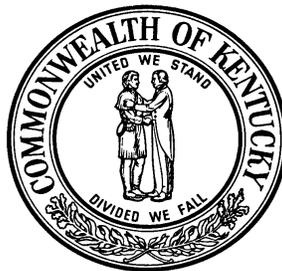


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME I

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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

THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2017

Background

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 (CFR) 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 will present elements required under the Uniform Guidance, including the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance*, and the Schedule of Findings and Questioned Costs.

Comprehensive Annual Financial Report

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

The scope of the CAFR audit included:

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

**THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY VOLUME I
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

Schedule of Expenditures of Federal Awards

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

For the fiscal year (FY) ended June 30, 2017, the total federal dollars expended by the Commonwealth of Kentucky were \$11,384,941,281 in cash awards and \$1,044,532,259 in noncash awards. For FY 2017, the total federal cash expenditures as reported on the SEFA increased by \$90,702,424 in comparison with the total for FY 2016.

Component Units

The Commonwealth of Kentucky reporting entity for the purposes of the CAFR includes various component units, including state universities and retirement systems, as identified in accordance with Governmental Accounting Standards Board Statements 14, 39, 61, and 80. However, except for CAFR reporting, the Commonwealth has elected to exclude component units from the statewide single audit. Thus, these component units, including state universities and retirement systems, are not included in the accompanying SEFA and reports on internal control over financial reporting and compliance. These entities are still required to have audits performed in accordance with the provisions of the Uniform Guidance, if applicable, based on their total federal expenditures. Separately issued reports of component units can be obtained by contacting the respective agencies. Contact information for these agencies is presented in the Appendix of this report.



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

February 6, 2018

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

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the Fiscal Year ended June 30, 2017. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

We will subsequently report to you the required elements of Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards* in Volume II of this report upon completion of our audit of the Commonwealth's major federal programs.

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

Respectfully Submitted,

Mike Harmon
Auditor of Public Accounts



CONTENTS

| | Page |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 5 |
| NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS..... | 21 |
| 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 | 33 |

Financial Statement Findings

Material Weaknesses Relating to Internal Controls and/or Noncompliances

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| <u>FINDING 2017-001:</u> The Finance And Administration Cabinet Failed To Detect And Prevent Errors In The Compilation Of The Commonwealth’s Comprehensive Annual Financial Report | 39 |
| <u>FINDING 2017-002:</u> The Kentucky Horse Park Failed To Implement Adequate Internal Controls Over Financial Reporting Of Fixed Assets And Capital Leases..... | 41 |

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| <u>FINDING 2017-003:</u> The Cabinet For Health And Family Services Did Not Accurately Report Accounts Payable In The Closing Package For The Department Of Medicaid Services | 43 |
| <u>FINDING 2017-004:</u> The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards..... | 46 |
| <u>FINDING 2017-005:</u> The Cabinet For Health And Family Services Did Not Update Or Consistently Apply Security Procedures Related To The Virtual Private Network..... | 51 |
| <u>FINDING 2017-006:</u> The Commonwealth Office Of Technology Did Not Fulfill Its Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure | 54 |
| <u>FINDING 2017-007:</u> The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies | 58 |
| <u>FINDING 2017-008:</u> The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Policies And Procedures | 62 |
| <u>FINDING 2017-009:</u> The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood..... | 68 |
| <u>FINDING 2017-010:</u> The Kentucky Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2017 School District SEEK Payments ... | 70 |

Financial Statement Findings (Continued)

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

FINDING 2017-011: The Department Of Education’s Division Of School And Community Nutrition Did Not Fully Develop And Consistently Implement A Formal Logical Security Policy Governing Access To The Child Nutrition Information And Payment System.....72

FINDING 2017-012: The Department Of Employee Insurance Did Not Provide Accurate Accounts Receivable Records For Preparation Of The Kentucky Employees’ Health Plan Financial Statements75

FINDING 2017-013: The Department Of Parks Failed To Follow Proper Policies And Procedures For Recording And Processing Receipts77

FINDING 2017-014: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations79

FINDING 2017-015: The Department Of Parks Failed To Ensure All Accounts Payable Were Identified And All Invoices Were Paid Timely In Accordance With KRS 45.45382

FINDING 2017-016: The Department Of Parks Failed To Implement Adequate Policies, Procedures, And Internal Controls Over The Disposal Of Obsolete Vehicles And Equipment.....84

FINDING 2017-017: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To The Enhanced Management Administrative & Reporting System.....86

FINDING 2017-018: The Department Of Workforce Investment Failed To Prevent Payment To Ineligible Claimants.....88

FINDING 2017-019: The Department Of Workforce Investment Failed To Ensure Claimants Receiving Benefits Had Completed The Registration Process.....92

FINDING 2017-020: The Department Of Workforce Investment Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act.....95

FINDING 2017-021: The Finance And Administration Cabinet Did Not Close Sheriff’s Old Year Account Timely.....99

FINDING 2017-022: The Finance And Administration Cabinet Failed To Include The Louisville Arena Authority As A Component Unit In The Prior Year Comprehensive Annual Financial Report ..101

FINDING 2017-023: The Kentucky Horse Park Failed To Adequately Monitor Receipts From Campground Reservations103

FINDING 2017-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory104

FINDING 2017-025: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls Over The Payroll Process107

FINDING 2017-026: The Kentucky Transportation Cabinet Failed To Ensure The Completeness And Accuracy Of Reported Infrastructure And Construction In Progress Account Balances109

CONTENTS
(Continued)

Page

Financial Statement Findings (Continued)

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

FINDING 2017-027: The Kentucky Transportation Cabinet Failed To Document Right-Of-Way
Was Obtained Prior To The Awarding Of Road Construction Projects112

APPENDIX117

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated December 13, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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) and is not a part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Opinion

In our opinion, except for the effects of the application of a different basis of accounting, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the Commonwealth's basic financial statements as a whole.



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

Emphasis of Matter

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

Other Information

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

Respectfully Submitted,

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

Mike Harmon
Auditor of Public Accounts

December 13, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|-----------------------------------------|-------------------------------------------------------------------------------------------------|--------------|--------------------|--------------------|--------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Agriculture | | | | | |
| Direct Programs: | | | | | |
| 10.025 | Plant and Animal Disease, Pest Control, and Animal Care | AGR | \$ 536,759 | \$ | \$ |
| | | F&W | | | |
| 10.028 | Wildlife Services | F&W | 2,926 | | |
| 10.072 | Wetlands Reserve Program | F&W | 285,710 | | |
| 10.093 | Voluntary Public Access and Habitat Incentive Program (Note 14) | F&W | | | |
| 10.102 | Emergency Forest Restoration Program | EEC | 541 | | |
| 10.153 | Market News | AGR | 3,601 | | |
| 10.162 | Inspection Grading and Standardization | AGR | 11,453 | | |
| 10.163 | Market Protection and Promotion | AGR | 53,670 | | |
| 10.170 | Specialty Crop Block Grant Program - Farm Bill | AGR | 155,558 | | |
| 10.351 | Rural Business Development Grant | KAC | 2,568 | | |
| 10.479 | Food Safety Cooperative Agreements | CHFS | 63,203 | | |
| 10.547 | Professional Standards for School Nutrition Employees | EDU | 52,048 | | |
| SNAP Cluster: | | | | | |
| 10.551 | Supplemental Nutrition Assistance Program (Note 2) (Note 10) | CHFS | | 952,340,129 | |
| 10.561 | State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2) | CHFS | 63,277,809 | | 9,675,811 |
| Total SNAP Cluster: | | | <u>63,277,809</u> | <u>952,340,129</u> | <u>9,675,811</u> |
| Child Nutrition Cluster: | | | | | |
| 10.553 | School Breakfast Program (Note 2) | EDU | 94,477,494 | | 94,475,247 |
| | | JUV | | | |
| 10.555 | National School Lunch Program (Note 2) (Note 10) | EDU | 235,675,012 | | 235,669,272 |
| | | AGR | | 27,087,120 | |
| | | JUV | | | |
| 10.556 | Special Milk Program for Children (Note 2) | EDU | 22,137 | | 22,137 |
| 10.559 | Summer Food Service Program for Children (Note 2) | EDU | 8,551,659 | | 8,366,575 |
| Total Child Nutrition Cluster: | | | <u>338,726,302</u> | <u>27,087,120</u> | <u>338,533,231</u> |
| 10.557 | WIC Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2) | CHFS | 107,348,504 | | 23,778,161 |
| 10.558 | Child and Adult Care Food Program (Note 2) | EDU | 42,609,305 | | 41,877,469 |
| 10.560 | State Administrative Expenses for Child Nutrition | EDU | 3,249,343 | | 12,637 |
| | | AGR | 506,869 | | |
| Food Distribution Cluster: | | | | | |
| 10.565 | Commodity Supplemental Food Program (Note 10)(Note 11) | AGR | 1,960,673 | 5,229,302 | |
| 10.568 | Emergency Food Assistance Program (Administrative Costs) | AGR | 971,537 | | |
| 10.569 | Emergency Food Assistance Program (Food Commodities) (Note 10) | AGR | | 7,550,499 | |
| Total Food Distribution Cluster: | | | <u>2,932,210</u> | <u>12,779,801</u> | |
| 10.572 | WIC Farmers' Market Nutrition Program (FMNP) | CHFS | 105,211 | | |
| 10.575 | Farm to School Grant Program | AGR | 15,275 | | |
| 10.576 | Senior Farmers Market Nutrition Program | AGR | 276,686 | | |
| 10.579 | Child Nutrition Discretionary Grants Limited Availability | EDU | 748,600 | | 748,600 |
| 10.582 | Fresh Fruit and Vegetable Program | EDU | 2,619,353 | | 2,619,353 |
| 10.589 | Child Nutrition Direct Certification Performance Awards (Note 14) | EDU | | | |
| 10.592 | Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects | CHFS | 1,378,099 | | |
| 10.596 | Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP | CHFS | 2,292,155 | | 1,831,017 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------|-----------------------|--------------------------|
| | | | Cash | Noncash | |
| <u>U.S. Department of Agriculture (Continued)</u> | | | | | |
| Direct Programs (Continued): | | | | | |
| 10.598 | Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants | DWI | 8,143 | | |
| | | CHFS | 460,194 | | |
| | | KSP | 76,556 | | |
| 10.652 | Forestry Research | EEC | 243,767 | | |
| 10.664 | Cooperative Forestry Assistance | EEC | 2,301,637 | | 585,013 |
| 10.674 | Wood Utilization Assistance | EEC | 7,768 | | 7,768 |
| 10.676 | Forest Legacy Program | EEC | 9,713 | | |
| 10.678 | Forest Stewardship Program | EEC | 8,442 | | |
| 10.771 | Rural Cooperative Development Grants (Note 14) | AGR | | | |
| 10.902 | Soil and Water Conservation | COT | 50,650 | | |
| | | F&W | 53,368 | | |
| | | EEC | | | |
| 10.912 | Environmental Quality Incentives Program | EEC | 1,673 | | |
| 10.913 | Farm and Ranch Lands Protection Program (Note 14) | AGR | | | |
| | | F&W | | | |
| 10.923 | Emergency Watershed Protection Program (Note 14) | TC | | | |
| 10.932 | Regional Conservation Partnership Program | EEC | 23,472 | | 23,472 |
| 10.U01 | Rural Rehabilitation Student Loan Program (Note 1) (Note 3) (Note 14) | AGR | | | |
| 10.U02 | HWA Participating Agreement with Daniel Boone National Forest (Note 1)(Note 15) | EEC | 60 | | |
| Total U.S. Department of Agriculture | | | \$ 570,499,201 | \$ 992,207,050 | \$ 419,692,532 |
| <u>U.S. Department of Commerce</u> | | | | | |
| Direct Programs: | | | | | |
| Economic Development Cluster: | | | | | |
| 11.307 | Economic Adjustment Assistance | KCNA | \$ 58,406 | \$ | \$ |
| | | DLG | | | |
| | | DWI | 532,145 | | |
| Total Economic Development Cluster: | | | 590,551 | | |
| 11.549 | State and Local Implementation Grant Program | COT | 132,379 | | |
| | | KSP | 82,182 | | |
| Total U.S. Department of Commerce | | | \$ 805,112 | \$ | \$ |
| <u>U.S. Department of Defense</u> | | | | | |
| Direct Programs: | | | | | |
| 12.106 | Flood Control Projects | F&W | \$ 10,985 | \$ | \$ |
| 12.113 | State Memorandum of Agreement Program for the Reimbursement of Technical Services | EEC | 124,876 | | |
| 12.217 | Electronic Absentee Systems for Elections | SOS | 153,632 | | |
| 12.400 | Military Construction, National Guard | MIL | 488,162 | | |
| 12.401 | National Guard Military Operations and Maintenance (O&M) Projects | MIL | 22,855,351 | | |
| 12.404 | National Guard ChalleNGe Program | MIL | 5,215,993 | | |
| 12.617 | Economic Adjustment Assistance for State Governments | CMA | 645,427 | | |
| 12.700 | Donations/Loans of Obsolete DOD Property (Note 10) | EEC | | 107,586 | |
| | | KSP | | 2,938 | |
| 12.U01 | Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities (Note 1)(Note 15) | EEC | 1,073,764 | | 65,798 |
| 12.U02 | Teacher and Teacher's Aide Placement Assistance Program (Note 1)(Note 15) | EPSB | 34,090 | | |
| Total U.S. Department of Defense | | | \$ 30,602,280 | \$ 110,524 | \$ 65,798 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|--------------|----------------------|-----------|--------------------------|
| | | | Cash | Noncash | |
| <u>U.S. Department of Housing and Urban Development</u> | | | | | |
| Direct Programs: | | | | | |
| Community Development Block Grants-State-Administered Small Cities Program | | | | | |
| 14.228 | Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Note 8) | DLG MIL | \$ 24,095,042 295 | \$ | \$ 23,241,330 |
| 14.251 | Economic Development Initiative -Special Project, Neighborhood Initiative and Miscellaneous Grants (Note 14) | PARKS | | | |
| 14.262 | Homeless Prevention and Rapid Re-Housing Program Technical Assistance | DLG | 759,743 | | 680,248 |
| 14.270 | Appalachia Economic Development Initiative | DLG | 31,954 | | 30,648 |
| 14.401 | Fair Housing Assistance Program_State and Local | HRC | 223,062 | | |
| Total U.S. Department of Housing and Urban Development | | | \$ 25,110,096 | \$ | \$ 23,952,226 |
| <u>U.S. Department of the Interior</u> | | | | | |
| Direct Programs: | | | | | |
| 15.250 | Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining | EEC | \$ 11,038,816 | \$ | \$ 130,328 |
| 15.252 | Abandoned Mine Land Reclamation (AMLR) | EEC | 27,082,632 | | 8,850,651 |
| 15.255 | Science and Technology Projects Related to Coal Mining and Reclamation | EEC | 7,837 | | |
| Fish and Wildlife Cluster: | | | | | |
| 15.605 | Sport Fish Restoration (Note 7) | F&W | 4,968,198 | | |
| 15.611 | Wildlife Restoration and Basic Hunter Education (Note 9) | F&W | 7,834,508 | | |
| Total Fish and Wildlife Cluster: | | | 12,802,706 | | |
| 15.608 | Fish and Wildlife Management Assistance | F&W | 265,551 | | |
| 15.614 | Coastal Wetlands Planning, Protection and Restoration (Note 14) | F&W | | | |
| 15.615 | Cooperative Endangered Species Conservation Fund (Note 7) | F&W EEC | 487,981 33,465 | | |
| 15.616 | Clean Vessel Act (Note 14) | F&W | | | |
| 15.622 | Sportfishing and Boating Safety Act | F&W | 820,077 | | |
| 15.623 | North American Wetlands Conservation Fund | F&W | 2,212 | | |
| 15.632 | Conservation Grants Private Stewardship for Imperiled Species | F&W | 73,375 | | |
| 15.634 | State Wildlife Grants (Note 7) | F&W | 698,490 | | |
| 15.656 | ARRA-Recovery Act Funds - Habitat Enhancement, Restoration and Improvement (Note 13) (Note 14) | F&W | | | |
| 15.657 | Endangered Species Conservation - Recovery Implementation Funds | F&W | 45,767 | | |
| 15.808 | U.S. Geological Survey—Research and Data Collection | EEC | 8,780 | | |
| 15.809 | National Spatial Data Infrastructure Cooperative Agreements (Note 14) | COT | | | |
| 15.904 | Historic Preservation Fund Grants-In-Aid | KHC | 856,526 | | 75,677 |
| 15.916 | Outdoor Recreation_Acquisition, Development and Planning (Note 6) | DLG | 405,338 | | 405,338 |
| 15.945 | Cooperative Research and Training Programs - Resources of the National Park System | EEC | 15,000 | | |
| 15.U01 | Clark River NWR Fish Survey (Note 1)(Note 15) | F&W | 2,256 | | |
| 15.U02 | Ohio River Survey (Note 1)(Note 15) | F&W | 19,811 | | |
| Total U.S. Department of the Interior | | | \$ 54,666,620 | \$ | \$ 9,461,994 |
| <u>U.S. Department of Justice</u> | | | | | |
| Direct Programs: | | | | | |
| 16.013 | Violence Against Women Act Court Training and Improvement Grants (Note 14) | AOC | \$ | \$ | \$ |
| 16.017 | Sexual Assault Services Formula Program | JUST | 345,910 | | 345,910 |
| 16.202 | Prisoner Reentry Initiative Demonstration (Offender Reentry) (Note 14) | CORR | | | |
| 16.320 | Services for Trafficking Victims | OAG | 77,337 | | |
| 16.523 | Juvenile Accountability Block Grants | JUV | 69,584 | | 21,663 |
| 16.540 | Juvenile Justice and Delinquency Prevention Program | JUV | 649,155 | | 529,754 |
| 16.543 | Missing Children's Assistance | KSP | 398,058 | | |
| 16.550 | State Justice Statistics Program for Statistical Analysis Centers | JUST | 142,319 | | 2,109 |
| 16.554 | National Criminal History Improvement Program (NCHIP) | KSP | 160,004 | | |
| | | JUST | | | |

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------|----------------------|-----------|--------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Justice (Continued) | | | | | |
| Direct Programs (Continued): | | | | | |
| 16.560 | National Institute of Justice Research, Evaluation, and Development Project Grants (Note 14) | KSP | | | |
| 16.575 | Crime Victim Assistance | JUST | 8,720,171 | | 8,213,660 |
| | | KSP | 70,133 | | |
| | | UPS | 572,884 | | |
| 16.576 | Crime Victim Compensation | PPC | 50,763 | | |
| 16.580 | Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | CORR | 236,224 | | |
| 16.582 | Crime Victim Assistance/Discretionary Grants (Note 14) | JUST | | | |
| | | OAG | | | |
| 16.585 | Drug Court Discretionary Grant Program (Note 7) | AOC | 846,421 | | |
| 16.588 | Violence Against Women Formula Grants | JUST | 1,667,847 | | 1,526,009 |
| | | OAG | 47,335 | | |
| | | AOC | 118,999 | | |
| | | UPS | 97,720 | | |
| | | KSP | | | |
| 16.593 | Residential Substance Abuse Treatment for State Prisoners | CORR | 125,801 | | |
| | | JUV | | | |
| | | JUST | | | |
| 16.606 | State Criminal Alien Assistance Program | CORR | 83,585 | | |
| 16.607 | Bulletproof Vest Partnership Program (Note 14) | JUST | | | |
| 16.610 | Regional Information Sharing Systems (Note 14) | COT | | | |
| 16.727 | Enforcing Underage Drinking Laws Program (Note 14) | KSP | | | |
| 16.735 | PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities | JUST | 34,647 | | 34,647 |
| | | JUV | 56,372 | | |
| | | CORR | 169,647 | | |
| 16.738 | Edward Byrne Memorial Justice Assistance Grant Program | JUST | 1,413,785 | | 1,332,589 |
| | | KSP | 437,174 | | |
| | | PUBAD | 58,974 | | |
| 16.740 | Statewide Automated Victim Information Notification (SAVIN) Program (Note 14) | CORR | | | |
| 16.741 | DNA Backlog Reduction Program | KSP | 708,603 | | |
| 16.742 | Paul Coverdell Forensic Sciences Improvement Grant Program | KSP | 46,158 | | |
| | | JUST | 91,983 | | |
| 16.745 | Criminal and Juvenile Justice and Mental Health Collaboration Program (Note 7) | AOC | 83,541 | | |
| 16.746 | Capital Case Litigation Initiative (Note 14) | JUST | | | |
| 16.750 | Support for Adam Walsh Act Implementation Grant Program (Note 14) | KSP | | | |
| 16.751 | Edward Byrne Memorial Competitive Grant Program (Note 14) | CORR | | | |
| 16.754 | Harold Rogers Prescription Drug Monitoring Program | CHFS | 236,247 | | |
| 16.812 | Second Chance Act Reentry Initiative (Note 14) | CORR | | | |
| 16.813 | NICS Act Record Improvement Program | KSP | 45,400 | | |
| 16.817 | Byrne Criminal Justice Innovation Program | PUBAD | 109,175 | | |
| 16.826 | Vision 21 (Note 14) | PPC | | | |
| 16.833 | National Sexual Assault Kit Initiative | KSP | 1,744,012 | | |
| 16.922 | Equitable Sharing Program | UPS | 40,521 | | |
| 16.U01 | Drug Enforcement Administration (Note 1)(Note 15) | KSP | 1,863,237 | | |
| 16.U02 | Federal Bureau of Investigation (Note 1)(Note 15) | KSP | 43,696 | | |
| 16.U03 | Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program (Note 1)(Note 15) | KSP | 46,839 | | |
| 16.U04 | District Fugitive Task Force (Note 1)(Note 15) | KSP | 2,941 | | |
| 16.U05 | Equitable Sharing-Asset Forfeiture (Note 1)(Note 15) | KSP | 1,539,110 | | |
| Total U.S. Department of Justice | | | \$ 23,252,312 | \$ | \$ 12,006,341 |

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------|--------------|-----------------------|-----------|--------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Labor | | | | | |
| Direct Programs: | | | | | |
| 17.002 | Labor Force Statistics | DWI | \$ 961,634 | \$ | \$ |
| 17.005 | Compensation and Working Conditions | LABOR | 206,244 | | |
| Employment Service Cluster: | | | | | |
| 17.207 | Employment Service/Wagner-Peyser Funded Activities | DWI | 8,740,590 | | |
| 17.801 | Disabled Veterans' Outreach Program (DVOP) | DWI | 1,432,977 | | |
| 17.804 | Local Veterans' Employment Representative Program | DWI | 823,624 | | |
| Total Employment Service Cluster: | | | <u>10,997,191</u> | | |
| 17.225 | Unemployment Insurance (Note 2)(Note 4) | DWI | 350,640,572 | | |
| 17.225 | ARRA-Unemployment Insurance (Note 4)(Note 13) | DWI | 647 | | |
| 17.235 | Senior Community Service Employment Program | CHFS | 1,452,718 | | 1,409,371 |
| 17.245 | Trade Adjustment Assistance | DWI | 7,499,483 | | 5,732,012 |
| WIOA Cluster: | | | | | |
| 17.258 | WIOA Adult Program (Note 2) | DWI | 12,846,887 | | 12,202,931 |
| 17.259 | WIOA Youth Activities (Note 2) | DWI | 12,369,113 | | 11,698,036 |
| 17.278 | WIOA Dislocated Worker Formula Grants (Note 2) | DWI | 11,589,703 | | 9,536,019 |
| Total WIOA Cluster: | | | <u>36,805,703</u> | | <u>33,436,986</u> |
| 17.260 | WIA Dislocated Workers (Note 14) | DWI | | | |
| 17.261 | WIOA Pilots, Demonstrations, and Research Projects | DWI | 476,809 | | |
| 17.271 | Work Opportunity Tax Credit Program (WOTC) | DWI | 295,747 | | |
| 17.273 | Temporary Labor Certification For Foreign Workers | DWI | 374,280 | | |
| 17.277 | WIOA National Dislocated Workers Grants / WIA National Emergency Grants | DWI | 2,009,597 | | 1,646,102 |
| 17.281 | WIOA Dislocated Worker National Reserve Technical Assistance and Training | DWI | 75,941 | | |
| 17.285 | Apprenticeship USA Grants | LABOR | 103,978 | | |
| 17.503 | Occupational Safety and Health_State Program | LABOR | 3,384,929 | | |
| 17.600 | Mine Health and Safety Grants | EEC | 508,207 | | |
| Total U.S. Department of Labor | | | <u>\$ 415,793,680</u> | <u>\$</u> | <u>\$ 42,224,471</u> |
| U.S. Department of Transportation | | | | | |
| Direct Programs: | | | | | |
| 20.106 | Airport Improvement Program | TC | \$ 2,521,219 | \$ | \$ |
| Highway Planning and Construction Cluster: | | | | | |
| 20.205 | Highway Planning and Construction (Note 2)(Note 5) | TC | 789,478,601 | | 23,595,367 |
| | | PARKS | 1,487,916 | | |
| | | DWI | 62,236 | | |
| | | KSP | 20,556 | | |
| | | KHS | | | |
| 20.219 | Recreational Trails Program (Note 2) (Note 6) | DLG | 1,071,903 | | 1,027,864 |
| | | PARKS | 14,088 | | |
| Total Highway Planning and Construction Cluster: | | | <u>792,135,300</u> | | <u>24,623,231</u> |
| 20.218 | Motor Carrier Safety Assistance | KSP | 3,434,979 | | 202,756 |
| 20.231 | Performance and Registration Information Systems Management | TC | 667,845 | | |
| 20.232 | Commercial Driver's License Program Implementation Grant | TC | 519,877 | | |
| 20.237 | Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements | TC | 764,374 | | |
| 20.238 | Commercial Drivers License Information System (CDLIS) Modernization Grant (Note 14) | TC | | | |

