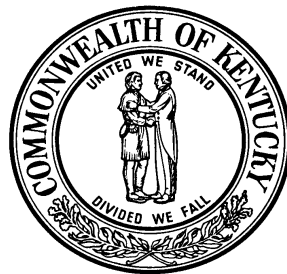


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME II

**For the Year Ended
June 30, 2019**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

March 20, 2020

Honorable Andy Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

As the Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of the Commonwealth of Kentucky-Volume II for the year ended June 30, 2019. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance* and federal award findings and questioned costs identified during our audit.

The Auditor of Public Accounts also calculates a dollar threshold, based on Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, to determine the federal programs to be audited for internal controls and compliance. For FY 2019, the threshold for auditing federal programs was \$30,000,000.

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

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike H.", written over a horizontal line.

Mike Harmon
Auditor of Public Accounts



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INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2019**

Single Audit

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

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

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

Schedule of Findings and Questioned Costs

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

Corrective Action Plans and the Summary Schedule of Prior Audit Findings

Corrective Action Plans, prepared by management of the various agencies audited, related to audit findings reported in the Schedule of Findings and Questioned Costs for fiscal year (FY) 2019, as well as the Summary Schedule of Prior Audit Findings, are included in the data collection package submitted to the Federal Audit Clearinghouse and can be found at <https://harvester.census.gov/facweb/>.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2019**

Audit Approach

The scope of the FY 2019 SSWAK included:

Financial

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

Federal Awards

- An audit of compliance with the compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each major federal program; and
- Tests of internal control over compliance in accordance with the Uniform Guidance.
- Findings related to internal controls over compliance and on compliance when noted during the audit of major federal programs.

Component Units

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending federal awards. Component units are included in the audit of the basic financial statements, but are not included in the Commonwealth's audit of major federal programs. Component units expending more than \$750,000 in federal awards obtain separate audits in accordance with the Uniform Guidance. Thus, component units are not included in the report on compliance and internal control and corresponding Schedule of Findings and Questioned Costs.

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Honorable Andy Beshear
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of Kentucky's (Commonwealth) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2019. The Commonwealth's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



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

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

Basis for Qualified Opinion on CFDA 84.287, 97.036, 97.039

As described in the accompanying Schedule of Findings and Questioned Costs, the Commonwealth did not comply with requirements regarding Cash Management for CFDA 84.287 Twenty-First Century Community Learning Centers as described in Finding 2019-010. The Commonwealth also did not comply with requirements regarding Activities Allowed or Unallowed and Allowable Costs/Cost Principles for CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters) and CFDA 97.039 Hazard Mitigation Grant as described in Finding 2019-009. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 84.287, 97.036, 97.039

In our opinion, except for the noncompliances described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2019-009 and 2019-010 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2019-011, 2019-012, 2019-013, 2019-014, 2019-015, 2019-016, 2019-017, 2019-018, and 2019-019 to be significant deficiencies.

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

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

Respectfully Submitted,

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

Mike Harmon
Auditor of Public Accounts

March 2, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Financial Statements: We issued unmodified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2019.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth’s internal control over financial reporting disclosed eight significant deficiencies.

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

Federal Awards

Compliance: We issued a qualified opinion on the Commonwealth’s compliance for the following major federal programs: CFDA 84.287, 97.036, and 97.039. An unmodified opinion was issued for the Commonwealth’s compliance for all other major federal programs. The results of our auditing procedures resulted in two findings that disclosed material noncompliances.

Internal Control Over Compliance: Our consideration of the Commonwealth’s internal control over compliance disclosed nine significant deficiencies and two material weaknesses.

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

Type B Major Programs are highlighted in gray.

CFDA	Cluster or Program Title
10.558	Child and Adult Care Food Program
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
17.258, 17.259, 17.278	WIOA Cluster
20.205, 20.219, 20.224, 23.003	Highway Planning and Construction Cluster
84.287	Twenty-First Century Community Learning Centers
93.575, 93.596	CCDF Cluster
93.775, 93.777, 93.778	Medicaid Cluster
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
97.039	Hazard Mitigation Grant

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

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

Auditee Risk

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

SECTION 2 – FINANCIAL STATEMENT FINDINGS

See the Report of the Statewide Single Audit of the Commonwealth of Kentucky Volume I for Financial Statement Findings 2019-001 through 2019-008.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

Finding 2019-009: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To The Appropriate Grant

State Agency:	<u>Department of Military Affairs</u>
Federal Program:	<u>CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)</u> <u>CFDA 97.039 – Hazard Mitigation Grant</u>
Federal Agency:	<u>U.S. Department of Homeland Security</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Activities Allowed or Unallowed, Allowable Costs/Cost Principles</u>
Questioned Costs:	<u>\$0</u>

This is a repeat of prior year finding 2018-026 as reported in the 2018 Statewide Single Audit of Kentucky (SSWAK) Volume II.

