribed by the Secretary, designed to facilitate the uniform compilation, cross tabulation, and analysis of programmatic, participant, and financial data, on statewide, local area, and other appropriate bases, necessary for reporting, monitoring, and evaluating purposes, including data necessary to comply with section 188[.]

Recommendation

We recommend DWI implement adequate internal controls to ensure ETA 9130 reports are prepared with complete and accurate information. DWI should re-evaluate current policy and establish procedures which allow the data within WORKS to be reconciled and differences resolved on a timely basis in order to promote accuracy in financial reporting.

Management’s Response and Planned Corrective Action

The U.S. Department of Labor allows the Office of Employment and Training (OET) to reconcile funds and audits up to one year after the completion of local workforce development board (LWDB) annual audits. Due to the fact that some LWDBs elect to conduct their audits on a calendar year basis, reconciliation may occur up to a year after the corresponding June 9130 Report. Again, DOL is aware and approves of this timeline. This is proven by the fact that although we have not yet reconciled 2016 funds, the Department has already awarded us 2017 funds in April and October. Duties for reconciliation of LWDB audits has passed from the Monitoring Branch to the Grants Management Branch beginning in FY 2016.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-040: The Department of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports (Continued)**

Management's Response and Planned Corrective Action (Continued)

Attached you will see procedures we have set in place for the reconciliation project. We have hired additional staff to work with the reconciliations. We have reconciled the spreadsheets and are reaching out to the locals for information regarding any discrepancies that were found between the annual audits and the WORK system. We will continue to work with locals to resolve these issues.

A new procedure was established and a new person is working with the LWDBs to reconcile any differences.

Once a final determination on the differences is noted, OET will instruct the LWDB to adjust the June report for the grant in the WORK System to make any corrections needed. OET will also review the LWDB's OET-105 Drawdown form to determine if any discrepancies are for the grant's cash payments.

As mentioned above, the Audit Reconciliation process may occur up to a year after the corresponding June 9130 Report has been for that quarter-end. At that time, some grants could be closed. Once the Audit Reconciliation process is completed for all LWDBs and discrepancies are noted for "Open" grants, the next 9130 report will be adjusted via changes to the WORK System mentioned above to reflect the discrepancies. If the grant has been "Closed" at the conclusion of the process, OET will consult with the Department of Labor to rectify the discrepancies.

We will continue to work diligently to get the reconciliations done in appropriate timeframe.

Auditor's Reply

Management's response and planned corrective action indicated USDOL allows DWI to reconcile funds and audits up to one year after the completion of local workforce development board annual audits. Documentation was not provided to support the reconciliation and review timeframe established by USDOL. Regardless, DWI is still required to prepare accurate federal reports in a timely manner. DWI should ensure internal controls are implemented to allow for a timely review and verification of information before federal reports are submitted.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-041: The Department Of Workforce Investment Failed To Prevent Claimants From Receiving Benefits When Eligibility Review Requirements Were Not Met**

State Agency: Department of Workforce Investment
Federal Program: CFDA 17.225 – Unemployment Insurance
Federal Agency: U.S. Department of Labor
Pass-Through: Not Applicable
Compliance Area: Allowable Costs, Eligibility
Questioned Costs: \$15,247

This finding was reported in the 2017 Report of the Statewide Single Audit of Kentucky (SSWAK) Volume I as financial statement Finding 2017-019. Management's response and planned corrective action for Finding 2017-019 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

This is a repeat of Finding 2016-055 as reported in the 2016 SSWAK Volume II. 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 of Workforce Investment (DWI) failed to ensure UI claimants were registered for Employment Services (ES) prior to receiving UI benefits in accordance with state laws and regulations. DWI previously required an in-person eligibility review (ER) six weeks after the initial claim, as a manual compensating control to ensure claimants had completed the registration process. During fiscal year 2017, DWI changed the in-person ER to an online automated process. Internal controls were not adequately designed and compensating controls were eliminated which would ensure UI claimants successfully registered for ES. Testing identified three UI participants who were not registered for ES prior to receiving benefits resulting in \$15,247 of known questioned costs.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-042: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data Reported In The Trade Activity Participation Report

State Agency: Department of 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

This is a repeat of Finding 2016-058 as reported in the 2016 Statewide Single Audit of Kentucky (SSWAK) Volume II. The Department of 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 program at the local, state, and federal levels.