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|--------------|-----------------------|-----------|--------------------------|
| | | | Cash | Noncash | |
| <u>U.S. Department of Transportation (Continued)</u> | | | | | |
| Direct Programs (Continued): | | | | | |
| Federal Transit Cluster: | | | | | |
| 20.500 | Federal Transit_Capital Investment Grants | TC | 477,522 | | 477,522 |
| 20.507 | Federal Transit_Formula Grants | TC | 279,707 | | 279,707 |
| 20.526 | Bus and Bus Facilities Formula Program | TC | 2,427,867 | | 2,427,867 |
| Total Federal Transit Cluster: | | | 3,185,096 | | 3,185,096 |
| 20.505 | Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research | TC | 722,969 | | 722,969 |
| 20.509 | Formula Grants for Rural Areas | TC | 14,718,108 | | 13,777,521 |
| Transit Services Programs Cluster: | | | | | |
| 20.513 | Enhanced Mobility of Seniors and Individuals With Disabilities | TC | 2,173,642 | | 2,173,642 |
| Total Transit Services Programs Cluster: | | | 2,173,642 | | 2,173,642 |
| 20.514 | Public Transportation Research, Technical Assistance, and Training | TC | 6,000 | | 6,000 |
| Highway Safety Cluster: | | | | | |
| 20.600 | State and Community Highway Safety | TC | 2,312,442 | | 1,323,378 |
| | | KSP | 407,099 | | |
| | | OAG | 172,506 | | |
| | | DCJT | 34,562 | | |
| 20.601 | Alcohol Impaired Driving Countermeasures Incentive Grants I | KSP | 12 | | |
| | | DCJT | 69,339 | | |
| 20.602 | Occupant Protection Incentive Grants | KSP | 1 | | |
| | | TC | | | |
| 20.610 | State Traffic Safety Information System Improvement Grants | KSP | | | |
| 20.616 | National Priority Safety Programs | TC | 2,081,484 | | 1,078,776 |
| | | KSP | 690,105 | | |
| Total Highway Safety Cluster: | | | 5,767,550 | | 2,402,154 |
| 20.614 | National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements | KSP | 145,500 | | |
| | | TC | 53,423 | | 53,423 |
| 20.700 | Pipeline Safety Program State Base Grant | EEC | 378,089 | | |
| 20.703 | Interagency Hazardous Materials Public Sector Training and Planning Grants | MIL | 338,326 | | 28,517 |
| 20.933 | National Infrastructure Investments | TC | 1,874,976 | | |
| Total U.S. Department of Transportation | | | \$ 829,407,273 | \$ | \$ 47,175,309 |
| <u>U.S. Department of Treasury</u> | | | | | |
| Direct Programs: | | | | | |
| 21.016 | Equitable Sharing | UPS | \$ 13,309 | \$ | \$ |
| 21.U01 | Internal Revenue Service (Note 1)(Note 14) | KSP | | | |
| 21.U02 | Equitable Sharing-Asset Forfeiture (Note 1) (Note 15) | KSP | 93,940 | | |
| | | UPS | | | |
| 21.U03 | State Small Business Credit Initiative (Note 1)(Note 15) | CED | 396,212 | | |
| Total U.S. Department of Treasury | | | \$ 503,461 | \$ | \$ |
| <u>U.S. Appalachian Regional Commission</u> | | | | | |
| Direct Programs: | | | | | |
| 23.002 | Appalachian Area Development | DLG | \$ 1,362,308 | \$ | \$ 1,362,308 |
| 23.011 | Appalachian Research, Technical Assistance, and Demonstration Projects | DLG | 1,090,747 | | 945,000 |
| Total U.S. Appalachian Regional Commission | | | \$ 2,453,055 | \$ | \$ 2,307,308 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

| CFDA Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------|-------------------|--------------------------|
| | | Cash | Noncash | |
| <u>U.S. Equal Employment Opportunity Commission</u> | | | | |
| Direct Programs: | | | | |
| 30.002 Employment Discrimination_State and Local Fair Employment Practices Agency Contracts | HRC | \$ 1,741 | \$ | \$ |
| Total U.S. Equal Employment Opportunity Commission | | \$ 1,741 | \$ | \$ |
| <u>U.S. General Services Administration</u> | | | | |
| Direct Programs: | | | | |
| 39.003 Donation of Federal Surplus Personal Property (Note 10) | FAC | \$ | \$ 132,475 | \$ |
| | EEC | | | |
| 39.011 Election Reform Payments (Note 7) (Note 12) | KBE | 482,571 | | |
| Total U.S. General Services Administration | | \$ 482,571 | \$ 132,475 | \$ |
| <u>National Aeronautics and Space Administration</u> | | | | |
| Direct Programs: | | | | |
| 43.002 Aeronautics (Note 14) | COT | \$ | \$ | \$ |
| Total National Aeronautics and Space Administration | | \$ | \$ | \$ |
| <u>U.S. National Foundation on the Arts and the Humanities</u> | | | | |
| Direct Programs: | | | | |
| 45.025 Promotion of the Arts_Partnership Agreements | KAC | \$ 712,040 | \$ | \$ |
| | KHS | | | |
| 45.149 Promotion of the Humanities_Division of Preservation and Access | KHS | 1,112 | | |
| 45.161 Promotion of the Humanities_Research | KHS | 79,076 | | |
| 45.301 Museums for America | KHS | 60,696 | | |
| 45.310 Grants to States | DLA | 2,124,087 | | 20,000 |
| 45.313 Laura Bush 21st Century Librarian Program | DLA | 53,755 | | |
| Total U.S. National Foundation on the Arts and Humanities | | \$ 3,030,766 | \$ | \$ 20,000 |
| <u>U.S. Small Business Administration</u> | | | | |
| Direct Programs: | | | | |
| 59.061 State Trade Expansion | CED | \$ 273,546 | \$ | \$ |
| Total U.S. Small Business Administration | | \$ 273,546 | \$ | \$ |
| <u>U.S. Department of Veterans Affairs</u> | | | | |
| Direct Programs: | | | | |
| 64.005 Grants to States for Construction of State Home Facilities | VA | \$ 3,040,050 | \$ | \$ |
| 64.015 Veterans State Nursing Home Care | VA | 24,549,818 | | |
| 64.101 Burial Expenses Allowance for Veterans | VA | 564,869 | | |
| Total U.S. Department of Veterans Affairs | | \$ 28,154,737 | \$ | \$ |
| <u>U.S. Environmental Protection Agency</u> | | | | |
| Direct Programs: | | | | |
| 66.032 State Indoor Radon Grants | CHFS | \$ 482,698 | \$ | \$ 242,694 |
| 66.034 Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Note 10) | EEC | 345,719 | 106,453 | |
| 66.419 Water Pollution Control State, Interstate, and Tribal Program Support | EEC | 239,891 | | 7,000 |
| 66.433 State Underground Water Source Protection | EEC | 3,164 | | |
| 66.454 Water Quality Management Planning | EEC | 177,835 | | |

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------|--------------|----------------------|-------------------|--------------------------|
| | | | Cash | Noncash | |
| U.S. Environmental Protection Agency (Continued) | | | | | |
| Direct Programs (Continued): | | | | | |
| Clean Water State Revolving Fund Cluster: | | | | | |
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds | EEC PARKS | 600,395 | | |
| Total Clean Water State Revolving Fund Cluster: | | | <u>600,395</u> | | |
| 66.460 | Nonpoint Source Implementation Grants | EEC | 955,616 | | 849,997 |
| Drinking Water State Revolving Fund Cluster: | | | | | |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Funds | EEC | 5,338,016 | | 97,756 |
| Total Drinking Water State Revolving Fund Cluster: | | | <u>5,338,016</u> | | <u>97,756</u> |
| 66.605 | Performance Partnership Grants (Note 10) | EEC | 9,921,758 | 146,868 | 1,550,207 |
| | | AGR | 478,302 | | |
| 66.608 | Environmental Information Exchange Network Grant Program and Related Assistance | EEC | 37,943 | | |
| 66.707 | TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | CHFS | 244,834 | | |
| 66.717 | Source Reduction Assistance | EEC | 30,593 | | |
| 66.802 | Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements | EEC | 146,235 | | |
| 66.804 | Underground Storage Tank Prevention, Detection and Compliance Program | EEC | 429,318 | | |
| 66.805 | Leaking Underground Storage Tank Trust Fund Corrective Action Program | EEC | 1,523,370 | | |
| 66.809 | Superfund State and Indian Tribe Core Program-Cooperative Agreements | EEC | 29,000 | | |
| 66.818 | Brownfields Assessment and Cleanup Cooperative Agreements | EEC | 82,682 | | 69,465 |
| 66.951 | Environmental Education Grants | DWI | 17,384 | | |
| Total U.S. Environmental Protection Agency | | | <u>\$ 21,084,753</u> | <u>\$ 253,321</u> | <u>\$ 2,817,119</u> |
| U.S. Department of Energy | | | | | |
| Direct Programs: | | | | | |
| 81.041 | State Energy Program | EEC | \$ 637,017 | \$ | \$ 132,780 |
| | | DLG | 2,938 | | |
| 81.104 | Environmental Remediation and Waste Processing and Disposal | EEC | 809,959 | | |
| | | CHFS | 503,161 | | |
| 81.119 | State Energy Program Special Projects | EEC | 140,513 | | 102,820 |
| | | DLG | 147,751 | | |
| 81.128 | ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13) (Note 14) | DLG | | | |
| | | PPC | | | |
| 81.138 | State Heating Oil and Propane Program | EEC | 8,712 | | |
| Total U.S. Department of Energy | | | <u>\$ 2,250,051</u> | <u>\$</u> | <u>\$ 235,600</u> |
| U.S. Department of Education | | | | | |
| Direct Programs: | | | | | |
| 84.010 | Title I Grants to Local Educational Agencies (Note 2) | EDU | \$ 219,084,641 | \$ | \$ 212,479,953 |
| 84.011 | Migrant Education_State Grant Program | EDU | 7,542,049 | | 7,330,276 |
| 84.013 | Title I State Agency Program for Neglected and Delinquent Children and Youth | JUV | 797,149 | | 326,303 |
| | | CORR | 6,735 | | |
| | | EDU | 136 | | |
| Special Education Cluster (IDEA): | | | | | |
| 84.027 | Special Education_Grants to States (Note 2) | EDU | 162,152,593 | | 158,612,911 |
| 84.173 | Special Education_Preschool Grants (Note 2) | EDU | 9,607,507 | | 9,280,148 |
| Total Special Education Cluster (IDEA): | | | <u>171,760,100</u> | | <u>167,893,059</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------|-----------|--------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Education (Continued) | | | | | |
| Direct Programs (Continued): | | | | | |
| 84.048 | Career and Technical Education -- Basic Grants to States | EDU | 16,945,616 | | 14,484,984 |
| | | CORR | 60,736 | | |
| | | EPSB | 70,950 | | |
| 84.126 | Rehabilitation Services_Vocational Rehabilitation Grants to States (Note 2) | DWI | 45,382,524 | | 2,949,356 |
| 84.144 | Migrant Education_Coordination Program | EDU | 58,380 | | |
| 84.161 | Rehabilitation Services_Client Assistance Program | DWI | 100,212 | | |
| 84.177 | Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind | DWI | 493,739 | | |
| 84.181 | Special Education-Grants for Infants and Families | CHFS | 5,327,392 | | |
| 84.184 | School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs) | EDU | 82,753 | | 67,392 |
| 84.186 | Safe and Drug-Free Schools and Communities_State Grants (Note 14) | EDU | | | |
| 84.187 | Supported Employment Services for Individuals with the Most Significant Disabilities | DWI | 249,265 | | |
| 84.196 | Education for Homeless Children and Youth | EDU | 976,241 | | 935,944 |
| 84.206 | Javits Gifted and Talented Students Education | EDU | 267,034 | | 266,717 |
| 84.213 | Even Start_State Educational Agencies (Note 14) | EDU | | | |
| 84.215 | Fund for the Improvement of Education (Note 14) | KHS | | | |
| 84.224 | Assistive Technology (Note 14) | DWI | | | |
| 84.235 | Rehabilitation Services Demonstration and Training Programs | DWI | 840,052 | | 300,512 |
| 84.240 | Program of Protection and Advocacy of Individual Rights | PUBAD | 225,432 | | |
| 84.265 | Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training | DWI | | | |
| 84.287 | Twenty-First Century Community Learning Centers | EDU | 14,306,664 | | 14,256,713 |
| 84.298 | State Grants for Innovative Programs (Note 14) | EDU | | | |
| 84.318 | Educational Technology State Grants (Note 14) | EDU | | | |
| 84.323 | Special Education - State Personnel Development | EDU | 1,392,907 | | 1,386,776 |
| 84.326 | Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities | EDU | 150,210 | | 150,210 |
| 84.330 | Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants) | EDU | 495,762 | | |
| 84.343 | Assistive Technology_State Grants for Protection and Advocacy | PUBAD | 51,331 | | |
| 84.357 | Reading First State Grants (Note 14) | EDU | | | |
| 84.358 | Rural Education | EDU | 5,280,220 | | 5,232,143 |
| 84.365 | English Language Acquisition State Grants | EDU | 3,419,631 | | 3,276,534 |
| 84.366 | Mathematics and Science Partnerships | EDU | 2,059,234 | | 1,950,241 |
| 84.367 | Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) (Note 2) | EDU | 31,273,700 | | 30,572,427 |
| | | EPSB | 459,781 | | |
| 84.369 | Grants for State Assessments and Related Activities | EDU | 7,296,095 | | 1,476,898 |
| 84.372 | Statewide Longitudinal Data Systems | DWI | 1,227,953 | | |
| | | EDU | | | |
| 84.377 | School Improvement Grants | EDU | 4,885,646 | | 4,823,283 |
| 84.388 | ARRA-School Improvement Grants, Recovery Act (Note 13)(Note 14) | EDU | | | |
| 84.412 | Race to the Top - Early Learning Challenge | CHFS | 10,432,231 | | 1,615,243 |
| | | GOV | 1,995,911 | | |
| | | EDU | 1,404,137 | | 926,480 |
| 84.413 | Race to the Top | EDU | 916,623 | | 489,173 |
| 84.416 | Race to the Top - District Grants | DWI | 251,955 | | |
| Total U.S. Department of Education | | | \$ 557,571,127 | \$ | \$ 473,190,617 |

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------|-------------------|-----------|--------------------------|
| | | | Cash | Noncash | |
| U.S. National Archives and Records Administration | | | | | |
| Direct Programs: | | | | | |
| 89.003 | National Historical Publications and Records Grants | DLA | \$ 91,678 | \$ | \$ |
| | | KHS | 90,400 | | |
| Total U.S. National Archives and Records Administration | | | \$ 182,078 | \$ | \$ |
| U.S. Election Assistance Commission | | | | | |
| Direct Programs: | | | | | |
| 90.401 | Help America Vote Act Requirements Payments (Note 14) | KBE | \$ | \$ | \$ |
| Total U.S. Election Assistance Commission | | | \$ | \$ | \$ |
| U.S. Department of Health and Human Services | | | | | |
| Direct Programs: | | | | | |
| 93.041 | Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation | CHFS | \$ 62,157 | \$ | \$ 52,334 |
| 93.042 | Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals | CHFS | 134,292 | | 94,165 |
| 93.043 | Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services | CHFS | 245,727 | | 224,160 |
| Aging Cluster: | | | | | |
| 93.044 | Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers | CHFS | 5,143,366 | | 4,097,225 |
| 93.045 | Special Programs for the Aging, Title III, Part C, Nutrition Services | CHFS | 7,940,997 | | 6,995,939 |
| 93.053 | Nutrition Services Incentive Program | CHFS | 1,737,439 | | 1,688,961 |
| Total Aging Cluster: | | | 14,821,802 | | 12,782,125 |
| 93.048 | Special Programs for the Aging, Title IV, and Title II, Discretionary Projects | CHFS | 24,256 | | |
| 93.051 | Alzheimer's Disease Demonstration Grants to States (Note 14) | CHFS | | | |
| 93.052 | National Family Caregiver Support, Title III, Part E | CHFS | 1,926,602 | | 1,725,625 |
| 93.069 | Public Health Emergency Preparedness (Note 10) | CHFS | 8,625,135 | 339,507 | 4,975,918 |
| 93.070 | Environmental Public Health and Emergency Response | CHFS | 740,517 | | |
| 93.071 | Medicare Enrollment Assistance Program | CHFS | 577,676 | | 577,310 |
| 93.073 | Birth Defects and Developmental Disabilities-Prevention and Surveillance | CHFS | 158,983 | | |
| 93.074 | Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | CHFS | 706,999 | | 583,068 |
| 93.079 | Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance | EDU | 63,869 | | |
| 93.087 | Enhance Safety of Children Affected by Substance Abuse | CHFS | 356,935 | | 226,050 |
| 93.092 | Affordable Care Act (ACA) Personal Responsibility Education Program | CHFS | 612,812 | | 517,594 |
| 93.103 | Food and Drug Administration, Research | CHFS | 768,932 | | |
| 93.110 | Maternal and Child Health Federal Consolidated Programs | CHFS | 85,829 | | |
| 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | CHFS | 683,886 | | |
| 93.130 | Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices | CHFS | 202,146 | | |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs | CHFS | 447,202 | | 447,202 |
| | | DCJT | 6,294 | | |
| 93.138 | Protection and Advocacy for Individuals with Mental Illness | PUBAD | 360,506 | | |
| 93.150 | Projects for Assistance In Transition from Homelessness (PATH) | CHFS | 470,552 | | 462,243 |
| 93.184 | Disabilities Prevention | CHFS | 82,845 | | |
| 93.217 | Family Planning, Services | CHFS | 5,049,347 | | 4,553,923 |
| 93.235 | Affordable Care Act (ACA) Abstinence Education Program | CHFS | 868,536 | | 783,840 |
| 93.243 | Substance Abuse and Mental Health Service, Projects of Regional and National Significance (Note 7) | CHFS | 7,335,563 | | 4,500,412 |
| | | AOC | 1,766,539 | | |
| | | EDU | 1,344,327 | | 1,147,779 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------|------------|--------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Health and Human Services (Continued) | | | | | |
| Direct Programs (Continued): | | | | | |
| 93.251 | Universal Newborn Hearing Screening | CHFS | 245,292 | | |
| 93.267 | State Grants for Protection and Advocacy Services | PUBAD | 57,822 | | |
| 93.268 | Immunization Cooperative Agreements (Note 2) (Note 10) | CHFS | 4,571,178 | 51,096,359 | 96,018 |
| 93.270 | Viral Hepatitis Prevention and Control | CHFS | 127,246 | | |
| 93.283 | Centers for Disease Control and Prevention Investigations and Technical Assistance | CHFS | 4,427,551 | | 1,357,666 |
| 93.292 | National Public Health Improvement Initiative (Note 14) | CHFS | | | |
| 93.296 | State Partnership Grant Program to Improve Minority Health (Note 14) | CHFS | | | |
| 93.323 | Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) | CHFS | 664,877 | | |
| 93.324 | State Health Insurance Assistance Program | CHFS | 803,027 | | 538,251 |
| 93.325 | Paralysis Resource Center (Note 14) | DWI | | | |
| 93.369 | ACL Independent Living State Grants | DWI | 94,823 | | 51,152 |
| | | CHFS | 109,821 | | 100,202 |
| 93.464 | ACL Assistive Technology | DWI | 457,761 | | 349,499 |
| 93.504 | Family to Family Health Information Centers | CHFS | 107,981 | | |
| Maternal, Infant, and Early Childhood Home Visiting Cluster: | | | | | |
| 93.505 | Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | CHFS | 5,114,265 | | 514,448 |
| | Total Maternal, Infant, and Early Childhood Home Visiting Cluster: | | <u>5,114,265</u> | | <u>514,448</u> |
| 93.506 | ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers | CHFS | 755,087 | | |
| 93.511 | Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review | PPC | 218,296 | | |
| 93.521 | The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF | CHFS | 890,826 | | |
| 93.525 | State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges | CHFS | 2,360,726 | | |
| | | PPC | | | |
| 93.539 | PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds | CHFS | 294,976 | | 49,559 |
| 93.556 | Promoting Safe and Stable Families | CHFS | 4,114,728 | | 3,549,949 |
| TANF Cluster: | | | | | |
| 93.558 | Temporary Assistance for Needy Families (Note 2) | CHFS | 168,385,364 | | 22,735,446 |
| | Total TANF Cluster: | | <u>168,385,364</u> | | <u>22,735,446</u> |
| 93.563 | Child Support Enforcement (Note 2) | CHFS | 36,495,502 | | 23,496,959 |
| | | AOC | 91,447 | | |
| 93.564 | Child Support Enforcement Research (Note 14) | CHFS | | | |
| 93.568 | Low-Income Home Energy Assistance (Note 2) | CHFS | 42,918,903 | | 42,859,759 |
| 93.569 | Community Services Block Grant | CHFS | 10,285,964 | | 10,181,613 |
| CCDF Cluster: | | | | | |
| 93.575 | Child Care and Development Block Grant (Note 2) | CHFS | 56,749,342 | | 4,703,076 |
| 93.596 | Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2) | CHFS | 14,322,504 | | 343,827 |
| | Total CCDF Cluster: | | <u>71,071,846</u> | | <u>5,046,903</u> |
| 93.586 | State Court Improvement Program | AOC | 480,632 | | |
| 93.590 | Community-Based Child Abuse Prevention Grants | CHFS | 2,505,100 | | 2,280,650 |
| 93.597 | Grants to States for Access and Visitation Programs | CHFS | 17,753 | | 10,145 |
| 93.599 | Chafee Education and Training Vouchers Program (ETV) | CHFS | 578,271 | | |
| 93.600 | Head Start | GOV | 177,879 | | |
| | | EDU | | | |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------|---------|--------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Health and Human Services (Continued) | | | | | |
| Direct Programs (Continued): | | | | | |
| 93.603 | Adoption and Legal Guardianship Incentive Payments | CHFS | 1,141,864 | | 1,141,864 |
| 93.617 | Voting Access for Individuals with Disabilities-Grants To States (Note 7) | KBE | 27,499 | | |
| 93.618 | Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems | PUBAD | 63,369 | | |
| 93.624 | ACA-State Innovation Models: Funding for Model Design and Model Testing Assistance (Note 14) | CHFS | | | |
| 93.627 | Affordable Care Act: Testing Experience and Functional Assessment Tools | CHFS | 1,221,562 | | |
| 93.630 | Developmental Disabilities Basic Support and Advocacy Grants | CHFS | 1,193,908 | | |
| | | PUBAD | 574,253 | | |
| 93.643 | Children's Justice Grants to States | CHFS | 115,498 | | 5,352 |
| 93.644 | Adult Medicaid Quality: Improving Material and Infant Health Outcomes in Medicaid and CHIP | CHFS | 71,174 | | |
| 93.645 | Stephanie Tubbs Jones Child Welfare Services Program | CHFS | 4,243,661 | | |
| 93.658 | Foster Care-Title IV-E (Note 2) | CHFS | 42,412,094 | | 3,710,376 |
| | | JUV | 2,992,866 | | |
| | | AOC | 433,510 | | |
| 93.659 | Adoption Assistance (Note 2) | CHFS | 52,808,599 | | |
| 93.667 | Social Services Block Grant | CHFS | 15,371,770 | | 21,316 |
| | | JUV | 5,669,962 | | |
| 93.669 | Child Abuse and Neglect State Grants | CHFS | 388,990 | | 221,848 |
| 93.671 | Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services | CHFS | 1,470,365 | | 1,469,043 |
| 93.674 | Chafee Foster Care Independence Program | CHFS | 1,717,341 | | 1,439,098 |
| 93.708 | ARRA-Head Start (Note 13) (Note 14) | EDUC | | | |
| 93.733 | Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF) | CHFS | 323,498 | | |
| 93.734 | Empowering Older Adults and Adults with Disabilities through Chronic Diseases Self-Management Education Programs-financed by Prevention and Public Health Funds (PPHF) | CHFS | 48,376 | | 24,174 |
| 93.735 | State Public Health Approaches for Ensuring Quitline Capacity-Funded in part by Prevention and Public Health Funds (PPHF) | CHFS | 155,974 | | |
| 93.753 | Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program | CHFS | 294,441 | | 188,656 |
| 93.757 | State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF) | CHFS | 1,417,432 | | 153,437 |
| 93.767 | Children's Health Insurance Program (Note 2) | CHFS | 239,827,059 | | |
| Medicaid Cluster: | | | | | |
| 93.775 | State Medicaid Fraud Control Units (Note 2) | OAG | 2,578,653 | | |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2) | CHFS | 9,234,216 | | |
| 93.778 | Medical Assistance Program (Note 2) | CHFS | 7,811,355,164 | | |
| 93.778 | ARRA-Medical Assistance Program (Note 2)(Note 13) | CHFS | 43,231,867 | | |
| Total Medicaid Cluster: | | | 7,866,399,900 | | |
| 93.779 | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | CHFS | 513,273 | | |
| 93.788 | Opioid STR | CHFS | 1,304 | | |
| 93.791 | Money Follows the Person Rebalancing Demonstration | CHFS | 1,047,845 | | |
| 93.800 | Organized Approaches to Increase Colorectal Cancer Screening | CHFS | 430,807 | | 9,203 |
| 93.815 | Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC). | CHFS | 638,267 | | |