Review of payroll activity indicated the Department of Military Affairs' (DMA) failed to have an appropriate methodology to ensure salaries and wages for employees working on multiple grants were charged to the correct federal grant based on the actual work performed. Consequently, DMA's internal control system failed to provide reasonable assurance that payroll charges were properly allocated between grants in accordance with 2 CFR 200.405 and 2 CFR 200.430. DMA receives federal funding for numerous grants including those related to Catalog of Federal Domestic Awards (CFDA) 97.036 for Public Assistance grants and CFDA 97.039 for Hazard Mitigation grants. Each CFDA has multiple grant agreements, as approved by the Federal Emergency Management Administration (FEMA), which requires proper accounting of allowable costs pertaining to each grant's objective. The following deficiencies pertaining to employee salaries and wages were identified:

- The allocation of employee time between federal grants is pre-programmed within eMARS (the Commonwealth's accounting system). DMA indicated the allocation was assigned based on what it thought the employee would work on per a prepared Recovery Cost Allocation Sheet which is updated periodically. Recovery Cost Allocation Sheets were derived from a separate time-tracking system based on actual time worked; however, employee time within the time-tracker was often coded to a generic cost pool which was not specific enough to allocate actual time to the correct grant. The utilized methodology did not ensure the accuracy of salaries and wages allocated between different grants.
- In completing the Recovery Cost Allocation Sheets, only grants with available federal funding were included in the allocation of payroll costs, even when a grant remained open with activity. This increases the risk that salary and wages are being accounted for incorrectly. Completing work for one grant and charging the time for another grant constitutes an unallowable cost.
- For one employee reviewed, salary and wages were charged to both Public Assistance grants and Hazard Mitigation grants even though the employee's time-tracker reflected work only on Hazard Mitigation grants.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

Finding 2019-009: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To The Appropriate Grant (Continued)

- Through analysis of time-tracker and employee interviews, grants were sometimes not charged for all related work performed. For example, evidence supported activity for one grant had occurred related to the grant's management and administration; however, no salary and wage expense was charged against the grant for the period. With the time being charged to a pool which allocates costs to multiple grants, time was incorrectly charged to other grants not receiving the direct benefit.

Questioned costs related to salaries and wages could not be quantified due to the agency's tracking methodology. While it is believed that questioned costs exists, the exact allocation of actual salary and wages costs could not be identified for each grant.

The ineffective methodology for allocating payroll costs does not ensure actual costs are charged to the appropriate grants. Additionally, it is evident that funding shortfalls for grant management costs exist, creating increased pressure to ensure personnel can be reimbursed through available federal funding. As a result, payroll costs are not being properly allocated to federal grants in proportion to the benefit received for each grant.

2 CFR 200.405 states, in part:

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received [...]
- (c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons [...]
- (d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis [...]

2 CFR 200.430 states, in part:

- (i) Standards for Documentation of Personnel Expenses
 - (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
 - (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated [...]

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****Finding 2019-009: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To The Appropriate Grant (Continued)**

- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award [...]

Recommendation

We recommend DMA ensure compliance with 2 CFR 200.405 and 2 CFR 200.430 by implementing a methodology that accurately accounts for and allocates payroll costs to federal grants based on the work performed. In instances where federal funding is not available for a particular grant's management costs, other allowable non-federal funding sources should be utilized as to prevent unallowable costs and activities. DMA should consult with FEMA for additional guidance as needed.

Management's Response and Planned Corrective Action

Cost allocations are adjusted on a quarterly basis. It should be noted that projecting how an employee will be engaged in the future can never be an exact process. New disaster events result in Recovery Branch staff immediately ceasing regular assignments in response to recovery needs of damaged communities. Kentucky averages approximately 2.5 disaster declarations per year which has a profound direct impact on how Mitigation and Public Assistance staff must adjust their workloads, in the midst of an allocation period, without prior warning.

DMA Kentucky Division of Emergency Management (KYEM) has been aware of this issue for some time and has been aggressively working toward a resolution that is compliant, rational, reasonable, cost effective, auditable, and yet, also flexible when disaster events occur. Compliance with 2 CFR 200 salary and wage requirements has been and continues to be a priority for KYEM.

KYEM has recently employed a Certified Public Accountant who is a former auditor with the Office of the Auditor of Public Accounts. Her immediate area of focus is the allocation of payroll for all federal programs; beginning with the Public Assistance and Hazard Mitigation programs. In conducting this work, other states are being consulted in hopes to identify any best practices. The Federal Emergency Management Agency will be consulted.