The fiscal year 2016 finding identified several inaccuracies in reported participant data within the TAPR. Management's response and planned corrective action to the prior year finding identified they are continuing to build processes that will allow for a more effective, efficient, and timely review of data which includes requesting funding for a system to automate what is a manual and labor intensive process. A review of six participants from the TAPR submitted to DOL during fiscal year 2017 identified the following:

- One instance where participant data had incorrect employment and job retention information reported.
- One instance where participant data had incorrect or missing wages reported for the individual 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.

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States (Green Book), or the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-042: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data Reported In The Trade Activity Participation Report (Continued)

Section 13.04 – Relevant Data from Reliable Sources within the Green Book states in part:

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. [...]

20 CFR 617.61 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, Section II General Reporting Guidance, B. Due Dates 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.

The 2012 Trade Activity Participant Report, Data Preparation and Reporting Handbook, III. Program Items Reported (Including Collection Timing and Clarifications), D. Performance Outcomes Information, states:

D.01: Employment and Job Retention Information

This section tracks performance-related outcomes for the participant, including:

- Whether the participant was employed in the first, second, third and fourth quarter after exit,
- Type of verification used to identify participant's reemployment status in the first, second, third and fourth quarter after exit,
- The type of employment that the participant may have obtained after exit,
- Whether the participant was recalled by their trade affected employment.

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

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-042: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data Reported In The Trade Activity Participation Report (Continued)**

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 continue to work to ensure the TAPR is prepared utilizing complete and accurate information. DWI should continue to improve internal controls over the preparation and subsequent review of the TAPR to ensure compliance with federal regulations and reporting guidelines.

Management's Response and Planned Corrective Action

Kentucky continues to improve its reporting processes. We have established shorter turnaround timeframes in order to have more time to analyze the data. Kentucky is working with a vendor to develop a new comprehensive case management system which will alleviate much of the lag time of reporting training payments as these will become "real time" rather than quarter ending. This new case management system will be rolled out in phases during 2018 and will become the Department's system of record for TAPR and other OET data on October 1, 2018.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-043: The Kentucky Department Of Education Transferred Expenditures To A Federal Program Subsequent To The End Of The Close Of The Grant

State Agency: Kentucky Department of Education
 Federal Program: CFDA 84.011 – Migrant Education – State Grant Program
 Federal Agency: U.S. Department of Education
 Pass-Through: Not Applicable
 Compliance Area: Period of Performance
 Questioned Costs: \$354,707

The Kentucky Department of Education (KDE) transferred \$354,707 of expenditures to the federal fiscal year (FFY) 2014 Migrant Education Program (MEP) on January 10, 2017, after the period of performance and closeout period for the grant award had expired.

Expenditures must occur or be obligated within 27 months of the award date to be in compliance with the period of performance grant requirement. There is an additional 90 day closeout period during which the department can pay expenditures that occurred or were obligated during the 27 month period, make necessary adjustments or corrections, and drawdown federal funds to reimburse KDE for federal expenditures. The FFY 2014 MEP period of performance ended September 30, 2016, and the 90 day closeout period ended December 31, 2016.

KDE determined during the closeout period that certain expenditures initially coded to the FFY15 grant had occurred within the period of performance of the FFY14 grant. Manual draws were completed to reimburse KDE for these expenditures from the FFY14 grant during December 2017, but the journal voucher necessary to change the coding of these expenditures to the FFY14 grant was not made until January 2017, outside of the closeout period.

Due to the timing of the correcting journal voucher, the FFY14 expenditures reported in the draw were not supported by the state's accounting system at the time the transaction was completed, causing KDE to be noncompliant with period of performance requirement.

2 CFR 200.343 states:

The Federal awarding agency or pass-through entity will close-out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the non-Federal entity. This section specifies the actions the non-Federal entity and Federal awarding agency or pass-through entity must take to complete this process at the end of the period of performance.

- (a) The non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-043: The Kentucky Department Of Education Transferred Expenditures To A Federal Program Subsequent To The End Of The Close Of The Grant (Continued)**

- (b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

2 CFR 200.302 states in part:

- (b) The financial management system of each non-Federal entity must provide for the following:
- (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
 - (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§200.327 Financial reporting and 200.328 Monitoring and reporting program performance. [...]

Recommendation

We recommend KDE:

- Strengthen internal controls to ensure closeout transactions occur and are recorded in the state's accounting system prior to the end of the grant closeout period; and
- Work with the federal grantor to resolve questioned costs.

Management's Response and Planned Corrective Action

The Kentucky Department of Education (KDE), Division of Budgets and Financial Management (DBFM) uses a financial management system (e-Mars) which complies with 2 CFR §200.302. We will review the Migrant Process Narrative to ensure any weaknesses are addressed. Additionally, we will contact the USED program office and advise of the issue and discuss resolutions if necessary.