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

| CFDA | Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------------------|----------------------|--------------------------|
| | | | Cash | Noncash | |
| <u>U.S. Department of Health and Human Services (Continued)</u> | | | | | |
| Direct Programs (Continued): | | | | | |
| 93.817 | Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities | CHFS | 403,082 | | 399,748 |
| 93.829 | Section 223 Demonstration Programs to Improve Community Mental Health Services | CHFS | 538,357 | | 82,700 |
| 93.881 | The Health Insurance Enforcement and Consumer Protections Grant Program | PPC | 69,243 | | |
| 93.889 | National Bioterrorism Hospital Preparedness Program | CHFS | 2,709,882 | | 1,382,284 |
| | | MIL | 116,026 | | 4,929 |
| | | DWI | 31,414 | | 28,699 |
| 93.917 | HIV Care Formula Grants | CHFS | 9,277,880 | | 3,663,983 |
| 93.938 | Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (Note 14) | EDU | | | |
| | | CHFS | | | |
| 93.940 | HIV Prevention Activities_Health Department Based | CHFS | 1,000,298 | | 272,576 |
| 93.944 | Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | CHFS | 309,553 | | 112,423 |
| 93.945 | Assistance Programs for Chronic Disease Prevention and Control | CHFS | 1,277,340 | | 126,583 |
| | | EDU | 218,127 | | 25,184 |
| 93.946 | Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs | CHFS | 219,886 | | |
| 93.958 | Block Grants for Community Mental Health Services | CHFS | 6,222,637 | | 5,126,413 |
| | | DWI | 91,384 | | 91,384 |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | CHFS | 19,667,352 | | 18,143,717 |
| | | KSP | | | |
| 93.977 | Sexually Transmitted Diseases (STD) Prevention and Control Grants (Note 10) | CHFS | 1,064,258 | 393,023 | 108,985 |
| 93.991 | Preventive Health and Health Services Block Grant | CHFS | 1,971,032 | | 220,585 |
| 93.994 | Maternal and Child Health Services Block Grant to the States | CHFS | 10,573,855 | | 816,099 |
| 93.U01 | Other Federal Assistance (Note 1)(Note 15) | CHFS | 321,984 | | |
| | | KSP | 26,388 | | |
| 93.U02 | Medicare Nursing Home Care (Note 1)(Note 15) | VA | 2,003,230 | | |
| Total U.S. Department of Health and Human Services | | | \$ 8,708,084,879 | \$ 51,828,889 | \$ 185,862,626 |
| <u>U.S. Corporation for National and Community Service</u> | | | | | |
| Direct Programs: | | | | | |
| 94.003 | State Commissions | CHFS | \$ 219,870 | \$ | \$ |
| 94.004 | Learn and Serve America_School and Community Based Programs (Note 14) | EDU | | | |
| 94.006 | AmeriCorps | CHFS | 4,839,346 | | 4,839,346 |
| 94.009 | Training and Technical Assistance | CHFS | 91,707 | | |
| Foster Grandparent/Senior Companion Cluster: | | | | | |
| 94.011 | Foster Grandparent Program | CHFS | 91,073 | | |
| Total Foster Grandparent/Senior Companion Cluster: | | | 91,073 | | |
| Total U.S. Corporation for National and Community Service | | | \$ 5,241,996 | \$ | \$ 4,839,346 |
| <u>U.S. Office of National Drug Control Policy</u> | | | | | |
| Direct Program: | | | | | |
| 95.001 | High Intensity Drug Trafficking Areas Program | KSP | \$ 1,070,631 | \$ | \$ |
| | | OAG | 86,532 | | |
| Total U.S. Office of National Drug Control Policy | | | \$ 1,157,163 | \$ | \$ |

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

| CFDA Program Title | State Agency | Expenditures | | Provided to Subrecipient |
|----------------------------------------------------------------------------------------------|--------------|--------------------------|-------------------------|--------------------------|
| | | Cash | Noncash | |
| U.S. Social Security Administration | | | | |
| Direct Programs: | | | | |
| Disability Insurance/SSI Cluster: | | | | |
| 96.001 Social Security_Disability Insurance (Note 2) | CHFS | \$ 47,296,387 | \$ | \$ |
| | OAG | 371,501 | | |
| Total Disability Insurance/SSI Cluster: | | <u>47,667,888</u> | | |
| 96.009 Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries | PUBAD | 106,244 | | |
| Total U.S. Social Security Administration | | <u>\$ 47,774,132</u> | <u>\$</u> | <u>\$</u> |
| U. S. Department of Homeland Security | | | | |
| Direct Programs: | | | | |
| 97.012 Boating Safety Financial Assistance | F&W | \$ 1,550,025 | \$ | \$ |
| 97.023 Community Assistance Program State Support Services Element (CAP-SSSE) | EEC | 201,417 | | |
| 97.029 Flood Mitigation Assistance | MIL | 3,056,906 | | 3,056,906 |
| 97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters) | TC | 5,971,586 | | |
| | MIL | 12,915,601 | | 9,573,729 |
| | PARKS | 53,609 | | |
| | KSP | | | |
| 97.039 Hazard Mitigation Grant | MIL | 7,849,028 | | 7,395,560 |
| 97.040 Chemical Stockpile Emergency Preparedness Program | MIL | 10,893,617 | | 8,786,803 |
| 97.041 National Dam Safety Program | EEC | 114,673 | | |
| 97.042 Emergency Management Performance Grants | MIL | 5,704,055 | | 3,068,595 |
| | EEC | 21,980 | | |
| 97.045 Cooperating Technical Partners | EEC | 2,510,353 | | |
| 97.047 Pre-Disaster Mitigation | MIL | 1,359,601 | | 1,359,601 |
| 97.056 Port Security Grant Program (Note 14) | KSP | | | |
| | F&W | | | |
| 97.067 Homeland Security Grant Program | KOHS | 4,347,725 | | 3,483,013 |
| 97.089 Driver's License Security Grant Program (Note 14) | TC | | | |
| 97.107 National Incident Management System (NIMS) (Note 14) | MIL | | | |
| 97.110 Severe Repetitive Loss Program | MIL | 8,475 | | 8,475 |
| Total U.S. Department of Homeland Security | | <u>\$ 56,558,651</u> | <u>\$</u> | <u>\$ 36,732,682</u> |
| Other Federal Assistance | | | | |
| Direct Programs: | | | | |
| 99.U01 Tennessee Valley Authority (Note 1) (Note 14) | F&W | \$ | \$ | \$ |
| Total Other Federal Assistance | | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Total All State Agencies | | <u>\$ 11,384,941,281</u> | <u>\$ 1,044,532,259</u> | <u>\$ 1,260,583,969</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 – Basis of Presentation and Significant Accounting Policies

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule includes the federal award activity of the Commonwealth, except those programs administered by state universities and other discretely presented component units, for the year ended June 30, 2017. Because the Schedule presents only a selected portion of the operations of the Commonwealth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commonwealth.

Significant Accounting Policies – Expenditures reported on the Schedule are presented on the modified cash basis of accounting as modified by the application of Kentucky Revised Statute (KRS) 45.229.

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

All federal award expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Commonwealth has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary, and fiduciary fund financial statements.

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2017. The noncash expenditures presented on the Schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

Clusters of programs are indicated on the Schedule by light gray shading.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Programs that do not have CFDA numbers are identified using the two-digit federal identifier prefix, the letter “U” for Unknown, and a preassigned two-digit number. Additional identifying factors used by the Commonwealth are described in Note 15.

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

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

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

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

Note 2 – Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$30,000,000 for FY 2017. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 2017, some of which were administered by more than one state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

| CFDA | Program Title | Expenditures |
|----------------------------------------------------------|----------------------------------------------------------------------------------------|---------------------|
| Supplemental Nutrition Assistance Program Cluster | | |
| 10.551 | Supplemental Nutrition Assistance Program | \$ 952,340,129 |
| 10.561 | State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 63,277,809 |

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

Note 2 - Type A Programs (Continued)

| CFDA | Program Title | Expenditures |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------|
| Child Nutrition Cluster | | |
| 10.553 | School Breakfast Program | 94,477,494 |
| 10.555 | National School Lunch Program | 262,762,132 |
| 10.556 | Special Milk Program for Children | 22,137 |
| 10.559 | Summer Food Service Program for Children | 8,551,659 |
| 10.557 | WIC Special Supplemental Nutrition Program for Women, Infants, and Children | 107,348,504 |
| 10.558 | Child and Adult Care Food Program | 42,609,305 |
| 17.225 | Unemployment Insurance | 350,640,572 |
| WIOA Cluster | | |
| 17.258 | WIOA Adult Program | 12,846,887 |
| 17.259 | WIOA Youth Activities | 12,369,113 |
| 17.278 | WIA/WIOA Dislocated Worker Formula Grants | 11,589,703 |
| Highway Planning and Construction Cluster | | |
| 20.205 | Highway Planning and Construction | 791,049,309 |
| 20.219 | Recreational Trails Program | 1,085,991 |
| 84.010 | Title I Grants to Local Educational Agencies | 219,084,641 |
| Special Education Cluster (IDEA) | | |
| 84.027 | Special Education Grants to States | 162,152,593 |
| 84.173 | Special Education Preschool Grants | 9,607,507 |
| 84.126 | Rehabilitation Services Vocational Rehabilitation Grants to States | 45,382,524 |
| 84.367 | Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) | 31,273,700 |
| 93.268 | Immunization Cooperative Agreements | 55,667,537 |

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

Note 2 - Type A Programs (Continued)

| CFDA | Program Title | Expenditures |
|------------------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------|
| Temporary Assistance for Needy Families Cluster | | |
| 93.558 | Temporary Assistance for Needy Families | 168,385,364 |
| 93.563 | Child Support Enforcement | 36,586,949 |
| 93.568 | Low-Income Home Energy Assistance | 42,918,903 |
| CCDF Cluster | | |
| 93.575 | Child Care and Development Block Grant | 56,749,342 |
| 93.596 | Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 14,322,504 |
| 93.658 | Foster Care Title IV-E | 45,838,470 |
| 93.659 | Adoption Assistance | 52,808,599 |
| 93.767 | Children's Health Insurance Program | 239,827,059 |
| Medicaid Cluster | | |
| 93.775 | State Medicaid Fraud Control Units | 2,578,653 |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare | 9,234,216 |
| 93.778 | Medical Assistance Program | 7,811,355,164 |
| 93.778 | ARRA-Medical Assistance Program | 43,231,867 |
| Disability Insurance/Supplemental Security Income Cluster | | |
| 96.001 | Social Security Disability Insurance | 47,667,888 |
| Total Type A Programs | | \$ 11,805,644,224 |

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

Note 3 – Federally Assisted Loan Program (CFDA 10.U01)

The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U.S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments administered by the Finance and Administration Cabinet Office of Financial Management. The Department of Agriculture is no longer in the business of making student loans and reassigned all loans in payment compliance to the Kentucky Higher Education Assistance Authority (KHEAA). The Department of Agriculture retained only those loans that had a delinquent payment history. This program is currently in phase-out status, with authorization from the U.S. Department of Agriculture (USDA) to eliminate the principal through issuance of specific grants and scholarships.

All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2017, outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY 2017.

Note 4 – Unemployment Insurance (CFDA 17.225)

The Commonwealth paid out \$319,743,698 in benefits in FY 2017. The amounts shown on the accompanying Schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$30,897,521 of federal funds expended for administration of the program, resulting in a combined total of \$350,641,219 in federal expenditures. Included in this amount is \$647 in benefit payments funded by the American Recovery and Reinvestment Act (ARRA).

Note 5 – Highway Planning and Construction (CFDA 20.205)

The information reported for the Highway Planning and Construction program represents the activity of all open projects during FY 2017. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the Schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration

Expenditures for the Highway Planning and Construction program were shown net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$6,347,067 for FY 2017.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

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

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

Note 7 – Research and Development Expenditures

Title 2 U.S. Code of Federal Regulations Part 200.87 states, “Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity.”

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

| CFDA | Program Title | State Agency | Expenditures |
|----------------------------------------------------|-------------------------------------------------------------------------------------------|---------------------|---------------------|
| 15.605 | Sport Fish Restoration | F&W | \$ 591,342 |
| 15.615 | Cooperative Endangered Species Conservation Fund | F&W | 46,342 |
| 15.634 | State Wildlife Grants | F&W | 610,435 |
| 16.585 | Drug Court Discretionary Grant Program | AOC | 140,080 |
| 16.745 | Criminal and Juvenile Justice and Mental Health Collaboration Program | AOC | 6,476 |
| 39.011 | Election Reform Payments | KBE | 348,045 |
| 93.243 | Substance Abuse and Mental Health Services Projects of Regional and National Significance | AOC | 420,009 |
| 93.617 | Voting Access for Individuals with Disabilities Grants to States | KBE | 27,499 |
| Total Research and Development Expenditures | | | \$ 2,190,228 |

**COMMONWEALTH OF KENTUCKY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2017
 (Continued)**

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

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

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

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

| | |
|-------------------------|---------------------|
| Barren River | Birdsville Island |
| Green River | Lake Cumberland |
| Dewey Lake | Paintsville Lake |
| Fishtrap Lake | Sloughs-Grassy Pond |
| Barlow Bottoms-Olmstead | Taylorsville Lake |

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

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

Note 10 – Noncash Expenditure Programs

The Commonwealth's noncash programs and a description of the method/basis of valuation for FY 2017 are as follows:

| CFDA | Program Title | Amount | Method/Basis of Valuation |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------------------------------------------------------------|
| 10.551 | Supplemental Nutrition Assistance Program | \$ 952,340,129 | EBT Issuance |
| 10.555 | National School Lunch Program | 27,087,120 | Commodities issued for FY17 per WBSCM report |
| 10.565 | Commodity Supplemental Food Program | 5,229,302 | Commodities issued for FY17 per WBSCM report |
| 10.569 | Emergency Food Assistance Program (Food Commodities) | 7,550,499 | Commodities issued for FY17 per WBSCM report |
| 12.700 | Donations/Loans of Obsolete DOD Property | 110,524 | Acquisition Cost determined by the Department of Defense |
| 39.003 | Donation of Federal Surplus Personal Property | 132,475 | 22.47% of federal acquisition cost (\$589,565) |
| 66.034 | Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act | 106,453 | Environmental Protection Agency contracts with Eastern Research Group for sample analysis |
| 66.605 | Performance Partnership Grants | 146,868 | In-kind services valued by the donor, the U.S. Environmental Protection Agency |
| 93.069 | Public Health Emergency Preparedness | 339,507 | Grant Award Document |
| 93.268 | Immunization Cooperative Agreements | 51,096,359 | CDC Report |
| 93.977 | Sexually Transmitted Diseases (STD) Prevention and Control Grants | 393,023 | Grant Award Document |
| Total Noncash Expenditures | | \$ 1,044,532,259 | |

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

Note 11 – Activity Occurring in Programs with Inventoriable Items

The Department of Agriculture operates a statewide Commodity Supplemental Food Program (CFDA 10.565). The dollar value of the inventory, based on the USDA Commodity File, dated June 2017 is as follows:

| | Commodity Supplemental Food Program CFDA 10.565 |
|---------------------------------------------------|----------------------------------------------------------------|
| Beginning Inventory, July 1, 2016 | \$ 1,975,531 |
| Price Adjustment | (2,257) |
| Adjusted Inventory, July 1, 2016 | <u>1,973,274</u> |
| Received Commodities | 4,878,197 |
| Issued to Recipients | (5,229,302) |
| Net Value of Inventory Adjustments, June 30, 2017 | (33,888) |
| Ending Inventory, June 30, 2017 | <u>\$ 1,588,281</u> |

Note 12 - Election Reform Payments (CFDA 39.011)

Interest earned must be used for additional program expenditures.

Note 13 - Pertaining to ARRA

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

Note 14 - Zero Expenditure Programs

These programs had no expenditures related to the respective state organization during FY 2017. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. For CFDA numbers with multiple state agencies listed, the Schedule is presented in descending expenditure amount order.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

Note 15 – Unknown CFDA Number

When a federal program has been awarded to the Commonwealth with an unknown CFDA number, the items discussed in Note 1 - *Significant Accounting Policies* are used to prepare the Schedule. The Commonwealth also uses other identifiers such as the major program, program, and function codes as established through grant accounting. A list of all unknown CFDA numbers and other identifying factors having expenditures during FY 2017 are listed below:

| CFDA | Program Title | Agency | Award Identifier | Expenditures |
|-------------|---------------------------------------------------------------------------------------------------------------------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| 10.U02 | HWA Participating Agreement with Daniel Boone National Forest | EEC | 11-PA-11080224-027 | \$ 60 |
| 12.U01 | Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities | EEC | ACWPRG-04-BBB0 | 1,073,764 |
| 12.U02 | Teacher and Teacher's Aide Placement Assistance Program | EPSB | 51799-5179900-EPBE | 34,090 |
| 15.U01 | Clark River NWR Fish Survey | F&W | FWS1- CLRKRVRSRV | 2,256 |
| 15.U02 | Ohio River Survey | F&W | FWS3-OHRVRWK | 19,811 |
| 16.U01 | Drug Enforcement Administration | KSP | DEA-FAMJ16MJ; DEA-FAMJ17MJ OCDETF-CHOKE16; OCDETF-MJTF1710; OCDETF-MJTF1708; OCDETF-LTDTF17; OCDETF-LTDTF16; OCDETF-MJTF1707; OCDETF-MTJF1608; OCDETF-MJTF1610; OCDETF-MJTF16BG; OCDETF-CHOKE17; OCDETF-MFBAND17; OCDETF- LBHERO17; OCDETF-MUCHOD17 | 1,863,237 |
| 16.U02 | Federal Bureau of Investigation | KSP | OCDETF-JTTF17LT; OCDETF-JTTF16LT; OCDETF-KCETF16CT; OCDETF- KCETF17CT; OCDETF-HVCDTF17 | 43,696 |
| 16.U03 | Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program | KSP | ATF-ATF16AT | 46,839 |
| 16.U04 | District Fugitive Task Force | KSP | OCDETF-TSKFRCE16 | 2,941 |
| 16.U05 | Equitable Sharing- Asset Forfeiture | KSP | KY-KSP-0000 | 1,539,110 |
| 21.U02 | Equitable Sharing- Asset Forfeiture | KSP | DAF1 | 93,940 |
| 21.U03 | State Small Business Credit Initiative | CED | GEXP-6-11SB200Z- GEXP | 396,212 |
| 93.U01 | Other Federal Assistance | CHFS | 05-1605-KY-5002 | 321,984 |
| 93.U01 | Other Federal Assistance | KSP | FDA-FDA16; FDA-FDA17 | 26,388 |
| 93.U02 | Medicare Nursing Home Care | VA | KY-074-1324-DA00- R604 | 2,003,230 |

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the Fiscal Year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 13, 2017. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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



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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be material weaknesses: 2017-001 and 2017-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in the accompanying schedule of financial statement findings, to be significant deficiencies: 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, 2017-009, 2017-010, 2017-011, 2017-012, 2017-013, 2017-014, 2017-015, 2017-016, 2017-017, 2017-018, 2017-019, 2017-020, 2017-021, 2017-022, 2017-023, 2017-024, 2017-025, 2017-026, and 2017-027.

Compliance and Other Matters

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

Management's Responses to Findings

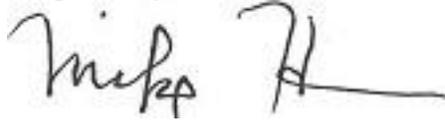
Management's responses to the findings identified in our audit are described in the accompanying schedule of financial statement findings. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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

Purpose of this Report

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

Respectfully Submitted,

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

Mike Harmon
Auditor of Public Accounts

December 13, 2017

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-001: The Finance And Administration Cabinet Failed To Detect And Prevent Errors In The Compilation Of The Commonwealth's Comprehensive Annual Financial Report

The Finance and Administration Cabinet (FAC) relies on data submitted by various government agencies and other entities that make up the Commonwealth's financial reporting entity to compile the Commonwealth's Comprehensive Annual Financial Report (CAFR). This data is essential to ensure the CAFR is prepared in accordance with generally accepted accounting principles. During the fiscal year 2017 audit of the Commonwealth's CAFR, the following issues were noted:

- FAC posted a journal entry that incorrectly increased Accounts Receivable by \$1.4 billion, increased Allowance for Uncollectible Accounts by \$232 million, and increased Revenue by \$1.2 billion in the Special Deposit Trust Fund.
- \$65 million of revenues in the Other Special Revenue Fund recorded in fiscal year 2018 were moved to fiscal year 2017 without adequate supporting documentation.
- A journal entry was not posted, causing expenditures in the General Fund to be understated by \$59 million.
- Various government agencies and entities are not submitting financial information to FAC by the prescribed due dates.

FAC financial reporting policies and procedures are not sufficiently detailed to prevent these errors, and FAC's review process did not detect these errors prior to posting. Turnover in financial positions across state government along with habitual disregard for the deadlines established by FAC has led to FAC not receiving financial information timely.

The CAFR could be materially misstated if all necessary journal entries are not posted. Material errors, either individually or in the aggregate, present in posted journal entries and not detected by internal review could also lead to material misstatements. Once brought to FAC's attention, the journal entry errors were corrected.

Agencies' failure to adhere to deadlines established by FAC limits the time available for assessment and review prior to compiling the CAFR.

Sound internal controls dictate adequate policies and procedures should be implemented to ensure the integrity of the financial reporting process. This includes ensuring all necessary journal entries are complete and correct, and all information is received from the various government agencies and other entities to facilitate the accurate compilation of the CAFR.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-001: The Finance And Administration Cabinet Failed To Detect And Prevent Errors In The Compilation Of The Commonwealth's Comprehensive Annual Financial Report (Continued)

Recommendation

We recommend FAC:

- Implement quality control procedures to determine when a journal entry has been omitted.
- Refine the review process to verify not only that all necessary journal entries have posted, but that amounts, classifications, and fund assignments within those journal entries are correct.
- Review the financial reporting manual and update with more detailed instructions related to the financial reporting process.
- Enforce deadlines related to agency submissions of necessary financial information used in the compilation of the CAFR.