KYEM employees utilize time tracking software to identify the funding source (specific grant or disaster) for all hours worked and a description of the work accomplished. A time tracking manual provides instruction to all staff regarding appropriate recording of their work time. The manual is currently being revised to reinforce uniform recording constructs for all employees.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****Finding 2019-009: The Department Of Military Affairs Failed To Ensure Payroll Costs Were Equitably Charged To The Appropriate Grant (Continued)**

Management’s Response and Planned Corrective Action (Continued)

There are numerous instances where KYEM employee’s work relates to a federal program, such as Hazard Mitigation or Public Assistance, but the time is not allocable to a specific disaster or grant award. As an example, KYEM is required to provide training to subrecipients; an activity that impacts all grant awards. These activities logically must be the responsibility of all grant awards – thus the development of a grant pool as the funding source. KYEM is currently revising their methodology for distributing expenditures of the Public Assistance and Hazard Mitigation grant pools that equitably distributes these expenditures among the impacted grant awards or disaster declarations.

KYEM is in agreement with the recommendation to use other allowable non-federal funding sources; however, there is no non-federal funding source from which to draw. KYEM does not receive sufficient state funding to match the FEMA Emergency Management Preparedness Grant; and therefore we have no other ancillary non-federal funding stream to accomplish this recommendation.

KYEM will continue to diligently address the issues raised in this finding.

Auditor’s Reply

While projecting what activities and grants an employee will be working on in the future is never exact, DMA’s internal control structure should ensure actual payroll charges are accurate, allowable, and properly allocated. It is essential that adjustments to the payroll distribution be made to update estimates in order to align with actual time worked for each grant.

In regards to the use of grant pools to allocate costs, we would like to reiterate the need for DMA to comply with 2 CFR 200.405(d). If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, DMA should ensure there is a clear and reasonable methodology documented to support the allocation.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

Finding 2019-010: The Kentucky Department Of Education Overdrew Twenty-First Century Community Learning Centers Federal Grant Funds

State Agency: Kentucky Department of Education
 Federal Program: CFDA 84.287 – Twenty-First Century Community Learning Centers
 Federal Agency: U.S. Department of Education
 Pass-Through: Not Applicable
 Compliance Area: Cash Management
 Questioned Costs: \$201,452

This is a repeat of prior year finding 2018-027 as reported in the 2018 Statewide Single Audit of Kentucky (SSWAK) Volume II.

The 21st Century Community Learning Centers (CCLC) federal grant program provides funding to establish or expand community learning centers to provide academic enrichment opportunities during non-school hours to complement a student's regular academic program. The Kentucky Department of Education (KDE) failed to comply with federal cash management requirements over the CCLC in order to minimize the time between the drawdown and subsequent disbursement of funds for federal program purposes.

- A review of receipts pertaining to the Federal Fiscal Year (FFY) 2016 CCLC federal grant, which closed during our fiscal year under audit, identified KDE completed a manual drawdown of funds in December 2018 for \$3,314,398. This drawdown was based on the remaining federal funds for the grant which were still available. KDE made \$1,489,042 in payments to subrecipients more than 30 days after the funds had been drawn down. As of June 30, 2019, KDE had a cash balance for the FFY 2016 grant of \$201,452 which had not been remitted to subrecipients. As of January 2020, KDE has made an additional \$178,545 in payments to subrecipients, leaving a cash balance for the FFY 2016 grant of \$22,906 which has not been remitted to subrecipients.
- KDE submits a Schedule of Expenditures of Federal Awards (SEFA), which contains the beginning and ending balances for each federal grant by CFDA, to the Finance Administration Cabinet (FAC) in an Excel spreadsheet. The ending balances for all CFDA's on a reimbursement basis should have a zero or negative balance indicating expenditures were greater than receipts. The CCLC program and other federal programs had positive balances indicating receipts were greater than expenditures. KDE has not identified the status of the availability of excess receipts for all grants with excess receipts, some of which go back multiple years.
- KDE temporarily transferred \$1,021,931 from its designated federal fund account for CCLC, to another fund in order to reduce expenditures during fiscal year 2019. This transfer allowed KDE to draw down more money from United States Department of Education (USDOE) than would otherwise have occurred due to the budget allotments set by the Office of the State Budget Director (OSBD). The transfer allowed payments to be made to districts before the fiscal year end. This transfer caused CCLC expenditures to lose their identity and thus not be correctly reported in the accounting system for fiscal year 2019, understating CCLC expenditures on the FY19 SEFA. However, in December 2019, the expenditures were transferred back to the CCLC fund.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****Finding 2019-010: The Kentucky Department Of Education Overdrew Twenty-First Century Community Learning Centers Federal Grant Funds (Continued)**

KDE waited until near the end of the 90 day grant closeout period occurring after the period of performance to draw down available funds. Also, KDE did not close out grants on the SEFA and determine if funds were due back to the federal government. KDE stated there was insufficient time to adjust their allotment through the OSBD so the transfer allowed payments to be processed before the year end.