The KDE DBFM will continue to comply with 2 CFR §200.302 and §200.343. However, if KDE DBFM encounters an issue during the 90 liquidation period, a Late Liquidation request in accordance with the following <http://www.ed.gov/policy/fund/guid/lateliquidation.doc> will be submitted to the federal awarding agency.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-044: The Kentucky Department Of Education Did Not Accurately Calculate The Required State Match Of State Level Administrative Expenditures For The Career And Technical Education Federal Grant

State Agency: Kentucky Department of Education
 Federal Program: CFDA 84.048 – Career and Technical Education – Basic Grants to States
 Federal Agency: U.S. Department of Education
 Pass-Through: Not Applicable
 Compliance Area: Matching, Reporting
 Questioned Costs: \$0

During the fiscal year 2017 Kentucky Department of Education’s (KDE) Career and Technical Education (CTE) federal program audit, the internal controls over compliance with the matching requirement were reviewed and several issues were noted:

- KDE did not have a written methodology to describe the process for determining the match rate. For example, there were no written procedures to explain the accounting codes included or excluded from the calculation. Further, KDE was unable to explain the percentage of administrative expenditures allocated for the match.
- KDE’s calculation of state level administrative expenditures paid with state funding contained the following errors:
 - The wrong fiscal year was used for the College and Career Readiness line item, and
 - The summary table for the calculation did not agree to the supporting documentation for the Technical Schools and Federal Programs line item.
- The data reported for the Career and Technical Education line could not be agreed to the state’s accounting system (eMARS). Supporting documentation for this line item did not include an explanation sufficient to determine the proper inclusion or exclusion of accounting codes which may have resulted in the difference.
- The final Financial Status Report for the Federal Fiscal Year (FFY) 2014 grant submitted with the Comprehensive Annual Report included the incorrect state match amount resulting in noncompliance with the reporting requirement for the CTE grant.

KDE was unable to locate written documentation for the methodology used for the match calculation. Human error in preparing the spreadsheet resulted in the use of inaccurate data, which was included in the Financial Status Report. A reconciliation to eMARS is not documented.

The lack of written procedures prevents the results of the match calculation from being verifiable.

The errors noted by the auditor resulted in a net \$477,090 overstatement of the state match being reported to the federal grantor on the Financial Status Report. This amount exceeded the state level administrative CTE expenditures paid from federal funds for the FFY14 grant. Thus KDE remains in compliance with the match requirement for the grant period. If the match requirement had not been met, this would have resulted in questioned costs.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-044: The Kentucky Department Of Education Did Not Accurately Calculate The Required State Match Of State Level Administrative Expenditures For The Career And Technical Education Federal Grant (Continued)**

The deficiencies in internal control noted could result in future noncompliance with the matching requirement.

2 CFR 200.306 states in part:

(b) All contributions, including cash and third party in-kind, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria:

(1) Are verifiable from the non-Federal agency's records[.]

The CTE matching requirement is detailed at 20 USC 2322(b) Matching Requirement:

Each eligible agency receiving funds made available under subsection (a)(3) shall match, from non-Federal sources and on a dollar-for-dollar basis, the funds received under subsection (a)(3).

2 CFR 200.303 indicates that the internal controls required to be established by a non-Federal entity receiving Federal awards should be in compliance with the guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States (Green Book).

Principle 3 of the Green Book states, in part:

- 3.09 Management develops and maintains documentation of its internal control system.
- 3.10 Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.
- 3.11 Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-044: The Kentucky Department Of Education Did Not Accurately Calculate The Required State Match Of State Level Administrative Expenditures For The Career And Technical Education Federal Grant (Continued)

Recommendation

KDE should strengthen internal controls over the calculation of the state match amount to reduce the risk of noncompliance. We recommend KDE consider:

- Developing written procedures for the calculation of the match;
- Documenting the basis for inclusion or exclusion of departments, divisions, etc. and the basis for using a certain percentage of those expenditures in the calculation;
- Documenting the reconciliation to eMARS; and
- Reviewing internal controls over report preparation.

Management's Response and Planned Corrective Action

- *Developing written procedures for the calculation of the match;*

Written procedures for the calculation of the State Administrative Match will be drafted by October 2018.

- *Documenting the basis for inclusion or exclusion of departments, divisions, etc. and the basis for using a certain percentage of those expenditures in the calculation;*

The Office of Career and Technical Education will review and revise the spreadsheet used to track funds relating to State Administrative Match. We will document the process and train multiple employees.