Management's Response and Planned Corrective Action

The CAFR team will include more detail in the work plan for specific items needed to complete the CAFR tasks. A detailed list of required JV's will be compiled and completed before statements are prepared. The CAFR team plans to work more closely with the agencies that are late on meeting the deadlines set by FAC. This will ensure the CAFR team has adequate time to review and enter the necessary information. The CAFR team will update the training manual to add more detail for specific tasks related to the financial reporting process.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2017-002: The Kentucky Horse Park Failed To Implement Adequate Internal Controls Over Financial Reporting Of Fixed Assets And Capital Leases

The Kentucky Horse Park (KHP) failed to implement adequate internal controls over the tracking, classification, and reporting of its fixed assets and capital leases. During fiscal year 2017, a review of KHP's fixed asset database, in-kind contributions, capital lease spreadsheet, and related journal entries revealed the following deficiencies:

- A journal entry was prepared to record the addition of capital asset improvements in the amount of \$5,534,392. The journal entry credited an expense account which improperly reported a negative expense line item on the KHP financial statements. The improvement addition was not paid for by KHP and should have been reported as contributed capital.
- KHP's fixed asset database identified a June 30, 2017 construction in progress balance of \$2,340,845 related to a capital energy lease with an acquisition date of June 30, 2012. The construction in progress was never reclassified to the appropriate asset category upon completion of the project.
- In-kind donations from the Kentucky Horse Park Foundation (Foundation) were expensed in the amount of \$352,803 by KHP. Documentation from the Foundation identified that \$241,931 of this amount consisted of leasehold improvements as part of a building renovation. The leasehold improvements were not properly classified as an asset for financial reporting.

KHP failed to implement adequate internal controls to ensure all capital assets were properly recorded and classified. Additionally, the capital energy lease pre-dated current management, and supporting documentation was not readily available to support reported asset values and any prior determinations made. Although activity and decisions made originated in previous reporting periods, management is still ultimately responsible for complete and accurate financial reporting in the current fiscal year. Failure to track, report, and classify capital assets properly resulted in material audit adjustments which increased buildings and other improvements by \$2,582,776; increased contributed capital by \$5,534,392; reduced construction in progress by \$2,340,845; and increased expenses by a net amount of \$5,292,461.

Sound internal controls dictate capital assets be properly tracked and accounted for to ensure complete and accurate financial reporting. Guidance on the recording, reporting, and depreciating of capital assets is discussed in Governmental Accounting Standards Board (GASB) Statement 34, as amended, as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations. Additionally, KHP follows the fixed asset policy as established by the Commonwealth, which records capital assets at historical cost or at the estimated fair value for donated property at the time the contribution is made. Following the Commonwealth's policy, capital assets for construction in progress are recognized at June 30 when the project is 90 percent complete and in service.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2017-002: The Kentucky Horse Park Failed To Implement Adequate Internal Controls Over Financial Reporting Of Fixed Assets And Capital Leases (Continued)**

Recommendation

We recommend KHP strengthen policies, procedures, and internal controls over the tracking and recording of construction in progress, donations, and contributed capital to ensure capital assets are recognized and properly reported in accordance with accounting requirements and established policy. KHP should also consult with the Finance and Administration Cabinet (FAC) as deemed necessary to strengthen its understanding of the financial reporting process and to ensure the proper treatment, including the depreciation of these assets, moving forward.

Management's Response and Planned Corrective Action

KHP will strengthen policies, procedures, and internal controls over the tracking and recording of CIP and donations to ensure capital assets are recognized properly. KHP will continue to follow the Commonwealth's policy and procedures regarding capital assets. Management has already identified an employee of the park who handles all assets on the park and this includes documenting all improvements and donations into EMARS. Management will consult with FAC as necessary should any questions arise regarding the treatment of capital assets going forward.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-003: The Cabinet For Health And Family Services Did Not Accurately Report Accounts Payable In The Closing Package For The Department Of Medicaid Services**

As part of the Cabinet for Family and Health Services (CHFS) audit for fiscal year (FY) 2017, tests were performed to confirm the completeness and accuracy of accounts payable reported in the closing package that was submitted to the Finance and Administration Cabinet (FAC). The closing package is completed each year and submitted to the FAC reporting team for the purpose of supplying agency financial information used in the preparation of the Commonwealth's Comprehensive Annual Financial Report (CAFR) in compliance with Generally Accepted Accounting Principles (GAAP).

CHFS did not implement adequate internal controls over the preparation and review of its closing package as submitted to FAC. The Department for Medicaid Services (DMS) did not accurately reflect the correct fund balances for accounts payable on the FAC Closing Package AFR-70 form nor did it agree to the supporting documentation provided by CHFS.

In addition, DMS creates an estimated accounts payable for Medicaid Service Benefits by multiplying an average percentage of prior period claims by the fiscal year total Medicaid Service Benefits expenditures. The total expenditures for DMS failed to correctly include \$37,019,940 in expenditures for Medicaid Benefits which resulted in an understatement of accounts payable.

During the closeout period, a journal voucher (JV) was processed to move expenses from FY 2018 back to FY 2017, which caused a negative balance in the Agency Revenue Fund for accounts payable.

CHFS failed to correctly include all applicable expenditures for Medicaid Service Benefits in the total expenditure amount for the DMS Medicaid benefits estimate. Rapid turnover at CHFS from retirements along with newer inexperienced employees having to complete the complex closing package led to an oversight in total expenditures.

The FAC Closing Package AFR-70 did not accurately reflect the correct fund balances for accounts payable when compared to support provided by CHFS.

The fiscal year 2017 expenditures for Medicaid Services Benefits were understated by \$37,019,940, which caused the estimated outstanding accounts payable to be understated by \$4,006,541 for the Federal Fund and \$1,679,722 for the General Fund, which is a grand total of \$5,686,263 in understatement.

Good internal controls over the closing package forms and year-end reporting activities dictate that adequate review procedures be created and followed to ensure that the closing package submitted to FAC contains reliable, verifiable, and accurate data.

Good internal control also dictates that CHFS management follow the established processes for calculating accounts payable estimates. The processes should identify all factors that impact the estimate.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-003: The Cabinet For Health And Family Services Did Not Accurately Report Accounts Payable In The Closing Package For The Department Of Medicaid Services (Continued)

Recommendation

We recommend CHFS update operating procedures to identify what amounts should be reported as accounts payable, so staff are capable of reporting accurate financial information.

We also recommend CHFS review with staff the process for creating an estimate, specifically providing training for new employees who are creating estimates for accounts payable.

Management's Response and Planned Corrective Action

Department for Medicaid Services

The Department for Medicaid Services acknowledges that the calculation of the estimated accounts payables was underestimated due to the reduction of more items than the Medicare Part A and Part B premiums. This resulted in a lower estimate of accounts payables being reported of approximately \$5 million or approximately 1%, which is considered to be immaterial. In the future, a more thorough review will be applied to the process in place that is used to calculate the estimated accounts payable, and further training will be provided for all employees involved in the process.

Division of General Accounting

AFR 70 form for 1392 fund in Department 748. Negative numbers are not allowed on AFR forms, therefore, the Division of General Accounting did a manual correcting entry of the DGA Payable Report to fix this form moving \$12.3M from 1392 fund to 0100 fund. The Division of General Accounting (DGA) and the Auditor of Public Accounts (APA) had a meeting and both sides agreed the funds on the AFR 70 were reported correctly. In addition, DGA requested this portion of the finding to be removed.

In addition, APA pointed out a posting discrepancy for a Manual Disbursement (MD) document during the closing period related to this issue between 1392 and 0100 funds. In the future, Grants staff will work with Payables staff to ensure that the funding split is changed before the PRC and MD documents are created. Detailed Closing Package procedures are being developed and will ensure the funding splits for MD documents are consistent on the debit and credit side.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-003: The Cabinet For Health And Family Services Did Not Accurately Report Accounts Payable In The Closing Package For The Department Of Medicaid Services (Continued)

Auditor's Reply

Although the APA agreed with CHFS that reporting a negative amount on the AFR 70 is not appropriate, this still does not negate the fact that the amount reported by CHFS was not accurate.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-004: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards

The fiscal year (FY) 2017 audit revealed the Cabinet for Health and Family Services (CHFS) has not complied with the Commonwealth Office of Technology's (COT) CIO-082 Critical Systems Vulnerability Assessments policy, which requires a third party entity to perform vulnerability assessments of agency critical systems at implementation and every two years thereafter. Although CHFS has identified 31 critical systems, only three of these systems, or approximately 9.68 percent, have been assessed by a third party in accordance with CIO-082. Similar issues were noted in the prior audit, although improvements have been made during FY 2017.

In addition to CIO-082, CHFS has created two internal policies and one procedural document to govern vulnerability assessments. However, one of these policies and the procedural document need to be updated. Specifically, the 020.205 Information Technology (IT) Systems Technical Assessments Policy states vulnerability assessments may be performed internally or externally, but does not clarify that in order to comply with the CIO-082 requirements, an external assessment is required upon implementation and every two years thereafter. Furthermore, the CHFS Plan of Action and Milestone (POA&M) procedure document explains the process to be followed for documenting, tracking, and remediating vulnerabilities discovered during an assessment of the Integrated Eligibility and Enrollment System (IEES); however, there is no procedure document to govern this process for any of CHFS' other systems.

The Office of Administrative and Technology Services Information Systems (OATS IS) team has been tasked with ensuring penetration test assessments are completed, regardless of criticality, and the results of the assessments are addressed as necessary. Applications to be assessed may be randomly chosen, or may be by business owner request. Remediation will be performed by individuals or groups within the COT Risk and Compliance Management Branch and/or CHFS technology teams. Findings resulting from the penetration tests are labeled with a risk level of High, Moderate, Low, or Informational and are documented on a detailed report and subsequent POA&M. The POA&M is used to document, track, and follow-up on remediation efforts of the noted vulnerabilities.

Auditors reviewed internal assessments and the associated POA&Ms conducted on four of CHFS' critical systems during FY 2017. The following exceptions were noted:

- The vulnerabilities identified with a risk level of High during the assessment of The Worker's Information System (TWIST) were remediated; however, the remaining issues were still outstanding nearly nine months after their scheduled completion date according to the POA&M. In addition, although the Comments field of the POA&M indicates there may be delays in the remediation process, there are no dates to indicate when these concerns were identified and no notations that they have been followed-up on since discovery.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-004: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards (Continued)

- Auditors reviewed documentation related to an assessment of the Master Client Index (MCI) two months after it was performed and one of the Kentucky State Level Repository for the Electronic Health Record Incentive Program (KYSLR/EHR-IP) assessments five months after it was performed. At the time of the auditors' review, the fields of the POA&Ms regarding remediation efforts, including responsible parties and scheduled completion dates, were still not completed.
- As of July 21, 2017, the Level of Effort, Remediation Status, and Actual Completion Date fields of POA&Ms relating to IEES and KYSLR/EHR-IP were not completed. The vulnerabilities identified with a risk level of High related to KYSLR/EHR-IP were scheduled to be remediated by March 6, 2017 and those related to IEES had a scheduled completion date of May 5, 2017. The Comments section of the POA&Ms were not updated to include any reason for the delay.
- One POA&M reviewed by the auditors does not appear to relate to the assessment for which CHFS provided it. Specifically, the address of the reviewed device, dates, and findings on the POA&M do not match the address of the reviewed device, dates, and findings included in the assessment report.
- While onsite, auditors determined the risk matrix used by CHFS was not followed in determining the level of risk related to two vulnerabilities during the MCI assessment. In both instances, the vulnerability was determined to be of Low risk, but should have been labeled Moderate risk. It should be noted CHFS stated this matrix is no longer used.

CHFS did not comply with the requirements of the CIO-082 policy in regards to the timing of vulnerability assessments. In addition, CHFS management did not ensure all internal policies and procedures governing internal and external vulnerability assessments were complete and reflected the requirements established in the CIO-082 policy. Furthermore, management did not ensure the findings of internal penetration tests were appropriately documented and addressed timely.

The absence of a strong vulnerability assessment program increases the likelihood that security vulnerabilities exist undetected on agency computer systems or are identified but not addressed timely. This increases the risk that an intruder could exploit security vulnerabilities to compromise computer resources.

Regular vulnerability assessments for critical systems are integral to ensuring the security over agency resources is functioning as intended. Vulnerability assessments provide a proactive means of identifying and addressing real or potential security flaws, thereby reducing the risk of an intruder exploiting these flaws.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-004: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards (Continued)**

According to COT enterprise policy CIO-082 Critical Systems Vulnerability Assessments,

Agencies will be responsible for identifying critical infrastructure including servers and applications based on the nature of the data and system's business function or mission. Each agency shall engage a third party for assisting with an assessment of all critical systems both upon initial implementation into production use and every two (2) years thereafter.

According to the CHFS internal policy 020.205 IT Systems Technical Assessments Policy,

CHFS complies with and adheres to the [COT] Policy #CIO-082...CHFS [OATS] works collaboratively with program areas to determine the level of sensitivity for its data. For those systems deemed critical by the program areas because of confidential data, it is the policy of this Cabinet to conduct vulnerability assessments in accordance with COT Policy CIO-082. The Cabinet also follows CHFS IT Policy 065.014. Vulnerability assessments may be performed by internal CHFS IT Security staff or contracted by approved third party assessment providers as approved by the CHFS CIO [Chief Information Officer].

According to the CHFS internal policy 065.014 CHFS System Development Life Cycle (SDLC) and New Application Development,

The term 'critical system' refers to the server, or servers, that support one or more critical business application. This may include web servers, database servers, and other servers that are essential to the operation of the business application. Per Enterprise Policy – CIO-082...each agency shall engage a third party to assess all critical systems under the agency's responsibility both upon initial implementation into production use and at least every two (2) years thereafter.

According to the CHFS POA&M procedure document for IEES,

[CHFS OATS] must establish a procedure to review, track, monitor, and report security related audit findings, including those resulting from an internal or external security assessment.

The CHFS POA&M procedure document also states vulnerabilities identified during assessments of IEES must be remediated within 30 days from discovery for items of High risk, six months for items of Moderate risk, and 12 months for items of Low risk.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-004: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards (Continued)

Recommendation

We recommend CHFS update the 020.205 IT Systems Technical Assessments Policy to clarify critical systems must be assessed by a third party upon initial implementation into production and every two years thereafter. We also recommend this policy include a requirement to maintain a log of all assessments conducted for management and audit purposes. This log should include, at a minimum, the title of the assessment, the system or application being assessed, the date(s) covered by the assessment, whether the assessment was conducted internally or by a third party, the date(s) of any retests conducted on the system, and the date(s) of follow-ups with the business owners regarding remediation efforts. In addition, we recommend CHFS expand the POA&M procedure document, or create a new procedural document, to govern the remediation procedures for systems other than IEES.

Furthermore, we recommend CHFS ensure COT or another third party vendor performs the vulnerability assessments on all identified critical systems in accordance with the CIO-082 policy and the CHFS internal policy titled, 065.014 CHFS System Development Life Cycle (SDLC) and New Application Development. Additionally, CHFS should be diligent in the adherence to all rankings or matrices used to make determinations of risk during internal penetration test assessments.

Adequate documentation should be maintained to support the internal and external assessments performed on agency devices for management and audit purposes. We further recommend CHFS more clearly identify on POA&Ms the related assessment title and date, as well as the dates of any retest.

Management's Response and Planned Corrective Action

A review and draft update to CHFS Policy 020.205, IT System Technical Assessments, is complete with the review process of the draft policy initiated on June 27, 2017. The updated draft policy clearly states that per Enterprise CIO-082 Policy, CHFS is responsible for engaging a third party to assist in conducting vulnerability assessments of critical systems upon implementation and every two years thereafter. The anticipated date for the updated policy to be published is during the fourth quarter of 2017.

A formal log will be implemented and maintained of all assessments performed. The log will identify the assessment performed, the name of the system or application assessed, dates of the assessment and retesting, whether an internal or external party performed the assessment, and the presentation date of the report and any findings to the business unit.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-004: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards (Continued)

Management's Response and Planned Corrective Action (Continued)

Further, the POA&M procedure document will be updated to reflect for applications or systems other than IEES that the business units are responsible for the tracking and remediation of technical assessment findings. As discussed with the auditors during the audit process, the OATS Security team is responsible for tracking and following up on the remediation of technical assessment findings for IEES. For all other applications or systems, the applicable business unit is responsible to perform this function. This finding states that remediation and completion dates were not provided on POA&M items for TWIST, MCI, and KSLR/HER-IP well after the assessment was performed. As we previously explained to the auditors, completion of this information is the responsibility of the appropriate business unit and not the OATS Security team.

CHFS will continue to strive to comply with the rigorous requirements of CIO-082 within resource and funding limitations. CHFS will be diligent in applying the risk criticality matrices to vulnerabilities identified and in maintaining documentation of assessments performed, while also relating assessments to the POA&M.

For clarification, the OATS Security Team are professional, trained, and talented penetration testers who perform technical assessments based on the criticality of the application or system, compliance requirements, requests made by business units, and other factors. Further, the risk matrix continues to be used to determine the severity of vulnerabilities identified.

Auditor's Reply

As discussed in the finding, procedures had not been developed concerning the documentation, tracking, and remediation of vulnerabilities discovered during an assessment of systems other than IEES. Therefore, no specific procedures identified the business unit as being the responsible party for monitoring and tracking the remediation efforts for the identified vulnerabilities. These procedures should be updated to reflect this responsibility and how the OATS Security team will oversee this process.

Furthermore, as noted in the issues concerning the vulnerability assessment report and POA&M review, it was confirmed with OATS Information Security staff that the risk matrix used in the MCI report was no longer being used. If this matrix is still in use, we reiterate our recommendation to be diligent in the adherence to all rankings or matrices used to make determinations of risk during internal penetration test assessments.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-005: The Cabinet For Health And Family Services Did Not Update Or Consistently Apply Security Procedures Related To The Virtual Private Network

The fiscal year (FY) 2017 audit of the Cabinet for Health and Family Services' (CHFS) Integrated Eligibility and Enrollment System (IEES) revealed the agency does have formalized procedures for requesting access to the Virtual Private Network (VPN); however, discussion with agency management indicated these procedures are outdated and no longer followed in practice. Although new procedures have been informally established, they are not consistently applied. This issue was first addressed in the FY 2016 audit.

The Technology Help Desk Procedures state the Commonwealth Office of Technology (COT) can accept VPN requests from any individual listed as an Information Technology (IT) Services contact or Human Resource (HR) contact for CHFS on the Agency Contact Listing. At the time of fieldwork, there were 23 IT Services contacts and 701 HR contacts for CHFS on this listing. Furthermore, the Technology Help Desk Procedures allow an HR contact at CHFS to submit a request for several of the rated services provided by COT; however, these services are all IT-related. CHFS management confirmed these procedures are no longer followed in practice in regards to VPN requests.

Furthermore, Section 2.11, Telecommuting, of the Office of Human Resource Management (OHRM) Personnel Procedures Handbook is the formal procedure to be followed when an employee needs to telecommute to work; however, this document is not complete regarding VPN access requests. Rather, this document only states those departments requiring VPN access to the statewide network must consult with the Office of Administrative and Technology Services (OATS).

According to the informal procedures, requests for VPN accounts must be made using the COT-F181EZ form. A valid business justification for the account must be included in the comments section of this form; however, the procedures are unclear as to what other information is required to be completed on the form. The user's supervisor will then email the form to the CHFS VPN Requests Mailbox and include a message verifying approval. The Division of Strategic Services will review and approve the request, create a tracking ticket for the request, and COT will complete the task. Three individuals with access to the CHFS VPN Requests Mailbox have been identified as the IT Services contacts responsible for maintaining the documentation supporting VPN access. We are aware CHFS implemented the Enterprise Identity Management (EIM) solution on May 22, 2017, which will change the access request process. We are also aware CHFS is working to formalize procedures related to this new solution.

We reviewed the documentation supporting the access granted to nine users in FY 2017 based on the informal process and noted exceptions with five of the nine users sampled, or approximately 55.56 percent.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-005: The Cabinet For Health And Family Services Did Not Update Or Consistently Apply Security Procedures Related To The Virtual Private Network (Continued)

Specifically,

- Three users had no justification provided on the COT-F181EZ form;
- One user had no justification provided and VPN access was not specifically requested on the COT-F181EZ form; and
- One user circumvented the process by submitting the request directly to COT and therefore, has no COT-F181EZ form on file. For this individual, COT contacted an authorized requestor at CHFS to obtain approval before proceeding with this request.

CHFS management did not ensure the formal logical security procedures for VPN accounts were updated to reflect the current process and distributed to appropriate staff. In addition, management did not ensure the informal process related to VPN accounts was consistently applied.

Without sufficient logical security controls in place, the risk for unauthorized access, modification to computer programs and data, destruction of assets, and interruption of services in increased.

Logical security controls must be finalized, approved, thoroughly documented, and consistently applied to ensure only authorized individuals are allowed access to a system. All authorized requestors should be provided with the most recent versions of forms and procedures to ensure the approved procedures are being followed. All requests for access or privileges to a system should be properly authorized, reviewed, and documented.

According to the established informal process, requests for VPN accounts must be made using the COT-F181EZ form and include a valid business justification. The user's supervisor must email the form to the CHFS VPN Requests Mailbox with a message verifying approval. The request will then be approved by the Division of Strategic Services, a ticket will be created, and COT will complete the task.

Recommendation

We recommend CHFS follow through with plans to formalize the VPN access request procedures associated with the newly implemented EIM solution. The procedures should establish repercussions for circumventing the process. A requirement for a periodic review of users should also be established in the procedures to verify all users are approved and still require access. Once finalized, the procedures should be distributed to appropriate personnel and management should ensure all users requesting VPN accounts follow proper procedure.

Furthermore, Section 2.11, Telecommuting, of the OHRM Personnel Procedures Handbook and the Technology Help Desk Procedures should be updated to refer users to the new procedural document for VPN requests. In addition, CHFS should determine the appropriate individuals to handle the requests for IT-related rated services and update the

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-005: The Cabinet For Health And Family Services Did Not Update Or Consistently Apply Security Procedures Related To The Virtual Private Network (Continued)

Recommendation (Continued)

Technology Help Desk Procedures as necessary to reflect any changes. The list should be modified to more narrowly define the items each group is authorized to request. We recommend management consider removing the HR Contacts group from being authorized to submit requests for IT-related services unless there is a documented need approved by management. Once updated, the procedures should be distributed to appropriate personnel to ensure they are aware of the change.

In addition, CHFS management should work with COT to ensure authorization restrictions identified in the Technology Help Desk Procedures document are appropriately designated in the Agency Contact Listing and disseminated to applicable COT staff.

Management's Response and Planned Corrective Action

CHFS is in the process of finalizing the 070.206 Virtual Private Network Policy and CHFS VPN Procedure. The intent is to have these documents approved and implemented by the fourth quarter of 2017. If a VPN account is requested outside of the KOG request process identified in the previously mentioned procedure, the request will be denied by the Commonwealth Service Desk. CHFS is also in the process of removing previously identified COT HR Contacts, as these requests need to be submitted via the KOG request authorized contacts (COT IT Contacts). Once this is complete, then we will have a limited number of COT HR Contacts.

CHFS has requested each agency to review their respective COT monthly bill to verify that staff/access no longer with their agency be removed. Also, the introduction of Enterprise Identity Management (EIM) provides another safeguard in which accounts that do not have activity for 45 days will be disabled and within 90 days they will be terminated. CHFS has requested COT to provide options that are available to receive a periodic report on VPN usage. We have recently been advised that the only historical data that can be provided would be the Login and Logout Times for users. We were advised that this has to be individually run on each user, for each month, and there are "TOO" many users for COT to try and collect. So, at this point, COT advised that our request cannot be done, at least, with the current contractor that is in place.

Once we have these policies and procedures finalized, they will be communicated to the appropriate staff including OHRM for Section 2.11, Telecommuting, of the OHRM Personnel Procedures Handbook. CHFS has already requested COT to assure that all Commonwealth Service Desk staff understand what HR and IT Contacts can request.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-006: The Commonwealth Office Of Technology Did Not Fulfill Its Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure

The fiscal year 2017 audit revealed the Commonwealth Office of Technology (COT) Disaster Recovery Manual (DRM) is outdated and does not reflect the current Disaster Recovery Plan (DRP) or Business Continuity Plan (BCP) process. Additionally, disaster recovery testing has not been performed on COT's DRP to determine if the plan is adequate should a disaster occur. Furthermore, consolidated agencies are not being provided sufficient information concerning the backup and recovery process managed by COT in order to make informed business decisions on the appropriate levels and coverage based on criticality of data and processing of agency systems.

Discussion with the COT Business Continuity Coordinator/Administrator, who is in charge of maintaining the DRM, revealed that no major review or update of this document has occurred since 2014. On an annual basis, the DRM will only be updated to reflect the most current agency contacts. As identified during the review of the DRM, the manual's content continues to reference facilities and processes from 2014 that are no longer in use.