KDE normally relied on an automated drawdown process which would only generate a drawdown request after payments had been made to subrecipients. At the time of the manual drawdown, specific expenditures are not associated with the draw, so it is difficult to determine which expenditures the draw covered. This creates a risk that the same expenditure may be drawn down twice. By completing a manual drawdown of funds, no mechanism was in place to track and ensure payments were remitted to subrecipients timely and in accordance with cash management requirements. As a result, KDE was noncompliant with federal cash management requirements. Additionally, excess federal fund receipts not needed to reimburse allowable costs would be due back to the federal government. The transfer of expenditures resulted in the SEFA being understated by \$1,021,931 and a fund classification impact on the financial statements due to the expenditures appearing in a different fund in the accounting system.

31 CFR 205.33, How are funds transfers processed?, states:

- a) A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102 (For availability, see 5 CFR 1310.3.) [...]

2 CFR 200.302(a), Financial Management., states:

Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. [...]

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****Finding 2019-010: The Kentucky Department Of Education Overdrew Twenty-First Century Community Learning Centers Federal Grant Funds (Continued)**

FAC provides guidance on preparing the SEFA, and the training instructions on FAC's website include a Frequently Asked Question section. The response to the last question on the rule for removing old grant periods states:

There is not a specific rule for how long an old grant period should stay on the SEFA. If the grant period were closed, with a zero ending balance it would be recommended to remove that line from the SEFA 2. If the grant period has an ending balance, it is recommended leaving on the SEFA 2. Only when the Department/Cabinet decides it will not be able to recoup any outstanding balances should the line item be removed. Additionally, the grant period should not be removed if cumulative revenues exceeds cumulative expenditures. When this is the case, the Department should issue a refund and pay the grantor back the excess funds plus any additional interest that may have been earned.

Recommendation

We recommend KDE:

- Implement adequate internal controls and properly manage grant activities to ensure compliance with cash management and grant closeout requirements in accordance federal regulations.
- Evaluate cash balances for closed grants which are unobligated and consult with its federal grantor to determine if any repayment is necessary.
- Account for transfers of federal funds to ensure all applicable grant expenditures are recorded in the correct year.

Management's Response and Planned Corrective Action

The Kentucky Department of Education (KDE), Division of Budgets and Financial Management (DBFM) will review internal policies to minimize the time between the manual draw and disbursement of payments. If necessary, we will update our internal controls and properly manage grant activities to ensure compliance with cash management and grant closeout requirements in accordance Federal regulations.

Specifically related to this issue, all Federal Year 2016 payments were made; however, the journal entries as a result of the Fiscal Year 2018 audit findings created the additional revenue in the amount of \$16,714.14. In a meeting on January 22, 2020, DBFM staff met with the State Auditor of Public Accounts staff and explained the \$22,906.22 balance was a refund back to the U.S. Department of Education. The revenue on hand was the result of a December 2019 refund received from a local education agency in the amount of \$6,192.08 and \$16,714.14 from expenditures which were journaled to FY 2015 fiscal year. The refund was processed on February 25, 2020.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****Finding 2019-010: The Kentucky Department Of Education Overdrew Twenty-First Century Community Learning Centers Federal Grant Funds (Continued)**

Management’s Response and Planned Corrective Action (Continued)

If KDE DBFM encounters an issue during the 90 liquidation period, a Late Liquidation request in accordance with the following <http://www.ed.gov/policy/fund/guid/lateliquidation.doc> will be submitted to the federal awarding agency.

DBFM will coordinate with Controller’s Office and request the required federal accounts which did not roll from eMARS 3.10 to 3.11 in July 2019 be manually uploaded to eMARS 3.11. We do not know the complexity of the process, but until process is complete, DBFM is unable to address concerns relating to these expired accounts. Providing the upload to eMARS 3.11 occurs, DBFM staff will reconcile the federal program receipts to expenditures which will reflect on the corresponding KDE SEFA. However, we want to make you aware that ending balances on KDE SEFA may not always reflect a \$0 due to the current activity for both expired and active accounts. Because the state fiscal year crosses federal fiscal years and ongoing audit activity, a \$0 balance is not always the case.