- *Documenting the reconciliation to eMARS;*

KDE will develop and document a reconciliation process.

- *Reviewing internal controls over report preparation.*

Prior to finalizing financial information for the Consolidated Annual Report (CAR) the Division of Budgets and Financial Management will review for accuracy.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-045: The Kentucky Department Of Education Did Not Adequately Document The Maintenance Of Effort Calculation For The Career And Technical Education Grant

State Agency: Kentucky Department of Education
 Federal Program: CFDA 84.048 – Career and Technical Education – Basic Grants to States
 Federal Agency: U.S. Department of Education
 Pass-Through: Not Applicable
 Compliance Area: Level of Effort – Maintenance of Effort
 Questioned Costs: \$0

During the fiscal year (FY) 2017 Kentucky Department of Education’s (KDE) Career and Technical Education (CTE) federal program audit, the internal controls over the maintenance of effort requirement were reviewed and the following issues were noted:

- KDE did not have a written methodology to describe the process for determining the maintenance of effort expenditures. For example, there were no written procedures to explain the accounting codes that were included or excluded from the calculation.
- KDE’s calculation of maintenance of effort included a portion of the cost paid by the state for vocational school transportation. Total vocational school transportation costs were \$4,833,800 (\$2,416,900 for FY 2016 and 2017, respectively). The amount included in the maintenance of effort calculation for FY 2016 was \$580,000, and FY 2017 was \$495,000. There was no explanation of how the amounts were determined to be included in the maintenance of effort (MOE) calculation.
- The data pulled for FY 2016 CTE expenditures did not include \$816,395 of journal voucher transactions. The journal vouchers moved expenditures to another fund within the CTE grant.
- FY 2016 CTE Pre-Engineering grant expenditures could not be agreed to the state’s accounting system (eMARS) expenditures based on the documentation provided for the maintenance of effort calculation. There was a variance of \$620,526 between eMARS and KDE’s supporting documentation.

KDE was unable to locate written documentation of their methodology for the maintenance of effort calculation and could not explain why transportation amounts were included. The reason for the exclusion of the journal vouchers was not documented and there was no audit evidence to indicate if the journal vouchers should or should not have been included. CTE does not reconcile eMARS to grant expenditures to explain the variances.

The lack of written procedures for calculating the maintenance of effort prevents the results of the calculation from being verifiable.

The errors noted by the auditor resulted in a \$1,438,462 overstatement of the FY 2016 maintenance of effort amount, and the FY 2017 amount was overstated by \$48,742. The results of these errors did not cause KDE to be out of compliance with the maintenance of effort requirement. If the maintenance of effort requirement had not been met, this would have resulted in questioned costs.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-045: The Kentucky Department Of Education Did Not Adequately Document The Maintenance Of Effort Calculation For The Career And Technical Education Grant (Continued)**

The deficiencies in internal control related to the journal vouchers being moved and expenditures reconciliations could result in future noncompliance with the maintenance of effort requirement.

The CTE maintenance of effort requirement is detailed at 20 USC 2391 (b) Maintenance of Effort:

(1) Determination

(A) In general

Except as provided in subparagraphs (B) and (C), no payments shall be made under this chapter for any fiscal year to a State for career and technical education programs or tech prep programs unless the Secretary determines that the fiscal effort per student or the aggregate expenditures of such State for career and technical education programs for the fiscal year preceding the fiscal year for which the determination is made, equaled or exceeded such effort or expenditures for career and technical education programs for the second fiscal year preceding the fiscal year for which the determination is made.

2 CFR 200.303 further indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States (Green Book).

Principle 3 of the Green Book states in part:

- 3.09 Management develops and maintains documentation of its internal control system.
- 3.10 Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.
- 3.11 Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-045: The Kentucky Department Of Education Did Not Adequately Document The Maintenance Of Effort Calculation For The Career And Technical Education Grant (Continued)****Recommendation**

We recommend KDE strengthen internal controls to ensure compliance over the maintenance of effort requirement by:

- Developing written procedures for the methodology used in the maintenance of effort calculation, including a written explanation for the departments, divisions, funds, functions, sub-functions etc. that are included in the maintenance of effort calculation and the basis for including any percentage of those expenditures in the calculation; and
- Reconciling eMARS expenditures to grant expenditures.