The IT Infrastructure Initiative (I.3) consolidation allowed COT to take over ownership and management of agency servers, network infrastructure, Active Directory (AD), and related security controls including disaster recovery and business continuity procedures. Although the development of BCPs is still an agency level responsibility, COT has not provided any policies, procedures, or other guidance for agencies related to their development. Furthermore, after the initial services are established for an agency, COT provides no further communication with the agencies, written or verbal, about back-up and recovery services being provided. COT has not provided detailed information concerning the application files, user data files, or executable files being backed up; how often the backups occur; or how long the backups are maintained.

In addition, COT does not maintain adequate documentation to determine which centralized agencies have been included in the backup processes. Coordination with consolidated agencies should have taken place within the I.3 project as the infrastructure became COT's property and responsibility. As this is a known weakness in the disaster recovery procedures, COT has created a project to reach out to consolidated agencies to identify servers containing agency-owned data and programs that are not currently being backed up. As part of the project, COT will request the agencies to acknowledge if backup services are needed on these servers. If servers are identified that require backup procedures, then COT will work with the agency to determine their needs and the necessary level of backups and retentions will be established. The project was anticipated to be completed by August 1, 2017.

It was also found that COT bills each consolidated agency a rated service amount for system backup services. Additionally, COT has a disaster recovery and business continuity program, which provides recovery and backup services for agencies that elect to participate in the program. The program allows agencies to identify specific applications, data files, or executable files needing to be backed up. This disaster recovery and business continuity program is included in the backup rated service. However, agencies are not automatically enrolled in this program. Therefore, agencies are being billed for these services but not provided them.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-006: The Commonwealth Office Of Technology Did Not Fulfill Its Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure (Continued)

If the consolidated agencies have not specifically requested to participate in the program, then they will not receive the benefits of the program. Furthermore, although an annual recovery exercise has been performed for the agencies subscribing to the disaster recovery and business continuity program, a table top exercise to walk through COT's DRM has never been performed to determine if the plan itself was adequate should a disaster occur.

Lastly, in May 2017, the Social Security Administration (SSA) performed a compliance review on COT's policies for protecting SSA-provided information. The review found COT's BCP/DRP did not address the security of SSA-provided information in the event of disaster. COT has already started work on their Plan of Action and Milestones (POA&M) required by SSA. COT planned to update the BCP by October 2017 to reflect how SSA-provided information will be addressed in the event of a natural disaster.

Although the Business Continuity Coordinator/Administrator is responsible for managing the Disaster Recovery planning process, the updates performed have been limited to contact information since 2014. In addition, the functionality of the DRP as a whole has not been tested. Furthermore, COT has not provided comprehensive information concerning backup and recovery service levels established with consolidated agencies.

Disasters or extended downtime can impact the Commonwealth's ability to operate effectively. Having an up-to-date DRP helps decrease the risk agencies will not be able to continue to provide customer service or to perform business critical tasks. Failure to implement an adequate, formal disaster recovery plan increases the possibility of loss due to excessive recovery time, costs, and disruption of processing capabilities in the event of a disaster or extended system outage.

Strong management practices minimize risks through planning. The goal of a disaster recovery plan is to improve preparedness for extended system outages at minimal cost using available resources. According to the Maintenance & Distribution section of the DRP, "The Business Continuity Administrator is responsible for overseeing the maintenance, distribution, and periodic testing of the continuity plan." Additional detailed responsibilities for the Business Continuity Coordinator are further itemized in Section 10.2.7, including, but not limited to, tracking of the review process and types of changes within the agency that need to be considered for updates to the DRP.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-006: The Commonwealth Office Of Technology Did Not Fulfill Its Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure (Continued)

Further, Section 10, Disaster Recovery Plan Maintenance, states the following:

10.2.1 Overview:

It is important that the Plan be continually maintained and updated. Disaster Recovery Plans should include specific maintenance, responsibilities, and procedures...

10.2.2 Maintenance Frequency:

The recovery procedures for each Recovery Team should be updated at minimum on a quarterly basis and should also be updated following major organizational changes. The plan should be reviewed and updated when there are major changes in technology...

Recommendation

We recommend COT critically review all documented procedures and listed resources within the DRM and make necessary updates to reflect the current DRP and BCP processes. As a requirement from SSA, this update should also include explicit descriptions of how SSA-provided information will be protected in the event of a disaster. Once this update is completed, COT should perform a table top exercise to determine the adequacy of the DRP and to ensure all stakeholders are aware of their responsibilities should a disaster occur.

In addition, COT should complete the backup project to identify current backup and recovery services in place for all covered agencies and any resources needing to be added to the backup and recovery services. During the backup project, agencies should be made aware of what is included within the rated service, which includes disaster recovery testing and backup services. As a result of this project, COT should formally communicate with the agencies about all backup and recovery services currently being provided.

We further recommend COT develop enterprise policies and procedures as guidance for agencies in the creation of agency-specific BCPs.

Management's Response and Planned Corrective Action

COT acknowledges this finding and agrees that the DRP should be reviewed and updated regularly, and that sensitive data (SSA, FTI, PII) should be addressed specifically within the document. COT will review its Business Continuity Disaster Recovery Documentation, as well as Enterprise policy and make the necessary updates to address this finding. COT is in the process of modifying the existing DRP to include explicit description of how SSA-provided information will be protected in the event of a disaster. Estimated Completion Date: 29 December 2017.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-006: The Commonwealth Office Of Technology Did Not Fulfill Its Obligation To Provide Disaster Recovery Services Over The Enterprise Infrastructure (Continued)**

Management's Response and Planned Corrective Action (Continued)

In addition, COT agrees to perform a periodic table top exercise and document a course of action taken to determine the adequacy of the DRP and to ensure all stakeholders are aware of their responsibilities should a disaster occur. Estimated Completion Data: 23 February 2018.

COT Enterprise Storage team has completed the backup project to identify current backup and recovery services in place for all covered agencies. The Business Relationship Managers were given the task of working with the respective agencies on the backup gaps that were identified during the project. Additionally, the NIST family Contingency Planning Policy is currently in draft and anticipated to be released during the first quarter of 2018, which will provide agencies with planning requirements and direction.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-007: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies

The fiscal year (FY) 2017 review of the Commonwealth Office of Technology (COT) Enterprise IT Policies and Standards revealed that the IT Infrastructure Initiative (I.3) project is no longer active. Additionally, Service Level Agreements (SLA) have not been completed and signed by the agencies, which would formalize and finalize the individual agency consolidation under COT for management of its infrastructure resources. Furthermore, COT Enterprise IT Policies were identified that did not specifically provide guidance on how these policies were to be handled within agencies consolidated under COT.

During the FY 2017 fieldwork, the I.3 status website was found to no longer provide updated information concerning the consolidation or centralization of infrastructure from the affected cabinets, agencies, boards and commissions. The I.3 consolidation project began as a result of the Executive Order 2012-880, dated October 23, 2012. According to COT management, the I.3 consolidation efforts had been placed in inactive status during FY 2017. The project is expected to resume when a new Chief Information Officer (CIO) was chosen by the Finance and Administration Cabinet Secretary. The CIO position most recently became vacant on December 24, 2015. Since that time, the CIO position has been temporarily held by a deputy commissioner.

Out of the 22 agencies and various boards and commissions involved, the I.3 consolidation process has been fully complete for only two of the agencies. As part of the I.3 consolidation process, COT was to work with agencies to define the responsibilities and expectations for both entities. This information would be fully documented in the SLA. While the Technology Advisory Council (TAC) has created a SLA template, the agreement language is written at a very high level and is not specific for individual agencies. Review of the two completed agency SLAs revealed that there were minimal modifications in the SLA to customize the specific terms to the individual agency. These SLAs were also found to have expired either prior to or near the beginning of FY 2016. Furthermore, COT provided another SLA for a Cabinet that was not considered part of the I.3 as it was already consolidated with COT prior to that time. This SLA was found to have been signed in August 2006. No updates or revisions to this SLA were provided since its establishment. Therefore, there were no SLAs identified for any cabinet, agency, board, or commission covering the entirety of FYs 2016 or 2017.

Additionally, COT developed the COT-067, Enterprise Security Standard Process and Procedures Manual (ESSPPM), as an internal procedure document related to security planning and execution for COT managed assets. However, a review of the ESSPPM revealed procedures to be followed by COT when performing management or maintenance responsibilities for consolidated agencies were not explicitly defined. These procedures and the Enterprise Policies that create the structure all executive agencies are expected to follow do not fully apply federally-required National Institute of Standards and Technology (NIST) 800-53, revision 4 controls.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-007: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies (Continued)

Furthermore, the CIO-082 Critical Systems Vulnerability Assessments does not specifically identify the responsibilities of COT and the agencies concerning the identification of critical systems, the determination of infrastructure devices on which these critical systems are housed, and the coordination of vulnerability assessments on these infrastructure devices. This designation of responsibility is necessary since the systems are under the ownership of the agency, but the infrastructure devices are owned and managed by COT for consolidated agencies.

COT is no longer actively consolidating or centralizing the IT infrastructure functions of agencies affected by the I.3 project. In addition, although a SLA template has been developed, it is generic and does not necessarily address the unique needs of each agency. Furthermore, Enterprise policies are limited in their effectiveness due to lack of detail concerning consolidated agencies. The Enterprise policies have not been updated to be in compliance with the NIST security and privacy controls.

Without adequate formal policies and procedures in place outlining both COT and agency responsibilities for performing functions within the ESSPPM, Enterprise policies, and individual SLAs between COT and consolidated agencies, accountability is lost and the risk is increased of inappropriate access being granted, unintended actions being taken, or system performance and availability potentially being degraded.

According to KRS 42.726,

- (1) The roles and duties of the Commonwealth Office Technology shall include but not be limited to:
...
- (c) Developing strategies and policies to support and promote the effective application of information technology within state government as a means of saving money, increasing employee productivity, and improving state services to the public, including electronic public access to information of the Commonwealth;
- (d) Developing, implementing, and managing strategic information technology directions, standards, and enterprise architecture, including implementing necessary management processes to assure full compliance with those directions, standards, and architecture[.]

As Executive Order 2012-880 granted COT operational control of all executive branch information technology infrastructure services, formal policies and procedures should be updated to address specific responsibilities of COT and of the agencies involved in the infrastructure consolidation. Formal policies should provide a security framework to educate management and users of their responsibilities. In addition, consistent application of formal security policies and procedures provides continuity and establishes the commitment of management for strong system controls.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-007: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies (Continued)

Recommendation

After the CIO position has been filled, we recommend COT work with the Secretary of the Finance and Administration Cabinet and the newly appointed CIO to establish the plans for the reactivation the I.3 project. Timeframes for the full completion of this project should be established and management should be held accountable for meeting established deadlines.

The responsibilities for both COT and agency staff should be properly defined and documented in the individual Enterprise policies. To ensure this process is performed consistently, COT management should develop a written policy statement that defines, in general terms, what constitutes a consolidated agency and how the Enterprise policies are developed and monitored in relation to these agencies. COT should ensure the Enterprise policies specifically address the requirements related to those agencies that have consolidated information technology services and resources with COT.

Additionally, as the ESSPPM and current Enterprise policies are revised and as new Enterprise policies are created, we recommend COT ensure they comply with the security and privacy controls established by NIST 800-53, revision 4.

We also recommend COT management update the agency-level SLA template to more thoroughly define specific responsibilities for each agency. The SLA template should be customizable to ensure the unique needs of the individual agencies are met. The different agreements developed should be as complete and detailed as possible. It should define, at a minimum,

- The infrastructure resources being consolidated within COT;
- The specific responsibilities being taken by COT staff in the administration and maintenance of these infrastructure resources;
- The specific responsibilities of each agency in relation to the applications and data being housed on these infrastructure resources;
- The backup and recovery requirements for specific infrastructure, applications, and data being managed by COT; and
- The recourse actions to be taken should either entity be non-compliant with the terms and conditions.

Finally, we recommend COT develop a review schedule to ensure SLAs are kept current and relevant. During this review process, COT should ensure agency management is still in agreement with the terms and conditions established by the SLA.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-007: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies (Continued)

Management's Response and Planned Corrective Action

COT acknowledges this recommendation. Discussions have taken place with the Secretary of the Finance and Administration Cabinet as well as the newly appointed CIO on the direction of the I.3 Project. COT is committed to the full completion of the Project. COT Project Managers will work with agencies left to consolidate to establish timeframes for migration. COT will assist agencies with transitioning to the new enterprise model, meeting project deadlines.

COT agrees with the APA policy recommendations and will include the appropriate updates as part of the annual review of existing and future published Enterprise IT policies.

Inasmuch as COT functions as a service provider for government agencies, and each agency is billed at the same rate for these services, COT disagrees with the recommendation that SLAs be tailored to each agency's specific needs. COT currently provides an overview of its products, rates, and service descriptions on its website, and utilizes metrics to establish expectations for service delivery and incident response. This serves a purpose similar to that of a SLA. COT is planning a project to better define these metrics and incorporate them into SLAs for each service.

Auditor's Reply

A good SLA functions as a communication vehicle between two parties. However, some agency personnel have communicated to the auditor their unwillingness to sign a basic/standard SLA due to the fact it does not take into consideration specific business functions that are different among agencies.

It is important to note that the agencies' concerns have merit. For example, one agency reported concerns to the auditor as it relates to a system outage that directly resulted from the lack of defined roles and responsibilities in a properly authorized SLA. Had an SLA been in place, COT would have been obligated to bring the system back online efficiently and within a reasonable timeframe in order for normal business to continue. Agency personnel have communicated their frustrations in regard to the basic SLA template since this document is vague and does not discuss any repercussions if COT does not meet the basic service level. As a result, there is no way for a state agency to hold COT accountable for the services provided. Components of a well-defined SLA include the type of service to be provided, the desired performance level, monitoring process, steps for reporting issues with the service, and repercussions for the service provider not meeting the service level agreed upon. The auditor agrees that COT should also better define the products, rates, and services offered to all state agencies and include this information in the standard SLAs.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-008: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Policies And Procedures

The fiscal year (FY) 2017 audit of the Commonwealth Office of Technology (COT) controls revealed weaknesses surrounding management of the information technology (IT) asset inventory. This issue was originally addressed with COT during the FY 2016 audit. Specifically, reconciliation procedures are not complete and do not discuss all aspects of the required annual reconciliation process. Testing revealed instances where Finance and Administration Cabinet (FAC) policies were not adhered to and agency procedures were not consistently applied. Furthermore, COT was unable to readily identify all servers they manage and which servers contain confidential or sensitive information.

FAC has published a specific policy in relation to the maintenance of inventory of non-expendable assets. The Finance and Administration policy (FAP) 120-20-01 Personal Property and Vehicle Inventories explicitly states any fixed asset with an original cost of \$500 or more and a useful life of more than one year should be recorded in a fixed asset system. According to FAC management, COT has been granted permission to use an internal inventory tracking system to capture this information. However, for all non-expendable assets with an original cost of \$5,000 or more, these assets must also be recorded within the enhanced Management Administrative & Reporting System (eMARS).

Annually, COT must reconcile the information from their internal system to eMARS. COT stated the reconciliation for 2016 was completed using the Comprehensive Annual Financial Report (CAFR); however, no other documentation was maintained to support the review or remediation of any discrepancies between the two systems. Reconciliation procedures are discussed in the Asset Management Procedure Manual, dated January 3, 2017. These procedures do not explain the use of the CAFR to complete a reconciliation, how discrepancies are to be addressed, or the appropriate use of inventory codes when acquiring an asset.

Several exceptions were noted during the test performed against the information produced from COT's internal tracking system and a report of assets identified as being the responsibility of COT in eMARS. The results of these tests identified the following:

A comparison of all assets with a cost of \$5,000 or more in COT's tracking system and eMARS associated with COT revealed:

- Three hundred forty-five records recorded in COT's tracking system, with a total cost of \$11,003,796, that were not recorded in eMARS associated with COT.
- Eighty-three assets recorded in eMARS, with a total cost of \$2,758,136, were not recorded in COT's tracking system.
- Eighteen assets were matched between COT's tracking system and eMARS; however, the cost did not match. These records reflected a total cost of \$129,527 more in COT's tracking system than in eMARS.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-008: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Policies And Procedures (Continued)

- Three components records in eMARS related to asset numbers identified in both eMARS and COT's tracking system, but were not specifically included in the tracking system. These components had a total cost of \$122,895.
- According to FAP 120-20-01, there are specific fields of data that are to be captured for all non-expendable assets with a cost of \$500 or more. One of these required fields is the "state property identification tag number." A review of the information produced from COT's tracking system identified 722 records, or 1.5 percent of the 49,027 records within the listing, where the Asset Tag # field was not populated. The total cost of these items was \$1,172,996.
- According to COT procedures, all IT assets included in the inventory are to be identified with an eMARS Insurance Code of EDP1 for Computer Hardware or IM7 for Laptops. A review of the information produced from COT's tracking system related to assets with a cost of \$500 or more identified 1,632 records, or 3.3 percent of the 49,027 records within the listing, where the eMARS Insurance Code value was not one of the expected values. These records are associated with \$17,477,369 in assets, or 17.9 percent of the total cost of \$97,668,805 for all assets in the listing.

Also, during the review of FY 2017 insurance coverage for COT inventory through the Division of State Risk and Insurance Services (State Risk), it was determined that there were multiple locations itemized on the policy that were specifically identified as Kentucky Transportation Cabinet (KYTC) equipment totaling \$7,695,059. It was explained that these locations and coverage had been established during a previous consolidation approximately 10 years ago. In support of the FY 2017 insurance coverage, COT only provided State Risk with the report produced from their internal tracking system. Review of the report produced from COT's tracking system found there were 2,339 records totaling \$1,670,445 related to KYTC locations.

In addition, COT was unable to provide a listing of all servers managed by COT and specifically identify those devices housing applications or data considered sensitive or confidential upon initial request. Although management of these servers is COT's responsibility, COT had to contact the individual agencies to obtain this information.

Executive Order (EO) 2012-880 transferred the responsibility for, and ownership of, IT infrastructure from specific individual agencies to COT. The original plan for this consolidation initiative was a three-year timeframe. However, at the end of FY 2017 fieldwork, COT had not completed the transition of infrastructure for all consolidated agencies, which affects how inventories are accounted for as well as the annual reconciliation. During fieldwork, COT stated they were still in the process of consolidating the Council on Postsecondary Education. These assets had recently been loaded to their internal tracking system but were still being entered into eMARS. Finally, COT acknowledged that assets with an acquisition date prior to 2015 are currently being validated. These items may have been marked as transferred to COT during the consolidation initiative but may not have been physically transferred.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-008: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Policies And Procedures (Continued)

If IT assets are not properly inventoried and managed as established by FAC policy, the risk of misstatement of assets reported in the Commonwealth's CAFR increases. Furthermore, if the IT asset inventory does not completely and accurately reflect the assets owned by the agency, then insurance coverage purchased to cover this inventory may be inappropriate or inadequate should a situation occur where a claim needs to be made. In addition, the failure to identify servers containing confidential or sensitive information could lead to inadequate security controls surrounding these servers.

According to FAP 120-20-01 Personal Property and Vehicle Inventories,

1. Each budget unit shall maintain a current fixed asset record of equipment having an original cost of \$500 or more and a useful life of greater than one (1) year.
...
- b. Agencies shall enter records into the fixed asset system for non-expendable property that promotes financial reporting, safeguarding of assets and adequate insurance.
...
3. Personal Property to be Recorded:
 - a. All non-expendable property valued at \$500 or more shall be recorded as a line item. This record shall include agency number, state property identification tag number, make, description, model number, serial number, quantity, location by building and cost...

Although permission can be granted by FAC for an agency to use an internal system for tracking the inventory of non-expendable assets of \$500 or more, those assets with a cost of \$5,000 or more are required to be recorded in eMARS and an annual reconciliation of this information must be completed.

Recommendation

We recommend COT update their Asset Management Procedure Manual to include all aspects of the annual reconciliation process. Specifically, the procedures should explain, at a minimum, how to create the CAFR inventory listing, how to identify discrepancies between eMARS and COT's internal tracking system, and what actions should be taken when a discrepancy is identified. Documentation of the reconciliation process should be maintained for management and audit review purposes.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-008: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Policies And Procedures (Continued)**

Recommendation (Continued)

We also recommend COT perform a complete inventory review, ensuring all non-expendable assets with a cost of \$500 or more are recorded in their internal tracking system. After this project is completed, COT should perform a full reconciliation of assets between the two systems in relation to those items within a cost of \$5,000 or more. Specifically, the following procedures should be completed:

- All assets with a cost of \$5,000 or more in COT's tracking system should be traced to the eMARS system.
 - If there are any discrepancies for an asset in the data values between the tracking system and eMARS, COT should make any changes necessary to ensure the systems are in agreement.
 - If there are any assets in the tracking system not in eMARS, COT should first determine whether the asset is still a valid item to be included in the inventory. If so, then COT should add this item to eMARS. If not, COT should make changes in the tracking system to reflect the removal.
 - If there are multiple components for an asset number in eMARS, but not all of these components are in the tracking system, COT should first determine whether the component is still a valid item to be included in the inventory. If so, COT should add this item to the tracking system. If not, COT should make changes in both the tracking system and eMARS to reflect the removal.
 - All assets with a cost of \$5,000 or more in eMARS should be traced to COT's tracking system. If there are any assets in eMARS that are not in the tracking system, COT should first determine whether the asset is a valid item to be included in the eMARS inventory. If so, then COT should add this item to the tracking system. If not, COT should make changes in eMARS to reflect the removal.
- The inventory data within COT's tracking system should be reviewed to ensure that it is complete and valid.
 - If the Asset Tag # field is not populated or is not a valid value, COT should first investigate the asset to determine what the value should be. Then, COT should update this information within the tracking system.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-008: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Policies And Procedures (Continued)

Recommendation (Continued)

- If the eMARS Insurance Code field value is any value other than EDP1 or IM7, COT should first investigate the asset to determine what the value should be. Then, COT should update this information in the tracking system. If values other than EDP1 or IM7 are allowed for hardware and software, then the Asset Management Procedure Manual should be updated to reflect the appropriate values that should be used for the various inventory types.

Once this review has been completed, a similar review should be performed at least on an annual basis to correspond with FAC requirements. COT should ensure all staff involved in the recording and management of IT assets understand how to properly and completely record asset information within both COT's tracking system and eMARS.

Finally, COT should maintain documentation of all infrastructure assets that would allow key employees in charge of security to understand where applications or data reside housing confidential or sensitive information. This documentation should also be sufficiently searchable to provide information to management and auditors timely upon request.

Management's Response and Planned Corrective Action

COT's Asset Management Branch has been researching the noted exceptions and making necessary corrections. These corrections will be completed no later than January 1, 2018. The data provided to the auditor during the requested period was retrieved while reconciliation of physical inventory was in progress.

The Asset Management Procedure Manual is currently undergoing revision to correct an eMARS report name that is no longer valid, and to include an outline of the procedure for comparing and reconciling the eMARS and PPATS systems. Updated guidelines for use of inventory codes will be included in the new version of the manual. This is scheduled for completion by November 30, 2017.

COT is exploring methods for ensuring the ongoing accuracy of inventory data for assets in the field. Notably, PPATS may be used to record the last physical inventory date for each asset, with a reporting routine to identify any that have not been inventoried during the requisite timeframe. The Asset Management Procedure Manual and Field Services User Guide shall be updated accordingly as process or procedural changes take shape.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-008: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Policies And Procedures (Continued)**

Management's Response and Planned Corrective Action (Continued)

The Asset Coordinator has been conducting monthly reviews to ensure assets purchased have been received and have undergone the appropriate intake measures, including those to ensure agreement between the eMARS and PPATS systems. In the future, this routine review will include a comparison of the asset's cost. In addition, the Asset Manager will begin a reporting routine to identify records in the PPATS system with a null value in the 'Asset Tag #' field. These items will be physically inventoried and the PPATS record updated accordingly.

Data classification and documentation of data flow is a configuration management function, rather than an asset management function, particularly in a highly-virtualized environment. COT's ITSM tool can be configured in such a way that infrastructure components containing data classified as "Confidential" or "Sensitive" could be more easily identified; however, this would require a significant level of effort from IT Security, Operations, and Development staff, the last of whom do not reside within the COT organization. COT leadership will meet to discuss the short and long-term efforts required to meet this goal.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-009: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood

The fiscal year 2017 audit of the Commonwealth Office of Technology (COT) included a review of the security permissions allowing access to shares and folders on COT-managed machines housing sensitive and confidential information. As a result of the Information Technology Infrastructure Initiative (I.3), COT is now responsible for security established over these machines, which house agency information.