DBFM staff will closely monitor the federal allotments to ensure sufficient funding for each quarter. If DBFM staff anticipate an allotment adjustment is needed for future quarters, an allotment adjust request will be provided to the Office of the State Budget Director (OSBD) by the required deadlines set forth by (OSBD). This is an ongoing process.

Auditor’s Reply

We appreciate KDE’s efforts to review internal controls to ensure proper management of grant activities and compliance with federal regulations. While the prior year audit finding identified a cash management issue, KDE maintains responsibility for journal entries moving expenditures among grant periods, which ultimately resulted in refunds.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-011: The Cabinet For Health And Family Services Did Not Maintain Adequate Documentation In The Fraud Claim Files For The Child Care And Development Fund

State Agency:	<u>Cabinet For Health And Family Services</u>
Federal Program:	<u>CFDA 93.575 – Child Care and Development Block Grant</u> <u>CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund</u>
Federal Agency:	<u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Special Tests and Provisions</u>
Questioned Costs:	<u>\$0</u>

During the FY 2019 audit of the Cabinet for Health and Family Services' (CHFS) Child Care and Development Fund (CCDF), a special test for fraud detection and repayment internal controls and compliance requirements related to claim files was conducted. Provider and individual fraud claim files contain supporting documentation as appropriate, which may include a claims process checklist, claims calculation worksheets, payment receipt notices, or claim termination notice. Once the file is closed, the claims process checklist is supposed to be signed by the supervisor indicating approval. During a review of 30 fraud claim files, issues were noted as follows:

- Missing documentation:
 - 11 calculation worksheets.
 - Five claim payment demand notices.
 - Seven supporting documents for claim files.
- Supervisory review:
 - 17 claim files did not contain supporting documentation indicating supervisory review.
 - Nine claim process checklist forms, that document the claim amount and paid date, had a supervisory review date of November 6, 2019, which was months or years after the paid date. There is no documentation the claims referral forms were reviewed timely based on the length of time between payment in full and the supervisory signature date.
- Reconciliation:
 - Five payments did not agree to supporting documentation in the claim file.

In addition, one claim file was reviewed to verify the claim was forwarded to the Kentucky Department of Revenue (DOR) to have the tax refund offset and applied to the claim. There was no supporting documentation showing the claim was sent to DOR although this claim was active more than 90 days.

The local Department for Community Based Services (DCBS) offices failed to implement adequate internal controls over the fraud claim files.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-011: The Cabinet For Health And Family Services Did Not Maintain Adequate Documentation In The Fraud Claim Files For The Child Care And Development Fund (Continued)

CHFS's internal controls are not functioning to ensure compliance with federal regulations. Without maintaining the required documentation in the claim files, documenting the supervisory review, and reconciling the claim amount, the risk increases that the amount calculated and collected is inaccurate or not supported. Potential errors in calculations could result in refunds if the providers or individuals pay more than required.

By not forwarding the appropriate referrals to DOR timely, CHFS may not be in compliance with the state plan regarding sending claims to DOR.

45 CFR 98.60 (i) states, "Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud." To ensure compliance with this requirement, internal controls should exist to verify claims are accurate, well-documented, and supported.

The CCDF State Plan discusses program integrity and accountability activities for the administration of the CCDF program and internal control topics for procedures in place to recover fraudulent payments. The State Plan also refers to 922 KAR 2:020 which established procedures for the child care assistance program improper payment, claims and penalties. The documentation does not exist to support compliance with 922 KAR 2:020 and thus, the agency is not compliant with the state plan and CFR.

The CCDF State Plan also states "Once a claim is delinquent in payment for 90 calendar days the claim is automatically sent to the Kentucky Revenue Service for state tax offset."

Recommendation

We recommend CHFS implement procedures to ensure all:

- Required supporting documentation is maintained in the claim files;
- Supervisory reviews are done timely;
- Payments agree with supporting documentation; and
- Cases are remitted to DOR timely.

Management's Response and Planned Corrective Action

Required supporting documentation is maintained in the claim files

DCBS does not agree with all findings of missing documentation. Clarifications were sent to APA over a series of emails on February 17, 2020 through February 19, 2020. DCC believes all eleven calculation worksheets, supporting documents for claim files, and the claim demand notices have been provided to APA. There was a confusion between APA and DCC regarding the Claim Payment Demand Notice (KCD 2.08) and Claim Payment Notice (KCD 2.13), language was used interchangeably by APA, which lead to confusion of providing proper documentation by DCC.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-011: The Cabinet For Health And Family Services Did Not Maintain Adequate Documentation In The Fraud Claim Files For The Child Care And Development Fund (Continued)

Management's Response and Planned Corrective Action (Continued)

Supervisory reviews are done timely

The issues with the claim referral forms were addressed in an email to APA on February 17, 2020. Supporting documentation is maintained in the claim files for each established claim. All the supporting documentation related to the claims files are kept in a file cabinet organized by the claim establish month. DCC will be updating the policy manual and implementing to ensure claim referral forms received for supervisor review and signature are completed in a timely manner by Friday, March 6.