Management's Response and Planned Corrective Action

- *Developing written procedures for the methodology used in the maintenance of effort calculation; including a written explanation for the departments, divisions, funds, functions, sub-functions etc. that are included in the maintenance of effort calculation and the basis for including any percentage of those expenditures in the calculation.*

KDE supports career and technical education in Kentucky across programmatic and funding categories within the department. Expenditures from General, SEEK and Restricted funds, specific for this purpose, are used for the MOE. Written procedures for the MOE calculation will be drafted to include a written explanation of expenditures to be used by October 2018.

- *Reconciling eMARS expenditures to grant expenditures.*

Written procedures will identify expenditures to correct funds in back-up documentation. Written procedures for this purpose will be drafted by October 2018. Prior to finalizing financial information for the Consolidated Annual Report (CAR) the Division of Budgets and Financial Management will review for accuracy.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-046: The Kentucky Department Of Education Did Not Meet The Non-Traditional Earmarking Requirement For The Career And Technical Education Federal Grant

State Agency: Kentucky Department of Education
 Federal Program: CFDA 84.048 – Career and Technical Education – Basic Grants to States
 Federal Agency: U.S. Department of Education
 Pass-Through: Not Applicable
 Compliance Area: Earmarking, Reporting
 Questioned Costs: \$0

During the fiscal year 2017 Kentucky Department of Education’s (KDE) Career and Technical Education (CTE) federal program audit, compliance with earmarking requirements were reviewed and an exception to the non-traditional fields earmark was noted.

CTE requirements stipulate that between \$60,000 and \$150,000 should be allotted to activities that prepare students for non-traditional fields of study. Non-traditional field expenditures recorded in the state’s accounting system (eMARS) for the federal fiscal year (FFY) 2014 CTE grant were \$30,357, nearly \$30,000 less than required. The final Financial Status Report for the FFY 2014 grant indicated that \$61,435 was spent for non-traditional fields; however, KDE did not maintain documentation to support the amount reported.

KDE did not maintain written documentation for the determination of FFY 2014 nontraditional field expenditures.

Only those expenditures documented within eMARS are verifiable and directly identified as non-traditional expenditures. The lack of documentation prevents the non-traditional fields earmark calculation from being verified, and KDE cannot support compliance with the earmarking requirement.

The CTE earmarking requirement is detailed at 20 USC 2322 (a)(2) within state allocation:

Not less than \$60,000 and not more than \$150,000 shall be available for services that prepare individuals for non-traditional fields.

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States (Green Book).

Principle 3 of the Green Book states in part:

- 3.09 Management develops and maintains documentation of its internal control system.
- 3.10 Effective documentation assists in management’s design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-046: The Kentucky Department Of Education Did Not Meet The Non-Traditional Earmarking Requirement For The Career And Technical Education Federal Grant (Continued)

- 3.11 Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.

Recommendation

We recommend KDE strengthen internal controls over the calculation of the required earmarks for the CTE federal program by:

- Requiring documentation of the earmark expenditure calculations; and
- Documenting the internal control procedures used for ensuring the earmarking requirements are met.

KDE should also work with their federal grantor to determine what further actions are required due to the noncompliance with the FFY14 earmarking requirement for non-traditional fields.

Management’s Response and Planned Corrective Action

- *Requiring documentation of the earmark expenditure calculations.*

The Office of Career and Technical Education will work with the Division of Budgets and Financial Management to update resources and eMARS reports to more accurately document the expenditures for this calculation.

- *Documenting the internal control procedures used for ensuring the earmarking requirements are met.*

Written procedures for the documentation of the earmarking will be drafted by October 2018. Prior to finalizing financial information for the Consolidated Annual Report (CAR) the Division of Budgets and Financial Management will review for accuracy.

Additionally, we will contact the USED program office and advise of the issue and discuss resolutions if necessary.

APPENDIX

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2017**

This report is available on the Auditor of Public Accounts' website, www.auditor.ky.gov. For other requests, contact Tim Gutman, Open Records Administrator, with the APA at (502) 564-5841 or tim.gutman@ky.gov. If copies of the Commonwealth's FY 17 Comprehensive Annual Financial Report are required, visit www.finance.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.

Agency	Contact
Cabinet for Health and Family Services	Kelli Hill, Assistant Director Division of General Accounting Cabinet for Health and Family Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone: (502) 564-8890
Department of Workforce Investment	David Morris, Director Office of Fiscal Services 300 Sower Blvd. 4 th Floor Frankfort, KY 40601 Phone: (502) 564-2618
Department of Education	Charles Harman, Director Division of Budget and Finance 300 Sower Blvd. Suite 524 Frankfort, KY 40601 Phone: (502) 564-1979