Review of the security permissions related to nine sampled machines revealed seven of the machines, or approximately 77.78 percent, could potentially be at risk for unnecessary exposure. Specifically, six of the machines had broader permissions than required by business processes. In addition, five of the machines have at least one folder which allowed access to an individual who had terminated or separated employment from the agency whose data the machine houses. Furthermore, seven of the machines have at least one folder which allows access on the individual level rather than a group level, creating the potential for access to not be promptly removed when an employee terminates or separates employment.

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

Executive Order (EO) 2012-880 transferred the responsibility for and ownership of IT infrastructure from specific individual agencies to COT. COT did not properly secure machines within their oversight authority.

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

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

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-009: The Commonwealth Office Of Technology Did Not Properly Restrict Access To Commonwealth Machines Through Network Neighborhood (Continued)**

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

Recommendation

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

Management's Response and Planned Corrective Action

The Enterprise Windows & Virtual Server Branch will review all servers discussed to ensure resources are adequately secured and procedures are implemented to address the findings. Upon system review and change approval, the configurations will be corrected using the most restrictive permissions that will still allow users to perform required tasks. A set of procedures will be created to standardize access controls and configurations for systems, files and folders. COT will work on developing a review process to ensure only the proper access is allowed.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-010: The Kentucky Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2017 School District SEEK Payments

This has been a recurring finding since the fiscal year (FY) 2012 audit. The prior year Finding, 2016-022, can be found in Volume I of the FY 2016 SSWAK. During the audit of the Kentucky Department of Education's (KDE) Support Education Excellence in Kentucky (SEEK) funding program, the basis utilized in calculating school district SEEK payments for the first quarter of FY 2017 was noncompliant with the calculation method required by Kentucky Revised Statute (KRS) 157.410. Consequently, ten of the school districts tested were underpaid a total of \$1,864,076 during the first quarter of FY 2017, and five of the school districts tested were overpaid by a total of \$84,876 during the first quarter of FY 2017.

While the results of testing indicate non-compliance with the funding procedure for the first quarter, testing supported the school districts received the correct total of SEEK funds as calculated by the SEEK formula, at the end of FY 2017. Therefore, no financial adjustment is necessary. Furthermore, KDE attempted to have legislation passed to revise the SEEK payment requirements to the payment practice currently in place in a prior legislative session, but the proposed legislation did not pass.

The first quarter of FY 2017 SEEK payments to school districts were calculated based on the FY 2017 forecasted SEEK total. Per statute, calculation of the SEEK payments for the first quarter should, however, be based upon the prior year's allotment, reduced by any capital outlays and the SEEK nickel state equalization. The SEEK payments for the remaining quarters should be based upon 1/12th of the current year tentative SEEK total.

KDE suggests that the current calculation method is the better method for determining SEEK payments. The basis for this is that the methodology utilizes the most recent data which minimizes the fluctuation in monthly payments between the forecast and the tentative calculations required by statute. Therefore, this methodology results in a more reliable revenue stream for the various school districts according to KDE.

As a result of using this forecast payment calculation rather than the SEEK formula required in the statute, ten of the school districts were collectively underpaid a total of \$1,864,076 and five school districts were collectively overpaid a total of \$84,876 during the first quarter. However, total funds calculated for each district were correctly provided to each district at year end as determined by the SEEK formula.

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

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-010: The Kentucky Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2017 School District SEEK Payments (Continued)**

Recommendation

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

Management's Response and Planned Corrective Action

KDE will thoroughly review the payment calculation procedures and all statutes and regulations related to SEEK payments to districts. Upon completion of the review, we will prepare language to revise the affected statutes and advocate to the legislature to make the revisions.

We understand that our current process does not specifically adhere to the statutes, however, KDE's approach results in a practical payment methodology to allow school districts to operate in an efficient and effective manner throughout the year. In the subsequent three quarters of FY 2017, the aforementioned districts' payments were adjusted after all actual data was received and utilized in the SEEK calculations, and this resulted in the total annual SEEK amount distributed by the end of the year to be accurate as a whole.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-011: The Department Of Education's Division Of School And Community Nutrition Did Not Fully Develop And Consistently Implement A Formal Logical Security Policy Governing Access To The Child Nutrition Information And Payment System

During the fiscal year (FY) 2017 audit of system controls, the Kentucky Department of Education's (KDE) Division of School and Community Nutrition (DSCN) did not consistently perform logical security control procedures related to granting access of users to the Child Nutrition Information and Payment System (CNIPS). Findings related to the development and implementation of logical security control policies and procedures concerning user access to CNIPS was originally addressed with DSCN within the FY 2013 audit.

The New Sponsor Set Up Procedures document was updated on December 12, 2016 to reflect the process for requesting and establishing new nutrition program sponsor access and new DSCN users to CNIPS. However, the documentation retention requirements are not included in the New Sponsor Set Up Procedures document. In addition, this document still lacks the process for inactivating or changing user access.

Testing of user access granted to CNIPS revealed several exceptions. Specifically, of the seven active accounts tested to ensure the access granted was requested and authorized, two accounts, or 28.6 percent of the testing population, were exceptions. One user did not have a completely authorized CNIPS Access Request Form or Security Agreement, and the other did not have an authorized Security Agreement on file.

The SCN Employee Separation Checklist provides instructions for removing employee access in the event of employment separation. However, the separation checklist does not explicitly reference CNIPS access, which is to be deactivated using the CNIPS Access Request Form. Testing of five inactive accounts revealed three accounts, or 60 percent, were not deactivated. No CNIPS Access Request Form was on file requesting the accounts be deactivated. However, two of these accounts had emails on file indicating the accounts had been identified as no longer being necessary through a review of inactivity based on the last logged in date being greater than 90 days. Additional testing of KDE employees that retired, were terminated, or separated employment with KDE during FY 2017 revealed one user's access was made inactive three months after her retirement. This account had not been requested to be deactivated until the review of last logged in date identified it as being greater than 90 days.

Furthermore, there were 45 accounts that did not have a Last Login date captured on the CNIPS User Access Report. One of these accounts was a system account which had Administrative access. In addition, there was one account that had a last login date of March 6, 2013 and two accounts with last login dates from 2014. KDE reviewed these 48 accounts and determined they were no longer necessary. Moreover, based on this testing, KDE found their original review process for identifying user accounts that had not logged in for more than 90 days was based on the login date value. The filter excluded accounts that had no date in the login date field. In response to the FY 2017 testing, KDE changed their query to ensure they captured

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-011: The Department Of Education's Division Of School And Community Nutrition Did Not Fully Develop And Consistently Implement A Formal Logical Security Policy Governing Access To The Child Nutrition Information And Payment System (Continued)

both those accounts with a login date value of more than 90 days, and also those with no indication that the account had been logged into for further review.

Finally, review of the CNIPS User Access Report found two users with an incorrect job title captured. Also noted, 42 security roles are currently in use by active accounts in the system. However, when asked for a listing of security roles in CNIPS, KDE provided a listing of only 29 security roles. The agency was able to provide information concerning the 13 security roles not in the original listing provided; however, KDE did not have a comprehensive listing of all security roles in CNIPS readily available for review.

KDE staff did not adequately document, implement, and communicate acceptable computer security policies and procedures for the CNIPS system. Management has not provided oversight to ensure established procedures are consistently followed. In addition, there is no formal process in place requiring submission of accounts for deactivation based on retirement, separation, or termination of staff.

The lack of understanding by management and users heightens the risk of noncompliance with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources. This situation increases the likelihood of unauthorized or inaccurate data modification, destruction of assets, interruption of services, or inappropriate or illegal use of system resources.

Within the New Sponsor Set Up Procedures document, the process for establishing new access for SCN staff and sponsor users is explicitly identified. For a new SCN staff member, the CNIPS User Access Request Form identifying the appropriate security rights must be created and authorized by the Support and Claims Branch manager. For a new sponsor user, the user must complete the Security Agreement and the CNIPS User Access Request Form, which will be provided to the appropriate branch manager for approval.

Formal security policies establish the tone of management commitment for strong system security and provide a security framework used to educate management and users of their responsibilities. Specific policies must be established related to system access controls to help ensure only authorized users are granted access to the application. These policies must include procedures for requesting new system access, making changes to existing system access, and deactivating access rights. In addition, management authorization of access requests must be documented. All supporting documentation must be maintained for management and audit review.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-011: The Department Of Education's Division Of School And Community Nutrition Did Not Fully Develop And Consistently Implement A Formal Logical Security Policy Governing Access To The Child Nutrition Information And Payment System (Continued)

Recommendation

We recommend DSCN update and expand the formal policies and procedures governing the logical security over the CNIPS application to ensure all staff are aware of the currently established procedures. The procedures should govern how CNIPS access is requested; the approval process; the available security groups, roles, and process for selection; the process for deactivating or changing user access; and the documentation retention requirements. The CNIPS Access Request Form should be referenced within the CNIPS logical security procedures and the SCN Employee Separation Checklist to ensure CNIPS access is removed promptly upon employment separation, termination, or retirement.

Moving forward, DSCN should ensure the CNIPS Access Request Form is completed and any required email communications are retained for all new user access and modifications or terminations to access. The User Access Report should also be reviewed periodically to ensure all active and inactive accounts are accurately identified.

Management's Response and Planned Corrective Action

Management Staff will consistently be reminded by the Assistant Director/Systems Consultant of the importance of verifying the completeness and accuracy of CNIPS Access Request Forms at Division Management meetings. Submission of a CNIPS Access Request form to the Support Branch to request to de-activate user's account is the first step to be taken upon staff departure per the Employee Separation Checklist. The Employee Separation Checklist has been sent by the Assistant Director/Systems Consultant to all and Director for awareness and to be reminded of the importance. The document is also posted on the Division SharePoint site homepage.

The CNIPS Access Request Form has been simplified to remove unnecessary information to aid in the ease of completing the form and to improve accuracy and to update the SCN mailing address. The Assistant Director/Systems Consultant will identify the retention requirements, create the necessary procedure and documentation and train staff within 60 days, Nov. 25, 2017.

The User Access Report is reviewed periodically by Support Branch staff to ensure all active and inactive accounts are accurately identified. The Support Branch Manager will be asked by the Assistant Director/Systems Consultant to confirm with Support Staff performing the User Access Report reviews that the process has been successfully completed monthly. The Assistant Director/Systems Consultant will also periodically perform a secondary review of the User Access Report. Any issues found will be addressed by the Assistant Director/Systems Consultant and necessary procedural updates made along with additional staff training as needed. The Assistant Director/Systems Consultant will follow-up on all staff departures within 1 week of their departure to confirm all steps are completed accurately and timely including CNIPS access removal.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-012: The Department Of Employee Insurance Did Not Provide Accurate Accounts Receivable Records For Preparation Of The Kentucky Employees' Health Plan Financial Statements

During the fiscal year (FY) 2017 audit of the Kentucky Employees' Health Plan (KEHP), discrepancies were noted between the draft financial statements compiled by a CPA firm, and the documentation prepared by the Department for Employee Insurance (DEI) provided to the auditors as support for the amounts reported in the financial statements. The accounts receivable schedules and related summary schedule submitted for the FY 2017 audit did not reconcile to the Statement of Net Position.

When initially received, errors in the schedule B-02 Accounts Payable & Accounts Receivable Summary were identified. Auditors identified transposing errors in both the accounts payable and accounts receivable data. When corrected, however, a \$270,000 discrepancy remained between the supporting summary schedule and the financial statements. Additionally, errors in the B-01 0017 AR Summary schedule were identified. The adjusting journal entries for Other Receivables \$56,442 was not included in the support. It was identified that this amount was accrued in the prior year, resulting in the misstatement of the current year receivables.

Auditors made several requests to DEI for accurate supporting schedules in order to audit the financial statements. Subsequent schedules intended to be corrections were provided. However, two additional versions of the supporting schedules were provided that contained inaccurate data.

It appears there is too much reliance on the Kentucky Human Resource Information System (KHRIS) system automation accompanied with the expertise of organizational staff who are tasked with compiling financial statement data. The accounts receivable Excel workbook that was submitted for the compilation of the KEHP financial statements was presented multiple times with each version containing inaccurate data.

The submission of the accounts receivable Excel workbook designed for the compilation of the KEHP financial statements was not adequately reviewed prior to submission to the CPA firm, nor did the workbook appear to have been reviewed after errors were detected. Subsequent corrections resulted in two draft financials which still contained errors. The presence of adequate management oversight and review could have detected erroneous data and prevented multiple submissions of financial drafts.

These repeat errors existed in supporting documentation used for the compilation of the plan's financial statements, and were not detected by agency management or by the established control processes prior to submission to the CPA firm. This indicates a risk of material misstatement, and that the agency's internal controls are not sufficient for detecting risk.

Good internal controls aid in the prevention of misstatement or non-compliance. The amounts reported in the financial statements are expected to be accurate and supported by the accounting system records and to that end subject to varying levels of review prior to submission. Good internal controls dictate that these reviews and oversight are conducted by agency management to ensure veracity and completeness.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-012: The Department Of Employee Insurance Did Not Provide Accurate Accounts Receivable Records For Preparation Of The Kentucky Employees' Health Plan Financial Statements (Continued)**

Recommendation

We recommend the DEI establish procedures outlining the management review process for financial statements and the preparation of supporting accounting records for the KEHP that will aid in reducing the potential for misstatement. Additionally, these procedures should be delegated to the appropriate management level to reduce or eliminate the potential for overreliance on subordinate staff.

Management's Response and Planned Corrective Action

Prior to the end of the fiscal year the Department of Employee Insurance ("DEI") will develop new protocol and procedures to establish clear lines of communication, responsibility, and distribution of documents as it relates to the KEHP financial statement and audit. DEI will also revisit existing reconciliation protocol and processes.

Prior to the end of the fiscal year DEI will clarify existing and/or establish new expectations with the external CPA vendor completing the financial statement. DEI will also create reconciliation checkpoints throughout the audit timeline as it relates to the work papers provided by the CPA vendor.

Prior to the end of the fiscal year DEI will establish new procedures and controls as it relates to any added, deleted, and/or corrective language to the final financial statements as presented by the CPA vendor.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-013: The Department Of Parks Failed To Follow Proper Policies And Procedures For Recording And Processing Receipts

The Kentucky Department of Parks (Parks) failed to follow prescribed internal controls to safeguard and monitor collected receipts. Parks collects receipts from the sale of goods and services at parks throughout the Commonwealth, which are deposited into local bank accounts until swept into the Kentucky State Treasury (Treasury). A Daily Business Report (DBR) is used to document a complete and accurate breakdown of each park's revenue-producing facilities, and to track all cash and accounts receivable transactions and balances on a daily basis. A review of 34 transactions, including the related DBR and bank reconciliations, identified the following:

- In three instances, the daily cash count log sheet did not have the required two signatures validating the cash and checks available for deposit. In one of these instances, the same individual signed as the cash counter and reviewer.
- While it was evident that bank reconciliations of the local bank accounts were completed, a signature and date of completion was not documented to support reconciliations were completed timely by appropriate personnel.

Parks failed to follow established guidelines requiring two signatures on the daily cash count log sheet. In some instances, two employees may not be available to provide the necessary dual signatures; however, no compensating controls were in place providing alternative procedures to ensure adequate review and monitoring of cash receipts. Additionally, Parks failed to document that review of bank reconciliations had occurred timely by appropriate personnel.

Individual parks receive significant amounts of cash daily. Failure to implement and adhere to policies and procedures over the receipt and monitoring of cash could create a significant risk and opportunity for fraud, waste, and abuse. Additionally, failure to verify receipts are complete, accurate, and properly classified could lead to a material misstatement on the financial statements.

Parks' Business Procedures Guide provides instructions and standardized forms for use at the local park level. The DBR's Daily Cash Count Log Sheet identifies the requirement for the signature of a cash counter and a second level signor which must be different from the cash counter. Sound internal controls dictate adequate policies and procedures be implemented over cash transactions to minimize the risk of loss due to fraud, waste, or abuse.

Additionally, bank accounts should be reconciled timely, reviewed by appropriate personnel, and signed or initialed with a date to indicate review. Adequate segregation of duties should be attained to ensure assets are properly safeguarded.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-013: The Department Of Parks Failed To Follow Proper Policies And Procedures For Recording And Processing Receipts (Continued)**

Recommendation

We recommend Parks:

- Strengthen internal controls to ensure cash counts are properly authorized. Parks should include instructions and compensating controls for when two employees are not available to sign and approve the Daily Cash Count Log Sheet.
- Formally document required procedures for preparing and reviewing bank reconciliations. This should include the requirement that reconciliations are completed timely and signed by responsible personnel to validate procedures were completed.

Management's Response and Planned Corrective Action

In three instances, the daily cash count log sheet did not have the required two signatures validating the cash and checks available for deposit. In one of these instances, the same individual signed as the cash counter and reviewer. The Department of Parks agrees with the finding. In many instances at our smaller recreation and historic parks there is only one person working in the office therefore it is impossible to have two signatures. We will continue to follow guidelines when possible.

While it was evident that bank reconciliations of the local bank accounts were completed, a signature and date of completion was not documented to support reconciliations were completed timely by appropriate personnel. The Department of Parks agrees with the findings. We have implemented a process for reconciliation of bank accounts.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-014: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations

This is a repeat to prior year Finding 2016-027 as reported in the fiscal year (FY) 2016 Statewide Single Audit of Kentucky (SSWAK) Volume I. The Kentucky Department of Parks (Parks) maintains a bank account outside of the Kentucky State Treasury (Treasury) to temporarily hold funds associated with campground reservations collected by a contracted service organization. Twice each month, Parks reviews supporting documentation for the recorded deposits in the account and writes a check to itself and the Kentucky Horse Park (KHP) in order to allocate funds received between the two entities. Parks' check is deposited into Treasury, and the KHP check is mailed to KHP's accounting department. Review of the internal controls safeguarding this outside bank account revealed the following:

- Necessary bank reconciliations of the account were not current. The most recent bank reconciliation completed was as of March 2016. At June 30, 2017, account bank statements reported a balance of \$421,858 which was unreconciled.
- Parks did not provide KHP adequate supporting documentation with their check to assist in verifying the completeness and accuracy of the distributed receipts. Support was provided beginning in March 2017; however, not enough detail was available to allow KHP to substantiate the receipt.
- Parks did not review and confirm that the fees retained by the service organization were accurate based on the terms of the agreed upon contract.
- Parks did not maintain written guidance or a manual documenting the procedures necessary for completing the reconciliation.

Parks failed to implement adequate internal controls over the monitoring of its outside bank account, which was compounded by limited time and the availability of staff needed to complete necessary processes. Failure to complete bank reconciliations timely can lead to oversights, errors, and miscalculations that could go undetected for months, increasing the complexity of reconciling the bank account. Accounts held outside Treasury are at a higher risk of fraud, waste, and abuse.

When dealing with reservations, the reconciliation process is pivotal in ensuring funds are properly reported on the financial statements. Failure to verify receipts are complete, accurate, and properly classified could lead to a material misstatement on the financial statements. Additionally, failure to monitor contract compliance could lead to the unnecessary loss of revenue due to Parks being overcharged for provided services. Lack of written policies could lead to delays in completing the reconciliations accurately, especially if personnel changes occur unexpectedly.

Sound internal controls require bank accounts be reconciled timely, reviewed by appropriate personnel, and signed or initialed with a date to indicate review. Supporting documentation should ensure completeness of the receipts, and that necessary fees were collected in accordance with contractual agreements. Written policies and procedures help prevent mistakes, ensure compliance, save time, ensure consistency, and improve quality.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-014: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations (Continued)

Recommendation

We recommend Parks:

- Complete all outstanding reconciliations of the campground reservation bank account.
- Formally document required procedures for preparing and reviewing the reconciliations. This should include the requirement for signatures documenting the procedures were performed.
- Submit supporting documentation to KHP for their reservation receipts in order to ensure accuracy in their financial reporting. Parks should collaborate with KHP to ensure adequate supporting documentation is provided.
- Implement procedures to verify that fees collected by the service organization are correct in accordance with the terms of their contract.

Additionally, Parks should consult with the Finance and Administration Cabinet and Treasury to discuss options to possibly have all campground reservations receipts either deposited straight to Treasury or electronically swept from the temporary account. If a viable option, receipts would be further safeguarded and Parks would only need to transfer funds in the accounting system, eliminating the need to write checks monthly. Parks would still be responsible for reconciling receipts back to supporting documentation and verifying that fees collected by the service organization are correct in accordance with the contract.

Management's Response and Planned Corrective Action

Necessary bank reconciliations of the account were not current. The most recent bank reconciliation completed was as of March 2016. At June 30, 2017, account bank statements reported a balance of \$421,858 which was unreconciled. The Department of Parks agrees with the findings. We now have a process in place for the reconciliation of the reservation account and will begin immediately.

Parks did not provide KHP adequate supporting documentation with their check to assist in verifying the completeness and accuracy of the distributed receipts. Support was provided beginning in March 2017; however, not enough detail was available to allow KHP to substantiate the receipt. This process has been implemented in FY2017. The Department of Parks is supplying the KHP with a copy of the report that shows the amount of reservation funds collected by the contractor with the check remittance. The KHP also has the ability to run the same report from the contractor to verify that the amount is correct.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-014: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations (Continued)**

Management's Response and Planned Corrective Action (Continued)

Parks did not review and confirm that the fees retained by the service organization were accurate based on the terms of the agreed upon contract. While the Department of Parks agrees in part with the finding we are not sure how this can be accomplished. The Department receives a monthly invoice that breaks down the number of reservations taken by the contractor and the agreed upon fee stated in the contract. The totals are confirmed by our deputy commissioner and then processed for payment.

Parks did not maintain written guidance or a manual documenting the procedures necessary for completing the reconciliation. The Department of Parks agrees with the findings. As stated in the first bullet point, the Department has implemented a written process for reconciling the reservation account.

Auditor's Reply

Management's response and planned corrective action indicates "while the Department of Parks agrees in part with the finding we are not sure how this can be accomplished. The Department receives a monthly invoice that breaks down the number of reservations taken by the contractor and the agreed upon fee stated in the contract. The totals are confirmed by our deputy commissioner and then processed for payment." This process does not agree to the procedures identified during the course of the audit as the service organization fees were not identified as being a processed payment from Parks. Regardless, Parks should establish a procedure to ensure fees are accurate per the established contract and supporting documentation should provide evidence of any review and approval completed.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-015: The Department Of Parks Failed To Ensure All Accounts Payable Were Identified And All Invoices Were Paid Timely In Accordance With KRS 45.453

This is a repeat to prior year Finding 2016-025 as reported in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume I. The Department of Parks (Parks) processes invoices and payments which support its operations in providing services to the citizens and visitors of the Commonwealth. Activity originates from both the Parks central level office as well as individual recreational, historical, and resort parks located throughout the Commonwealth. Some invoices received at the close of the fiscal year are not paid until the first accounting period of the next fiscal year. These invoices are still obligations of the prior fiscal year and thus should be included and accounted for on Parks closing package, which is submitted to the Finance and Administration Cabinet (FAC) for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). During fiscal year 2017 the following exceptions were identified:

- Fourteen out of 66 invoices were not paid timely in accordance with Kentucky Revised Statute (KRS) 45.453.
- Three out of 16 invoices sampled near fiscal year-end were obligations of fiscal year 2017 but were paid in fiscal year 2018. Parks failed to report these expenditures, totaling \$19,620 on the fiscal year 2017 closing package as accounts payable.

Parks failed to ensure all received invoices were paid timely in accordance with KRS 45.453, which allows 30 working days from the date of the vendor's invoice to pay. Failure to pay invoices timely can result in unnecessary expenses, such as late fees and penalties.

Additionally, internal controls failed to ensure that obligations were reported in the correct fiscal year, and properly identified on the agency's closing package as an accounts payable when necessary. Failure to record all fiscal year 2017 obligations on the closing package leads to inaccuracies in financial reporting including an understatement of current year payables and expenses.

KRS 45.453 states, "[a]ll bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor."

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

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

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

FINDING 2017-015: The Department Of Parks Failed To Ensure All Accounts Payable Were Identified And All Invoices Were Paid Timely In Accordance With KRS 45.453 (Continued)

Recommendation

We recommend Parks implement adequate internal controls to ensure expenditures are paid timely in accordance with KRS 45.453. Additionally, we recommend strengthening internal controls over the preparation and subsequent review of Parks closing package to ensure all accounts payable are properly accounted for in accordance with Generally Accepted Accounting Principles (GAAP) and FAC's closing package instructions.