Payments agree with supporting documentation

DCBS acknowledges there is a system error in Benefind that is causing a discrepancy in payments and supporting documentation. DCC is working with Office of Application Technology (OATS) to implement a change report that will detail DCBS region, county, claim number, provider ID, claim status, and delinquent amount. This report system error was fixed on February 21, 2020. DCC is writing up a change request and working with OATS on some additional reports to create more accountability and integrity with an expected completion date of December 2020. Please see the IEES Change Request Release Roadmap from vendor provided below as of 02/27/2020. Any new change requests submitted would be added at the end of the schedule provided.

20.0 (6/27/20) 8,489 hrs	20.1 (8/1/20) 3,716 hrs	20.2 (9/5/2020) TBD hrs	21.0 (10/3/2020) TBD hrs	TBD (Release Pending)
<ul style="list-style-type: none"> • CR 1002 – Application Signature Changes • CR 1061 – Expedited SNAP to Pend for Member Moved Out • CR 1074 – CCAP Education and E&T (CR 1000) Phase II • CR 1131 – New Payment Interface between OTIS and IEES • CR 1146 – Add Fields to Report 'SNAP E&T Data for KY STATS' • CR 1160 – Changes to WR and ET Reports • CR 1162 – 366B Report Revisions Post CR 849 Changes • CR 1164 – Changes to the CHL3 TOA • CR 1180 – Changes to View Notes Entered in Individual Flow • CR 1183 – Changes in SNAP Certification Period 	<ul style="list-style-type: none"> • CR 829 – Create log table for KASES Interface – Phase 2 • CR 874 – Revise Bonus Months for Voluntary Quit Tracking ➢ CR 1004 – Disqualification Redesign ➢ CR 1101 – Splunk Replacement – Exabeam • CR 1154 – CIS Report • CR 1166 – Specialized Review • CR 1182 – SNAP Self Employment Farm Loss 	<ul style="list-style-type: none"> ➢ CR 1167 – Apply Disqualifications Regardless of Pending RFI ➢ CR 1171 – Correct Report Logic to Pull Point of Time Information ➢ CR 1172 – Send Additional Data from IEES to KEE Suite on SNAP Members ➢ CR 1177 – Remove the SNAP Disqualification for Non-Cooperation with Child Support ➢ CR 1178 – KTAP-Kinship Care Amounts ➢ CR 1181 – Already Received Logic ➢ CR 1189 – SNAP Exempt Work Requirements for Disability Pensions ➢ CR 1195 – Prevent Worker Edits on Living Arrangement Screen ➢ CR 1197 – Multiple TANF Federal File Changes 	<ul style="list-style-type: none"> ➢ CR 1158 – Income Good Cause ➢ CR 1190 – KTAP Multiple Items ➢ CR 1192 – Undue Hardship Changes ➢ CR 1193 – Process for Loading MCO Provider Files ➢ CR 1196 – Claims QA Module Changes 	<ul style="list-style-type: none"> • CR 958 - Replace MSMQ with real time web service to/from KOG ➢ CR 1038 – Add Incarceration Interface ➢ CR 1128 – Add Verification Option 'CE' for Certain Fields ➢ CR 1163 – Add Ability to Cancel Supplements Online ➢ CR 1169 – Prescreening Module in SSP

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***Finding 2019-011: The Cabinet For Health And Family Services Did Not Maintain Adequate Documentation In The Fraud Claim Files For The Child Care And Development Fund (Continued)****Management's Response and Planned Corrective Action (Continued)***Cases are remitted to DOR timely*

DCBS is not aware of any issues with cases not being remitted to DOR timely, but will work with OATS to have a report generated to ensure claims are remitted timely to DOR. Documentation from APA was not provided to DCBS for us to verify the claims were not remitted timely. Files go to DOR daily from DCBS and DOR sends DCBS intercepts weekly. A report of intercepts can be pulled daily. DCBS requests further detailed information from APA in order to correct or address this finding.

Auditor's Reply

CHFS provided the auditor with large Adobe Acrobat files for the requested cases. All of the documentation was reviewed during the audit, including the additional emails. The auditor could not locate the missing information. CHFS failed to identify specific pages within the supporting documentation that were considered calculation worksheets, claim payment demand notices, or supporting documentation. Therefore, we continue to recommend CHFS maintain the required supporting documentation in the case files.

During the audit, the auditor identified one individual whose information should have been provided to DOR. There was no evidence of communication with DOR in the files. The name of the individual was communicated to CHFS during the audit.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-012: The Cabinet For Health And Family Services Lacks Supporting Documentation For The Maternal And Child Health Services Block Grant Special Report

State Agency: Cabinet For Health And Family Services
 Federal Program: CFDA 93.994 – Maternal and Child Health Services Block Grant to the States
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through: Not Applicable
 Compliance Area: Reporting
 Questioned Costs: \$0

This is a repeat of prior year finding 2018-029 as reported in the fiscal year 2018 Statewide Single Audit of Kentucky (SSWAK) Volume II.

For the Maternal and Child Health Block Grant program, the Cabinet for Health and Family Services (CHFS) Division of Maternal and Child Health (MCH) submitted the 2019 MCH Application/Annual Report, which is comprised of six forms. The annual report documents the state's progress and is used as an application for the grant and to develop the subsequent year's budget. The report, which contains both financial and performance information, is prepared using various data sources. An Excel spreadsheet is used to compile the data; however, there were multiple instances in which supporting documentation for the Excel spreadsheet or annual report was not available. Without the source data for all report elements, the accuracy of the entire report cannot be determined.

Also, a written procedure manual describing the report preparation process does not exist.

In some instances, the supporting documents were not retrievable, and no records of the original supporting documents were available. CHFS was unable to provide supporting documentation for some report data elements due to the source of the information being dictated under data use agreements, from third parties, or changed in the accounting system after the report date.

The report is used by the federal government as an application for the MCH Block Grant for the next fiscal year by outlining the expected budget and how the Commonwealth plans to use those funds to meet established targets. As a result of the lack of supporting documentation, report inaccuracies may exist and go undetected. This issue could impact the future budget.

In addition, the lack of written guidance may result in reporting errors, especially if there is staff turnover in the future.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-012: The Cabinet For Health And Family Services Lacks Supporting Documentation For The Maternal And Child Health Services Block Grant Special Report (Continued)

2 CFR 200.303 states:

The non-Federal entity must:

- a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- c) Evaluate and monitor the non-Federal entity’s compliance with statute, regulations and the terms and conditions of Federal awards.
- d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings. [...]

The Standards for Internal Control in the Federal Government (Green Book) Section 12, Documentation of Responsibilities through Policies, states:

12.02 - Management documents in policies the internal control responsibilities of the organization.

12.03 - Management documents in policies for each unit its responsibility for an operational process’s objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

Recommendation

We recommend CHFS maintain supporting documentation used for the preparation of the MCH report and document the report preparation process in a procedure manual.

Management’s Response and Planned Corrective Action

The Division of Maternal and Child Health (MCH) does not agree with the finding of maintaining supporting documentation used for the preparation of the MCH report. MCH gave the APA the data requested and has the backup used in the Excel Spreadsheets. However, the Division is not the primary owner of all original data sets and MCH relies on the original owners to provide the

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***Finding 2019-012: The Cabinet For Health And Family Services Lacks Supporting Documentation For The Maternal And Child Health Services Block Grant Special Report (Continued)**

Management’s Response and Planned Corrective Action (Continued)

data to them. MCH gets the data from Vital Statistics, private and public hospitals, doctor offices, local health departments, the Office of Children with Special Health Care Needs, etc. It is our understanding, APA could not reconstruct the data due to some of the data sets being supplied by outside entities. APA would have to request the data from these entities.

MCH will update their current procedure manual describing the report preparation process by 7/1/2020.

Auditor’s Reply

CHFS is responsible for maintaining supporting documentation for information entered on the report, even if the information is received from outside sources. The auditor requested the supporting documentation and it was not available or not provided. Therefore, we could not verify the accuracy of the report. We continue to recommend CHFS maintain supporting documentation for the report.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-013: The Cabinet For Health And Family Services Failed To Obtain A Rate Certification Approval On Managed Care Organization Contracts And Capitation Rates

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

During the audit of the Medical Assistance Program (Medicaid) (CFDA 93.778), administered by the Cabinet for Health and Family Services (CHFS), the managed care process was reviewed. The federal Center for Medicare and Medicaid Services (CMS) is required to review and approve the rate certification on the Managed Care Organization's (MCOs) contracts and the capitation rates to ensure they are actuarially sound for each state. The Commonwealth contracts with MCOs to administer health care to Medicaid participants, and makes a monthly capitation payment to the MCO for each participant enrolled under the contract based on the actuarially sound capitation rate.

In fiscal year 2019, CHFS failed to obtain a CMS rate certification approval on the MCO contracts and capitation rates for the rating period of April 1, 2019 through June 30, 2019. This information was submitted to CMS on December 29, 2019 after the auditor inquired and CMS submitted a reminder to the agency that the managed care capitation rate certification was outstanding. Internal controls over compliance regarding the CMS rate approval process were not functioning.