Management's Response and Planned Corrective Action

We hereby agree with the Audit Findings and are continuing our efforts to resolve instances of these in the future. We continue to educate our Parks to process invoices as soon as possible while forwarding to Central Office at least weekly.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-016: The Department Of Parks Failed To Implement Adequate Policies, Procedures, And Internal Controls Over The Disposal Of Obsolete Vehicles And Equipment

The Kentucky Department of Parks (Parks) failed to implement adequate policies, procedures, and internal controls over the disposal of obsolete vehicles and equipment. During fiscal year 2017, Parks disposed of 14 vehicles and equipment with a historical cost totaling \$198,150. Local parks are to complete a Request for Disposal form to initiate the disposal process. If the asset's historical cost is over \$1,000, the park's regional manager approves the disposal and the property officer at Parks Central Office is notified. Digital photos are also taken of items with a historical cost of over \$500, which are to be submitted and maintained by the property officer at Parks Central Office. For two asset disposals tested, Parks failed to maintain adequate documentation to support the approval, method of disposal, and any income generated for the disposal.

Parks' policies and procedures were not formally established or consistently applied to ensure proper protocol was followed for the disposal of obsolete capital assets. Without adequate documentation, asset disposals could not be properly verified as being authorized and warranted. The failure to implement adequate internal controls over the disposal process leaves Parks' assets vulnerable to loss due to fraud, waste, and abuse.

Finance and Administration Cabinet Policies and Procedures (FAP) 220-19-06 states:

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

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

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

Recommendation

We recommend Parks implement adequate policies, procedures, and internal controls over the disposal of obsolete property and equipment to ensure items disposed of are properly tracked and funds received are accounted for. Parks should formally document procedural requirements for asset disposals, distribute to local parks throughout the Commonwealth, and ensure the policy is consistently applied. All supporting documentation should be properly maintained and available.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-016: The Department Of Parks Failed To Implement Adequate Policies, Procedures, And Internal Controls Over The Disposal Of Obsolete Vehicles And Equipment (Continued)

Management's Response and Planned Corrective Action

The Department of Parks agrees and has an SOP in place for asset disposal. Department of Parks also has an asset disposal form. The Department of Parks will reiterate with the parks on proper procedures.

Auditor's Note: The Department of Parks provided attachments.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-017: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To The Enhanced Management Administrative & Reporting System

This is a repeat to prior year Finding 2016-029 as reported in Volume I of the fiscal year (FY) 2016 SSWAK. The fiscal year 2017 audit of the Department of Revenue (DOR) identified that since the Enterprise Electronic Payments Systems (EEPS) was implemented by the Commonwealth Office of Technology (COT) in January 2014, DOR has not been able to reconcile tax payments to the enhanced Management Administrative & Reporting System (eMARS). The difference between the two systems as of June 30, 2017 was \$4,813,069.

During FY 2016, we determined EEPS and eMARS would not reconcile due to timing differences, differences in the way the funds were recorded, potential input errors, and the lack of returns and refund information in EEPS. To solve the reconciliation problem, COT has been tasked with making various enhancements to EEPS. Also, DOR is working with COT, the Finance Cabinet, and a vendor to create a separate clearing account and reports that will assist with the monthly reconciliation; however, these were not functional prior to the end of fieldwork.

DOR is working with various agencies to implement design changes, develop a new clearing account and create reports that will assist them with reconciling EEPS to eMARS. However, the changes had not been implemented, and the clearing account and new reports were not available for use prior to the end of fieldwork.

Systems that cannot be reconciled can result in oversights, errors, and miscalculations that misstate account balances for financial reporting purposes.

Good internal controls over the monthly reconciliation process are necessary to ensure that transactions are accurate, complete, and consistent in both EEPS and eMARS. EEPS should be reconciled on a monthly basis to verify that all items were posted correctly to the various accounts and any differences are identified and corrected. Unreconciled accounts at month end could result in inaccurate recording of transactions, incorrect reporting, and potentially affect other resources.

Recommendation

We recommend DOR continue to work with COT, the Finance Cabinet, as well as other external entities, to resolve the EEPS reconciliation issues. DOR should ensure all enhancements made to EEPS are properly tested and function as designed prior to being moved to production. Also, any reports created should provide complete and accurate information. In addition, once created, DOR should ensure the new clearing account is properly reconciled monthly.

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

FINDING 2017-017: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To The Enhanced Management Administrative & Reporting System (Continued)

Management's Response and Planned Corrective Action

DOR is continuing to work with the vendor and Finance Controller's Office to design the appropriate reports and to determine any system changes needed. DOR has set up an additional clearing account and it reconciled in July and August.

There will always be instances where the accounts are out of balance due to returned and refunded transactions and timing differences. However, the creation of the new reports and the new account should assist with the monthly reconciliation.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-018: The Department Of Workforce Investment Failed To Prevent Payment To Ineligible Claimants

During fiscal year (FY) 2017, the Department of Workforce Investment (DWI) became aware of vulnerabilities within its internal control structure allowing ineligible individuals to receive Unemployment Insurance (UI) benefits. Detailed information that could potentially increase the risk of loss was intentionally omitted from this comment. A review completed by DWI identified \$155,193 of fraudulently obtained UI benefits beginning in fiscal year 2016.

Upon discovery of the risk of fraudulent claims being processed, DWI modified its policies, procedures, and internal controls to detect and prevent future incidents. Additionally, DWI took appropriate actions by notifying the United States Department of Labor Office of the Inspector General of the fraud risk and was approved a supplemental budget request to implement system changes to further safeguard assets.

DWI failed to implement adequate internal controls to prevent and detect payment of fraudulent UI benefits claims. As a result, ineligible individuals received UI benefits, and there was an increased risk for the loss of UI compensation fund assets due to fraudulent activity occurring undetected. The stability and soundness of the UI compensation fund has a substantial impact on all businesses operating within the Commonwealth as it could impact the Federal Unemployment Tax Act (FUTA) credit calculation.

Title 2, U.S. Code of Federal Regulations (CFR) section 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 8.01 - Assess Fraud Risk, within the Green Book states, “management should consider the potential for fraud when identifying, analyzing, and responding to risks.”

Section 8.06 - Response to Fraud Risks, within the Green Book states that management analyzes and responds to identified fraud risks so that they are effectively mitigated. Fraud risks are analyzed through the same risk analysis process performed for all identified risks. Management analyzes the identified fraud risks by estimating their significance, both individually and in the aggregate, to assess their effect on achieving the defined objectives.

The structure of the Federal-State Unemployment Insurance partnership is based on federal statute; however, it is implemented through state law. Eligibility requirements for UI benefits are outlined in Kentucky Revised Statute (KRS) 341.350, Conditions of qualification for benefits. Any person who knowingly makes a false statement or representation of a material fact or knowingly fails to disclose a material fact in order to obtain or increase any benefit received is subject to penalties as outlined in KRS 341.990.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-018: The Department Of Workforce Investment Failed To Prevent Payment To Ineligible Claimants (Continued)

Recommendation

We recommend DWI continue to implement policies, procedures, and internal controls to ensure UI benefit payments are only made to eligible claimants. DWI should continuously examine and evaluate its operating environment, identify potential risks of fraud, waste, and abuse, and implement adequate controls to further safeguard UI assets.

Management's Response and Planned Corrective Action

Since identifying 4 fictitious employer accounts in FY2017, the UI Division has taken several measures to prohibit and discourage these schemes. The Tax, Audit and Enforcement branch worked to enhance the employer account application process and to routinely monitor for any account activity that appears suspicious. Branches Division wide are aware of the makings of a fictions employer scheme and monitor activity relating to the establishment of claims as well.

When someone visits the employer portal, they will now see a newly developed security banner advising that the agency monitors for schemes to establish fictitious accounts and we also display the user's IP Address to serve as a warning that their location and services is identified and monitored. See banner below.

NOTICE TO ALL USERS

You are attempting to access a Commonwealth of Kentucky governmental information system. The Kentucky Division of Unemployment Insurance monitors all usage of this site in order to prevent any fraudulent or unauthorized activities.

Any unauthorized use of this system or schemes to establish fictitious employer accounts, file fictitious employer reports, or fraudulently claim unemployment benefits will be referred to local, state and federal authorities and may result in prosecution by the Office of Inspector General.

For security purposes, we have obtained your login attempt below:

| IP Address | Country | Region | City |
|------------|---------------------------------------------------------------------------------------------------|----------|-----------|
| Redacted | United States  | Ohio | Cleveland |
| ISP | Organization | Latitude | Longitude |
| Redacted | Redacted | Redacted | Redacted |

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-018: The Department Of Workforce Investment Failed To Prevent Payment To Ineligible Claimants (Continued)**

Management's Response and Planned Corrective Action (Continued)

I acknowledge that I am authorized to execute this transaction of behalf of the employing unit and the statements and information entered into this information system will be true, correct, and complete to the best of my knowledge.

AGREE - PROCEED TO LOGIN

EXIT

Secondly, we have also developed a more rigorous application that requires more verifiable information, such as verifying registration with the Kentucky Secretary of State's office and requiring a Federal Employer Identification Number. We are hopeful to obtain United States Postal Service address verification software in the near future to further help us match a legitimate business with their assigned postal address.

After completion of the registration process, UI tax staff reviewing the approval for accounts is now aware and have been training to look for and report suspicious data, examples of suspicious data would be; accounts indicating liability over a year in the past; owner or officer names that look suspicious; location addresses that look to be made up and special scrutiny is given to businesses who perform services in Landscaping, Janitorial, Construction or other seasonal fields. If a data element is identified as potentially fictitious, the staff are to report the occurrence to their immediate supervisor who will then make contact with the employer to do a verbal verification check before an account is established.

Additionally, we have developed a routine query that is performed by COT to scan the database for accounts that have filed two or more consecutive delinquent reports on the same date, have not paid any contributions and have benefit charges on their account. This report is being run quarterly and at the request of the Tax Enforcement Branch Manager, after the benefit charge statements have been mailed. The Tax Enforcement Manager will review the accounts that are identified as potentially fictitious and investigate.

If a fictitious employer account is found, the Tax Enforcement Manager will notify the Benefits Branch Manager and together will work to gather necessary information to submit to the Department of Labor's Regional Office of Inspector General in Atlanta, GA for a complete investigation and potential prosecution.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-018: The Department Of Workforce Investment Failed To Prevent Payment To Ineligible Claimants (Continued)**

Management's Response and Planned Corrective Action (Continued)

In addition, the Tax Enforcement Manager will close out the fictitious account on the system, remove all reports and wages, and place a note on the account indicating it is a fictitious account and to route any calls received on the account to the Manager. The Benefits Branch Manager will take the necessary actions to stop any fraudulent claims from being processed and will alert the UI Director as well as staff within the Benefits and Adjudication Branches.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-019: The Department Of Workforce Investment Failed To Ensure Claimants Receiving Benefits Had Completed The Registration Process

This is a repeat to prior year Finding 2016-018 as reported in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume I. For three out of 60 claimants reviewed during fiscal year 2017, the Department of Workforce Investment (DWI) failed to ensure the claimants completed the registration process for Employment Services (ES) prior to receiving Unemployment Insurance (UI) benefits. As required by 787 KAR 1:090, a claimant must register with a state employment service and complete the registration process. DWI requires claimants to register with Focus Career as part of enrolling in ES.

DWI required an in-person Eligibility Review (ER), six weeks after the initial claim, as a manual compensating control to ensure all UI claimants were registered with Focus Career. As identified in prior year Finding 2016-018, DWI personnel were able to override Kentucky Electronic Workplace for Employment Services (KEWES) system controls allowing a claimant to improperly continue receiving UI benefits without completing the required ER. During fiscal year 2017, DWI mitigated this vulnerability by moving ERs online, eliminating the in-person review, and removing front line personnel's access to KEWES. Although updated internal controls further restricted system access and limit the opportunity for overriding system controls, the only compensating control to ensure claimants were registered with Focus Career was also eliminated. As a result, there is no mechanism in place to ensure claimants complete the registration process prior to receiving UI benefits.

DWI failed to establish and implement adequate internal controls to ensure potential claimants properly completed the registration process prior to receiving UI benefits payments. DWI indicated that Information Technology (IT) costs and reduced administrative funds present a challenge to fully integrating its systems which would provide an automated control ensuring claimants registered for ES appropriately.

Failure by DWI to establish and implement adequate controls to ensure claimants complete the ES registration process may lead to significant overpayments, improper payments, questioned costs, and noncompliance with federal and state laws and regulations.

42 United States Code (U.S.C.) § 503, states, in part,

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

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-019: The Department Of Workforce Investment Failed To Ensure Claimants Receiving Benefits Had Completed The Registration Process (Continued)

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

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

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

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

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

Section 5. Eligibility Review. The secretary may require an unemployed worker claiming benefits to report for the purpose of continued benefit eligibility review as a condition for payment of benefits. The requirement and interval for eligibility review shall be determined by:

- (1) The worker's classification as established in Section 1(2) of this administrative regulation;
- (2) The worker's individual employment and earning history; and
- (3) The local labor market.

Title 2 Code of Federal Regulations (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).

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-019: The Department Of Workforce Investment Failed To Ensure Claimants Receiving Benefits Had Completed The Registration Process (Continued)

Principle 10 – Design Control Activities, within the Green Book states, in part,

10.01 Management should design control activities to achieve objectives and respond to risks

10.02 Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.

Recommendation

We recommend DWI evaluate and implement effective policies, procedures, and internal controls to ensure required UI claimants are properly registered for ES before they receive UI benefits in accordance with state and federal UI laws and regulations.

Management's Response and Planned Corrective Action

1. *OET has removed all front line staff access to KEWES which is part of the solution.*
2. *The online eligibility review (ERI) is another response for the immediate problem as there is no longer any in person ERI.*
3. *Long term we are working to integrate the ERI into the Continued Claims application making that a seamless process and thus removing any staff interaction.*

Auditor's Reply

The Agency provided an updated policy as additional information. Management's response and planned corrective action has an emphasis on limiting the opportunity for personnel to override system controls. We would like to reiterate DWI implement corrective action to ensure required UI claimants are properly registered for ES before they receive UI benefits in accordance with state laws and regulations. DWI has established that registering with Focus Career is a requirement for enrolling in ES; however, there is no mechanism in place to ensure this registration is being completed timely.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-020: The Department Of Workforce Investment Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act**

This is a repeat to prior Finding 2016-020 as reported in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume 1.

The fiscal year 2017 audit of the Department of Workforce Investment (DWI) revealed an instance where the reporting requirements outlined in the Personal Information Security and Breach Investigation Procedures and Practices Act were not followed. Related to this instance, the agency also did not follow the notification and reporting requirements in the Commonwealth Office of Technology (COT) Enterprise Policy CIO-090 Information Security Incident Response Policy. Furthermore, although the agency has begun developing internal procedures for reporting and analyzing potential security incidents, these procedures are not sufficient to ensure incidents are properly documented, analyzed, and reported to all appropriate groups in an efficient and timely manner.

On June 9, 2016, a DWI Office of Employment and Training (OET) employee erroneously released personally identifiable information via email to a third party. The information included the social security numbers, addresses, phone numbers, and names of 135 unemployment insurance claimants. When the employee realized what happened, she contacted an individual who she believed was with the OET security office. However, this person no longer worked for OET. The former employee advised the DWI employee to recall the email and to notify management. The former employee then sent an email to various OET staff to apprise them of the situation.

The DWI employee attempted to recall the email and then spoke to the unintended recipient, who immediately deleted the erroneous email. Documentation provided during the audit indicates the unintended recipient sent an email on June 15, 2016 to the DWI employee confirming the June 9, 2016 phone call and the immediate deletion of the erroneous email. The DWI employee then notified her regional manager of the incident. The regional manager completed the agency's internal security incident reporting form.

Other supporting documentation indicates the legal representative for the Education and Workforce Development Cabinet made a determination on June 21, 2016 that a security breach did not occur and, therefore, no further action was necessary from the agency. Although the Chief Information Security Officer (CISO) for COT appeared to have been included in emails related to this situation, a formal incident form was not submitted to COT. COT confirmed that no DWI incidents were reported for the month of June 2016.

During the audit, DWI acknowledged the incident was not reported to outside agencies since the incident was ultimately determined not to be a security breach. Additionally, DWI does not maintain a tracking log of potential incidents.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-020: The Department Of Workforce Investment Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)**

We are aware that the agency has developed an internal security incident reporting form. However, the agency is limiting their reporting practices to the completion of this document and not performing the steps outlined in CIO-090 and KRS 61.933. Additionally, the agency has not provided instructions to the DWI staff for the completion of the internal security incident reporting form and has not developed agency level procedures for DWI staff regarding security incident reporting.

DWI management did not follow the procedures outlined in the CIO-090 Information Security Incident Response Policy and the Personal Information Security and Breach Investigation Procedures and Practices Act when a potential data breach was identified.

Failure to follow information security incident reporting procedures is a noncompliance with the Personal Information Security and Breach Investigation Procedures and Practices Act. This increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public without the appropriate remediation and notification of the incident.

The COT Enterprise Policy pertaining to security incidents, CIO-090 Information Security Incident Response Policy, states:

When agencies identify a potential security incident, they are required to contact the Commonwealth Service Desk to report the incident. In the event that the incident is sensitive in nature, the reporting agency can contact the COT Security Office directly instead of the Commonwealth Service Desk. These actions allow the Office of the CISO to review the incident and determine the level of required involvement with the incident response. Depending on the scope of the incident and the skill set of the agency's personnel, COT's level of response may range from an advisory role to leading the investigation.

The Personal Information Security and Breach Investigation Procedures and Practices Act is found in KRS 61.931 to KRS 61.934. KRS 61.933, which became effective January 1, 2015, states:

Any agency that collects, maintains, or stores personal information that determines or is notified of a security breach relating to personal information collected, maintained, or stored by the agency or by a nonaffiliated third party on behalf of the agency shall as soon as possible, but within seventy-two (72) hours of determination or notification of the security breach:

1. Notify the commissioner of the Kentucky State Police, the Auditor of Public Accounts, and the Attorney General. In addition, an agency shall notify the secretary of the Finance and Administration Cabinet or his or her designee if an agency is an organizational unit of the executive branch of state

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-020: The Department Of Workforce Investment Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)

government; notify the commissioner of the Department for Local Government if the agency is a unit of government listed in KRS 61.931(1)(b) or (c) that is not an organizational unit of the executive branch of state government; notify the commissioner of the Kentucky Department of Education if the agency is a public school district listed in KRS 61.931(1)(d); and notify the president of the Council on Postsecondary Education if the agency is an educational entity listed under KRS 61.931(1)(e). Notification shall be in writing on a form developed by the Commonwealth Office of Technology.

After the investigation is complete, the agency must notify the same parties whether the misuse of personal information has occurred.

KRS 61.933 also requires the notification to be in writing and on a form designated by COT. The Enterprise policy references the Finance Form FAC-001, Suspected and Determined Breach Notification Form, listed in 200 KAR 1:015. According to the regulation, agencies should complete the form for a suspected or determined data breach. Additionally, this form is to be used to notify the respective agencies within 48 hours of the conclusion of the investigation.

Recommendation

We recommend DWI expand their internal security breach procedures. Specifically, DWI should review requirements regarding the handling of potential information security incidents in CIO-090 and KRS 61.931 to KRS 61.934 to ensure the internal procedures are in line with the Enterprise Policy and statutes. The procedures should be written to explicitly identify agency management or staff involved and their responsibilities and authority over this process.

DWI management should ensure all steps of the security breach process are consistently completed. Specifically, if a potential breach is identified, designated DWI staff should be contacted immediately. COT should then be notified, as well as the KSP, APA, Attorney General, and Finance Secretary within 72 hours. After the incident has been investigated, DWI should inform these same agencies whether the misuse of personal information has occurred. If a breach has occurred, DWI should then follow the procedures regarding notifying individuals impacted.

DWI should develop a tracking methodology to log pertinent information about each potential incident to ensure that management and auditors are able see the types of incidents identified, the final determination of these incidents, and the actions taken to communicate and remedy the situation. Any work conducted by DWI staff to review a security breach should also be thoroughly documented, maintained centrally based on the retention schedule of the agency, and readily accessible for management and audit review.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-020: The Department Of Workforce Investment Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)**

Recommendation (Continued)

Finally, all DWI staff should be made aware of the agency's internal procedures related to the requirements of the CIO-090 Enterprise Policy and associated statutes. DWI staff should be knowledgeable concerning the appropriate actions involved with the identification, reporting, and notification of potential security incidents.

Management's Response and Planned Corrective Action

DWI worked together with COT and our legal staff to determine if a breach had occurred. It was our interpretation that it was not necessary to contact KSP, APA, OAG, and the Secretary of the Finance Cabinet unless it was determined to be a Security Breach. In the future, DWI staff will notify KSP, APA, OAG, and the Secretary of the Finance Cabinet within 72 hours. DWI will expand internal security breach procedures to follow the CIO-090 and KRS 61.931 to KRS 61.934. These procedures will be provided to staff from the DWI website and thru Security Awareness Training. DWI will work with COT to establish a Security Awareness Training for staff. DWI will develop a spreadsheet to include documentation regarding all security related incidents.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-021: The Finance And Administration Cabinet Did Not Close Sheriff's Old Year Account Timely

This is a repeat finding. The prior year finding, 2016-031, was included in Volume I of the fiscal year 2016 SSWAK report. In counties having a population of 70,000 or more, certain operating expenses are paid out of the State Treasury rather than accounts maintained by the county. These funds are collected by the counties, but deposited into the State Treasury. Because of this, these counties rely on timely payments by the Finance and Administration Cabinet Division of Local Government County Fees Systems Branch (CFSB) to ensure uninterrupted continuance of county government operations. In order to facilitate this process, accounts are created annually for these counties in the state's accounting system, eMARS. These accounts are used to hold and track funds transferred between counties and CFSB. When a new four-year term begins, old term accounts are emptied by paying remaining funds over to the fiscal court or by collecting amounts due to the state, and then closed to ensure proper tracking of funds between officials. The old term account for the Boone County Sheriff was not closed timely.

CFSB made an entry which moved \$3,579,040 of new term funds into the old term account, with no explanation and no input from the Boone County Sheriff's office. Despite the Boone County Sheriff's efforts, this error has not been corrected and the old term account has not been closed.

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

Recommendation

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

Management's Response and Planned Corrective Action

In the report of Record Of Control Weakness/Record Of Noncompliance, the Auditor of Public Accounts recommended that the County Fees System Branch (CFSB) should close old term accounts timely so as to avoid the administrative issues currently facing the counties as a result of those accounts remaining open and to ensure funds that are owed to the fiscal court are paid to them as required.

For the closeout of the 2010-2014 terms, the Division previously did not maintain written procedures for closure of the old term accounts. Location of the source of internal charges in EMARS in order to change the posting was the major problem. This problem has now been corrected.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-021: The Finance And Administration Cabinet Did Not Close Sheriff's Old Year Account Timely (Continued)

Management's Response and Planned Corrective Action (Continued)

We have developed a new procedure for the CLOSURE OF 2015-2018 LARGE COUNTY TEMPLATES. This procedure will be initiated on December 1, 2018 as written.

The Division is now doing a review of the remaining old term accounts and should have these accounts completed by December 31, 2017.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-022: The Finance And Administration Cabinet Failed To Include The Louisville Arena Authority As A Component Unit In The Prior Year Comprehensive Annual Financial Report**

According to generally accepted accounting principles, the financial reporting entity for a government should include organizations outside of the primary government in specific circumstances. Component units are one type of organization that, although legally separate from the primary government, should be considered for inclusion in the financial reporting entity of a government. The Finance and Administration Cabinet (FAC) had not identified the Louisville Arena Authority (LAA) as a component unit for inclusion in its annual Comprehensive Annual Financial Report (CAFR), although the facts and circumstances of the entity's operations appear to warrant such inclusion.

This determination was made as a result of additional analysis performed by the Auditor of Public Accounts (APA) during the calendar year (CY) 2016 financial statement audit of LAA.

During the CY 2016 audit, it was determined that in addition to having separate legal standing from the Commonwealth, LAA qualifies as a component unit of the Commonwealth because the Governor appoints a voting majority of LAA board members, and a financial burden relationship exists between the Commonwealth and LAA because of foregone revenue due to a tax increment financing (TIF) arrangement. The Commonwealth has foregone a total of \$37,872,333 in revenue, \$10,297,345 in CY 2016 alone, and recently extended the TIF for up to an additional 25 years.

A component unit's presentation in the CAFR can either be blended with the Commonwealth or discretely presented. Because the LAA board is not substantively the same as the Commonwealth and LAA provides services mostly to parties other than the Commonwealth, the proper presentation of LAA in the Commonwealth's CAFR is as a discretely presented component unit.

LAA was omitted from the Commonwealth's CAFR due to an erroneous initial component unit determination by FAC after the creation of LAA.

Because the financial activity of LAA has been omitted from the Commonwealth's CAFR, users of the CAFR have not had the ability to analyze the activity of LAA in relation to other Commonwealth component units and the Commonwealth as a whole. Due to this omission, the assets in the component unit column of the government-wide Statement of Net Position have been understated by \$377,749,322, and the liabilities in that same column have been understated by \$360,650,036 in fiscal year 2017. The government-wide Statement of Activities understated program revenues in the component unit section by \$30,623,154 and understated expenses by \$33,645,037. In addition to the government-wide financial statements, the financial activity of LAA should also be presented in the Combining Statement of Net Position and Combining Statement of Activities for Non-Major Component Units-Authorities. If FAC were to determine that LAA is a major component unit, this would require the inclusion of LAA financial information in various note disclosures in the CAFR and additional financial statement presentation.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-022: The Finance And Administration Cabinet Failed To Include The Louisville Arena Authority As A Component Unit In The Prior Year Comprehensive Annual Financial Report (Continued)**

Governmental Accounting Standard Board (GASB) Statement 14, amended by GASB 39, 61, and 80, defines a component unit as a legally separate organization for which the elected officials of the primary government are financially accountable. Financial accountability is defined as a situation where the primary government appoints a voting majority of the organization's board and either (i) the primary government has the ability to impose its will on the organization or (ii) the organization provides a financial benefit to or imposes a financial burden on the primary government.

LAA Articles of Incorporation state the governor shall appoint 10 of the 15 board members and LAA bylaws prescribe that the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board. GASB 14 provides a TIF arrangement as an example of a financial burden on the primary government.

Recommendation

We recommend the inclusion of LAA financial activity in the Commonwealth's CAFR as a discretely presented component unit. LAA's standing as either a major or non-major discretely presented component unit should be based on FAC analysis and criteria established by GASB. Because LAA financial statements are currently prepared in accordance with FASB standards, certain GASB conversions would be necessary to enable consolidation into the Commonwealth's CAFR.

Management's Response and Planned Corrective Action

We agree with your recommendation and will be including as a component unit for year ending June 30, 2017.

Auditor's Reply

As a result of the inclusion of LAA in the Commonwealth's CAFR, the beginning net position for the component unit column of the government-wide Statement of Activities was restated by \$20,121,169. The financial activity of LAA was also presented in the Combining Statement of Net Position and Combining Statement of Activities for Non-Major Component Units – Authorities. Where applicable, LAA financial activity was also disclosed in the notes to the financial statements.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-023: The Kentucky Horse Park Failed To Adequately Monitor Receipts From Campground Reservations

The Kentucky Department of Parks (Parks) receives funds collected by a contracted service organization associated with campground reservations, a portion of which are related to transactions pertaining to the Kentucky Horse Park (KHP). Up until March 2017, KHP was only mailed a check without any further documentation to substantiate the amount provided. After March 2017, additional support was provided; however, the support was inadequate to assist KHP in verifying the collected receipts. KHP failed to implement adequate internal controls to reconcile the provided check and support against KHP records to ensure the accuracy and completeness of the amount remitted.

Support for campground reservation receipts has never been consistently provided to KHP; therefore, controls have never been implemented to ensure adequate reconciliation of campground reservation records to amounts received as provided by Parks.

By not having internal control procedures in place, there is no way for KHP management to be confident that KHP has received all amounts due from campground reservations. When dealing with reservations, the reconciliation process is pivotal in ensuring funds are properly reported on the financial statements. During fiscal year 2017, total receipts from campground reservations totaled \$1,043,453. Failure to verify receipts are complete, accurate, and properly classified could lead to misstatements on the financial statements.

Sound internal controls dictate supporting documentation be reviewed and verified to ensure the completeness and accuracy of amounts reported in the financial statements. Internally generated reports should be utilized to reconcile and confirm activity when possible. Formally documented policies and procedures should be established to prevent inaccurate financial reporting.

Recommendation

We recommend KHP develop and implement internal controls to ensure campground reservation receipts are reconciled to supporting documentation and entity records to ensure the accuracy and completeness of amounts received. KHP should collaborate with Parks to ensure adequate internal controls are implemented and sufficient supporting documentation is provided to validate campground reservation receipts recorded in the financial statements.

Management's Response and Planned Corrective Action

KHP will work with Parks to establish internal controls to ensure campground reservation receipts are reconciled to supporting documentation. KHP receives the monthly report and check from parks for the previous month's reservations. Management will work with parks to establish reporting procedures that will adequately document payments received from the contractor to validate receipts.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory

During fiscal year 2017, year-end inventory counts were performed to verify the existence and accuracy of reported inventory at Kentucky Transportation Cabinet (KYTC) traffic and maintenance garages located throughout the Commonwealth. Observations identified numerous instances where KYTC failed to comply with requirements outlined in the Operations Management System (OMS) Policy and Procedures Manual including the following:

- KYTC monitors inventory centrally in accordance with OMS Materials Policy and Procedures Manual Section MAT-602 and MAT-604. KYTC's inventory tracking spreadsheet for fiscal year 2017 revealed numerous discrepancies including instances where district inventory counts exceeded the expected 5% error rate and instances where no monthly data was reported indicating the district failed to conduct or submit inventory count information for the month. KYTC's spreadsheet identified a potential inventory loss of \$715,581 during fiscal year 2017. KYTC failed to adequately follow-up and investigate identified discrepancies and potential errors.
- The Hopkins County traffic inventory was not properly tracked, maintained, or monitored. Discrepancies were noted on inventory counts for 146 out of 371 items from what was reported within OMS, which constitutes 40% of the inventory line items. For items missing during the observation, documentation was not available to support where or when items had been used. Additionally, KYTC failed to provide the final OMS report to support if adjustments identified during the inventory count were properly made in OMS to ensure accurate financial reporting.
- During the Bell County materials inventory, bulk materials such as salt, aggregate, millings, and sand were inventoried utilizing estimates based on prior experience and not in accordance with prescribed procedures. The bulk materials were not organized into quantifiable shapes as required and no measurements and calculations were performed to compute an accurate count of the materials.

KYTC failed to adhere to internal control requirements established by the OMS Materials Policy and Procedures Manual. Failure to conduct monthly inventory counts and follow up on error rates exceeding expectations leaves KYTC inventory at risk of loss due to fraud, waste, and abuse. Additionally, failure to properly track inventory could lead to inaccurate information being used for financial reporting and decision making purposes.

OMS Materials Policy and Procedures Manual Section MAT-601 states:

Prior to inventory, items should be organized. Like items should be grouped together in one area and stockpiles should be shaped to make measurements easier. Standard stockpile shapes for bulk materials are cone, tent, cube, or any other measurable formation.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory (Continued)**

Bulk material stockpile quantities should be calculated as outlined in the Stockpile Quantity Calculation Procedures (Appendix D).

OMS Materials Policy and Procedures Manual Section MAT-602 and the State Highway Engineering January 3, 2008 MEMO Titled “Monthly Inventory Counts” states:

All Management units shall conduct a monthly inventory for all OMS related materials. Copies are to be maintained in district office and compiled quarterly by Deputy Executive Director. Excessive error should be investigated to determine the appropriate corrective measures. The district quarterly report must be delivered to the Director of Maintenance before the end of month following each quarter. Central office maintenance will review each district report, calculate error rates and prepare the statewide report.

OMS Materials Policy and Procedures Manual Section MAT-604 states:

Each quarter after all inventories have been submitted, the Central Office Division of Maintenance will compile inventory data and send an Inventory Report to the Commissioner of Highways for review. The report will be divided into the following four categories that measure performance:

- 1) Average Error Rate – Calculated by adding the inventory error rate for every crew within a district divided by the number of inventories submitted per that district each month. Average error rates are expected to be 5% or lower for all districts.
- 2) Highest Error Rate – Represents the crew with the highest error rate in their district for that particular month.
- 3) Percentage of Crews with Error Rates > 5% – Indicates the number of crews which failed to meet the expected error rate of 5% each month.
- 4) Number or Crews with no data reported – Represents the number of management units, which failed to either conduct or submit an inventory for that month.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-024: The Kentucky Transportation Cabinet Failed To Adhere To Established Internal Controls Over The Verification And Monitoring Of Inventory (Continued)**

Recommendation

We recommend KYTC provide instruction and training on year-end and monthly inventory procedures to ensure districts adhere to requirements established by the OMS Materials Policy and Procedures Manual. KYTC should also strengthen monitoring of district inventory and further analyze and investigate identified irregularities to determine the cause and implement corrective action. KYTC should take appropriate steps to safeguard assets from fraud, waste, and abuse and ensure the accuracy and integrity of inventory data utilized in the preparation of the Commonwealth's financial statements.

Management's Response and Planned Corrective Action

Management agrees with the finding. The Division of Maintenance and the State Highway Engineer's Office has been reviewing the OMS Policy and Procedure Manual for the past few months. The current inventory procedures do not take into account risk of loss with respect to inventory type. This causes the Cabinet to spend a great deal of time performing inventory procedures on inventory items that have a very low risk of loss. The current procedures cause the Cabinet incur a great deal of cost in monitoring some inventory items that have virtually no risk of loss. And conversely, the Cabinet doesn't focus resources on monitoring inventory items that carry very high risk of loss. It is the Cabinet's intent to develop categories of risk and develop inventory and internal control procedures that meaningfully address risk of financial loss.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-025: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls Over The Payroll Process

This is a repeat to prior year Finding 2016-042 as reported in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume I. Kentucky Transportation Cabinet (KYTC) personnel account for their time and attendance on a daily timesheet which is signed by the employee and approved by a supervisor. Timesheet information is then entered into the Kentucky Human Resources Information Systems (KHRIS) where it is uploaded into the Commonwealth's accounting system (eMARS) for financial reporting purposes. The timesheets are maintained at either the KYTC central office or district offices throughout the state. During fiscal year 2017, daily timesheets for 60 employees covering four separate pay periods were reviewed. The following exceptions were identified:

- Twenty-five daily timesheets were not signed by an employee;
- Two employees had a combined 15 instances where they signed and approved their own daily timesheets;
- Eleven daily timesheets were not signed by a supervisor;
- Three instances of overtime requests were not approved by a supervisor; and
- In one instance, the hours recorded in KHRIS did not match the hours recorded and approved on the timesheet. The aggregate of this error resulted in the time reported in KHRIS being understated by five hours. This error was corrected within KHRIS after it was identified during the course of the audit.

KYTC failed to implement adequate internal controls as identified in its policies and procedures manual in order to prevent and detect errors related to payroll processing. Without employee or supervisor signatures on timesheets, there is no evidence the employee agreed with the time record processed in KHRIS, or that the supervisor validated the time charged. Additionally, failure to ensure hours reflected on timesheets are correctly recorded in KHRIS could lead to employees being over or under compensated. This could lead to inaccuracies in financial reporting.

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

- At the end of the pay period, employees shall sign the KHRIS timesheet, certifying the accuracy of the reported time, and submit the timesheet to their supervisor for signature approval.
- Supervisors shall sign the TC 12-261 form certifying that all information reported by their employees is accurate, including all evidence of approved requests for deviation from regular work schedule, for planned leave, and for compensatory time/overtime.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-025: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls Over The Payroll Process (Continued)**

Sound internal controls further dictate that the correct hours should be charged for work performed, overtime should be properly approved, and timesheets should be signed by the employee to ensure the correct hours are reported in KHRIS. Sufficient authorization levels should be established to ensure personnel are not permitted to provide supervisory approval for their own timesheets. Additionally, appropriate review should be conducted and documented to ensure timesheet information is appropriate and properly coded into KHRIS to ensure accuracy in financial reporting.

Recommendation

We recommend KYTC implement adequate internal controls to ensure timesheet data is accurately reported in KHRIS. KYTC should also provide further training to all staff to ensure compliance with GAP Manual Section 206-1 requiring timesheets are properly signed and approved by the employee and supervisor. Additionally, KYTC should prohibit an employee from approving their own timesheet.

Management's Response and Planned Corrective Action

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

Supervisors and timekeepers should ensure that all timesheets are signed by the employee and the supervisors. Employees are prohibited from approving their own timesheet.

Timekeepers should ensure that the time code on the timesheet agrees to the time code entered into KHRIS.

Timekeepers are strongly encouraged to review Timekeeper training which is located on OHRM's website.

Also, a KYTC Postmaster reminder was send 1/4/2017 regarding GAP 206. We will continue to strive to improve internal controls over the payroll process.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-026: The Kentucky Transportation Cabinet Failed To Ensure The Completeness And Accuracy Of Reported Infrastructure And Construction In Progress Account Balances

This is a repeat to prior year Finding 2016-041 as reported in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume I. The Kentucky Transportation Cabinet (KYTC) is responsible for developing the Governmental Accounting Standards Board (GASB) Statement 34 workbook which is pivotal in providing infrastructure, construction in progress, and maintenance and preservation cost information necessary for financial statement reporting in the Commonwealth's Comprehensive Annual Financial Report (CAFR). During fiscal year 2017, concerns were identified over the completeness and accuracy of the GASB 34 workbook including the following:

- Several revisions were necessary before a complete and accurate GASB 34 workbook was available. Variances between the initial and final versions included infrastructure being adjusted by \$101,344,812 and construction in progress being corrected by \$6,342,327. Based on correspondence with KYTC, there were uncertainties over the completeness and accuracy of the provided information used to compile the workbook. Conflicting information created confusion in determining which amounts were accurate.
- The ending infrastructure amount incorporated a reduction of the roads removed from the state highway system in fiscal year 2017, which totaled \$48,769,000. This calculation was based on a formula and amounts used since 2006; however, the historical context and justification for the accuracy of the formula were not immediately known. Additionally, supporting documentation identified both a total value and one third value of the roadways to be removed. KYTC was unclear on which amount was appropriate to be reported.
- Formalized policies and procedures were not adequate to assist staff in preparing the information in a consistent and systematic manner. Additionally, a management level review was not performed in order to confirm the completeness and accuracy of information reported.
- The provided GASB 34 workbook and support included notations documenting explanatory information related to fiscal year 2015 which is irrelevant in the current year.

KYTC has not recovered from the turnover of experienced personnel as reported in fiscal year 2016. Additionally, policies, procedures, and internal controls were not in place to ensure the completeness and accuracy of the GASB 34 workbook. The GASB 34 workbook provides a breakdown for reporting over \$20 billion in infrastructure, over \$2 billion in construction in progress, and over \$920 million in maintenance and preservation costs necessary for financial reporting. The failure to ensure the GASB 34 workbook is complete and accurate could result in a material misstatement on the Commonwealth's financial statements which could go undetected.

Sound internal controls dictate adequate policies and procedures be implemented to ensure the integrity of the financial reporting process. Management is responsible for the preparation of financial information impacting the financial statements. This includes the design, implementation, and maintenance of internal controls to ensure prepared financial information is free from material misstatements.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2017-026: The Kentucky Transportation Cabinet Failed To Ensure The Completeness And Accuracy Of Reported Infrastructure And Construction In Progress Account Balances (Continued)**

Recommendation

We recommend KYTC strengthen internal controls to ensure the completeness and accuracy of the GASB 34 workbook and related reports. KYTC should assess its control environment, including how significant variances could go undetected, and implement safeguards to prevent and detect potential misstatements. Formal policies and procedures should be updated, which includes the requirement for a management level review, in order to provide guidance and further assurance over the information compiled. Workbooks and supporting documentation should be cleaned up to ensure irrelevant and outdated information and notations are removed to prevent any confusion. Additionally, KYTC should further document the determination on how amounts are calculated as relied on for determining reported balances.

Management's Response and Planned Corrective Action

KYTC has made improvements over the prior year in strengthening GASB34 internal controls. KYTC agrees that controls need to continue to be expanded upon and solidified. As auditors are aware, GASB34 is a detailed and complex report that requires in excess of 30 separate queries to be computed, analyzed, and compiled. Because of the complexity and KYTC key employee turnovers, KYTC is working diligently toward this goal with limited resources.

The Division of Accounts is working with the Office of Information Technology to simplify the numerous queries. This will create a more efficient process, as well as implement an internal control to provide checks and balances to assist in removing human errors. Based on these updated processes, KYTC will continue to update procedures for GASB34 reporting, including, steps for checks/balances and management reviews.

In regards to the reduction of the roads removed from the state highway system, KYTC's Division of Accounts has consistently reported the full amount as provided by the Department of Highways. KYTC disagrees with the statement from APA that KYTC was unclear on which amount was appropriate to report. However, the Division of Accounts has met with the Department of Highways. After review, it was determined that the Department of Highways will evaluate and confirm lane mile costs, and make adjustments if needed. The methodology previously used was extensively developed; although, this methodology will be reviewed, it is not deemed inaccurate or necessarily outdated. The Division of Accounts will maintain a copy of the methodology for auditing/reporting purposes.

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

FINDING 2017-026: The Kentucky Transportation Cabinet Failed To Ensure The Completeness And Accuracy Of Reported Infrastructure And Construction In Progress Account Balances (Continued)

Management's Response and Planned Corrective Action (Continued)

Finally, the Division of Accounts will create a copy of GASB34 work-papers and remove from the auditor's copy all notes that are of historical importance to alleviate any confusion.

Auditor's Reply

Management's response identified "KYTC disagrees with the statement from APA that KYTC was unclear on which amount was appropriate to report." KYTC never provided a definitive answer to support the methodology or utilization of the one-third value provided. While the overall methodology has a historical basis, correspondence identified uncertainties in the provided information.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2017-027: The Kentucky Transportation Cabinet Failed To Document Right-Of-Way Was Obtained Prior To The Awarding Of Road Construction Projects

This is a repeat to prior year finding 2016-043 as reported in the fiscal year 2016 Statewide Single Audit of Kentucky (SSWAK) Volume I. The Kentucky Transportation Cabinet (KYTC) failed to develop and implement formal policies and procedures to ensure all necessary requirements per Kentucky Revised Statute (KRS) 176.070 were met before proceeding with the letting and awarding of construction projects pertaining to the Commonwealth's transportation infrastructure. In two instances, KYTC awarded construction projects without the necessary right-of-way clearance documented. On both projects, KYTC's Right-Of-Way Certification form identified additional right-of-ways were required to be secured; however, no formal approval was documented authorizing the projects to proceed and it was not apparent that the right-of-way had been obtained prior to the advertising for bids.

KYTC failed to implement adequate internal controls to prevent non-compliance with KRS 176.070. Management's response and corrective action plan to the prior year finding identified KYTC would amend Section 300 of the Construction Procurement Guidance Manual to require all necessary right-of-way for a project be obtained prior to advertising for bids. KYTC failed to make any changes to their right-of-way policy during fiscal year 2017 to address the deficiency. Additionally, KYTC indicated that right-of-way concerns could be cleared verbally; however, without documentation, this cannot be verified.

The failure to implement adequate internal controls over KYTC's construction project letting and awarding process increases the risk that transportation contracts will be awarded without proper planning and right-of-way acquisition. If a project is not planned and secured in accordance with KRS 176.070, KYTC can be exposed to increased change order costs, time delay costs, administrative settlements, project cancellations, and litigation.

KRS 176.070(1) states:

After surveys, plans, specifications and estimates have been completed for any road or section thereof, and the type and character of the road has been determined, and the right-of-way obtained, the bureau shall advertise by publication pursuant to KRS Chapter 424, for bids on the work, and may contract for the purchase of all materials necessary for the construction and maintenance of roads.

Recommendation

We recommend KYTC establish formally documented policies and procedures and strengthen internal controls over the construction project authorization process to ensure right-of-way is obtained before advertising and awarding construction projects to contractors. KYTC's policies should ensure compliance with KRS 176.070 in order to safeguard assets from waste due to unnecessary administrative settlements or litigation. Additionally, KYTC should ensure the approval and authorization to proceed for projects with initial right-of-way concerns are formally documented.

FINANCIAL STATEMENT FINDINGS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***FINDING 2017-027: The Kentucky Transportation Cabinet Failed To Document Right-Of-Way Was Obtained Prior To The Awarding Of Road Construction Projects (Continued)****Management's Response and Planned Corrective Action**

Management agrees with the audit finding. However, KRS 176.070 needs to be amended. This specific KRS was last amended in 1966. The process of executing a highway infrastructure project has changed dramatically in the last 50 years. The different phases of a highway project must overlap one another at various times through the process for the Cabinet to efficiently deliver projects listed in the Biennial Highway Plan. Final design adjustments, utility relocation, right of way clearance, and environmental clearance are worked on concurrently. The Cabinet must have the flexibility to create a policy that allows executives in the Cabinet to allow advertisement (and sometimes award) before all clearances and certifications are in place when it is in the public's best interest. KRS 176.070 does not currently allow that flexibility. After KRS 176.070 is amended the Cabinet will write a policy that lowers the risk of letting or awarding a construction contract without proper right of way clearance.

THIS PAGE LEFT BLANK INTENTIONALLY

APPENDIX

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

This report is available on our website, www.auditor.ky.gov in PDF format. For other requests, please contact Tim Gutman, the APA's Open Records Administrator, at (502)564-5841 or tim.gutman@ky.gov. If copies of the CAFR for FY 2017 are required, please contact William M. Landrum III, Finance and Administration Cabinet Secretary, at (502)564-4240 or william.landrum@ky.gov.

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

Bluegrass State Skills Corporation
Old Capitol Annex
300 West Broadway
Frankfort, Kentucky 40601

Turnpike Authority of Kentucky
Room 76, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Transportation Cabinet
Kentucky Transportation Cabinet Worker's Compensation
200 Mero Street
Frankfort, Kentucky 40601

Kentucky Center for the Arts
501 West Main Street
Louisville, Kentucky 40202

Kentucky Economic Development Finance Authority
Old Capitol Annex
300 West Broadway
Frankfort, Kentucky 40601

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

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

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

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

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

Western Kentucky University
Vice President for Finance and Administration
1906 College Heights Blvd.
Potter Hall 435
Bowling Green, Kentucky 42101-1007

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

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

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

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

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority
P.O. Box 798
Frankfort, Kentucky 40602-0798

Kentucky Higher Education Student Loan Corporation
P.O. Box 24266
Louisville, KY 40224-0266

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

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

Kentucky Judicial Form Retirement System
Suite 302, Whitaker Bank Building
305 Ann Street
Frankfort, Kentucky 40601

University of Kentucky
107 Main Building
Lexington, Kentucky 40506-0005

Eastern Kentucky University
Vice President for Business Affairs
521 Lancaster Avenue
Richmond, Kentucky 40475-3101

Morehead State University
Office of Accounting and Budgetary Control
207 Howell-McDowell Administration Building
Morehead, Kentucky 40351-1689

Northern Kentucky University
Office of Business Affairs
Lucas Administration Center
726 Nunn Drive
Highland Heights, Kentucky 41099-8101

Office of Public Employees Health Insurance
State Office Building, 2nd Floor
501 High Street
Frankfort, KY 40601

Kentucky Community and Technical College System
300 North Main Street
Versailles, KY 40383

Kentucky River Authority
403 Wapping Street, Suite 105
Frankfort, KY 40601

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

Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, Kentucky 40601

Office of the Petroleum Storage Tank
Environmental Assurance Fund
300 Sower Blvd, 2nd Floor
Frankfort, KY 40601

Kentucky Artisan Center at Berea
200 Artisan Way
Berea, KY 40403

Kentucky Public Employees' Deferred Compensation Authority
101 Sea Hero Road, Suite 110
Frankfort, KY 40601-5404

Workers' Compensation Program
State Office Building, 3rd Floor
501 High Street
Frankfort, KY 40601

Kentucky Department of Labor - Special Fund
1047 US Highway 127 S, Suite 4
Frankfort, KY 40601

Kentucky Horse Park Foundation
4089 Iron Works Parkway
Lexington, Kentucky 40511

Kentucky Public Transportation Infrastructure Authority
200 Mero Street, 6th Floor East
Frankfort, Kentucky 40601

Kentucky Communications Network Authority
209 Saint Clair St. 4th Floor
Frankfort, KY 40601

Louisville Arena Authority
1 Arena Plaza
Louisville, KY 40202