Typically, a rating period is for 12 months; however, due to the Kentucky Health Waiver remand on June 29, 2018, the actuary report on the capitation rates had to be recalculated, which took several months. The contract and rates for July 1, 2019 through March 2019 were approved by CMS on July 8, 2019, after fiscal year 2019 ended. CHFS failed to submit the contracts and actuary report for the period starting April 1, 2019.

CHFS's internal control procedures were not adequate to ensure the actuary report was submitted to CMS timely and to ensure the MCOs' contracts and capitation rates were actuarially sound for the April 1, 2019 through June 30, 2019 period. Without CMS' review and approval, it cannot be verified that the capitation rates used by the MCOs for the period of April 1, 2019 through June 30, 2019 were actuarially sound.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****Finding 2019-013: The Cabinet For Health And Family Services Failed To Obtain A Rate Certification Approval On Managed Care Organization Contracts And Capitation Rates (Continued)**

42 CFR 438.3, Standard contract requirement, states, in part:

- (a) CMS review. The CMS must review and approve all MCO, [...] contracts, including those risk and nonrisk contracts that, on the basis of their value, are not subject to the prior approval requirement in §438.806. Proposed final contracts must be submitted in the form and manner established by CMS. For States seeking approval of contracts prior to a specific effective date, proposed final contracts must be submitted to CMS for review no later than 90 days prior to the effective date of the contract.

42 CFR 438.4(b), CMS review and approval of actuarially sound capitation rates, states, in part, “Capitation rates for MCOs [...] must be reviewed and approved by CMS as actuarially sound.”

42 CFR 438.7, Rate certification submission, states, in part, “(a) CMS review and approval of the rate certification. States must submit to CMS for review and approval, all MCO, [...] rate certifications concurrent with the review and approval process for contracts as specified in §438.3(a).”

Recommendation

We recommend CHFS:

- Strengthen internal controls over the CMS rate certification process to ensure compliance with 42 CFR 438.
- Develop internal controls to include a timeline for submission to CMS.
- Ensure the actuary report is submitted timely to ensure compliance with federal regulations.

Management’s Response and Planned Corrective Action

As referenced above, challenges within CHFS caused a delay in obtaining a CMS rate certification approval on the MCO contracts and capitation rates for the rating period of April 1, 2019 through June 30, 2019. It is and always has been the intent to submit CMS rate certifications in compliance with 42 CFR 438.

Under previous leadership, the submission process was changed to have the rate certifications and any contract modifications submitted to CMS at or around the same time. There were several issues that caused this anomaly, first being with the timelines given to update rates with programmatic changes ie. Kentucky Health, copay, urine drug testing. Due to the programmatic changes, it proved to be challenging to the Actuarial contractor. The pending lawsuits and uncertainty surrounding Kentucky HEALTH at the federal level not only caused administrative issues but, also required the need of multiple MCO capitation reconciliations and required various recalculations of the MCO capitation rates.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***Finding 2019-013: The Cabinet For Health And Family Services Failed To Obtain A Rate Certification Approval On Managed Care Organization Contracts And Capitation Rates (Continued)**

Management's Response and Planned Corrective Action (Continued)

In addition to the above, the Department also had an issue with incorrect Appendices being attached to the MCO Contract that was sent to the MCOs, resulting in a delay of modification/update.

CHFS acknowledges the effect of this delay, however, believes this situation to be an anomaly. The referenced rate certification was updated by our Actuarial contractor in January and submitted to CMS. This updated rate certification is currently under review CMS.

To ensure compliance, CHFS has evaluated internal controls for the process and has updated the process to ensure future compliance. The rate certifications/actuary report will be submitted by DMS Financial staff once the rate certification is finalized and approved by DMS leadership. The contracts will be submitted to CMS by DMS Medicaid Services Division. This information will be shared with the Commissioner, Deputy Commissioner, Director of Finance, Chief Financial Officer and Director of Program Quality and Outcomes to ensure compliance.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-014: The Cabinet For Health And Family Services Did Not Resolve Income Discrepancies Timely To Ensure Member Eligibility

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

During the fiscal year (FY) 2019 Cabinet for Health and Family Services (CHFS) audit for the Medical Assistance Program (MAP), member eligibility testing revealed batch match discrepancies were not worked timely by caseworkers and tasks were not assigned to caseworkers by the system, which allowed potentially ineligible recipients to qualify for benefits. CHFS' Department for Community Based Services (DCBS) is responsible for determining eligibility pursuant to their agreement with the CHFS' Department for Medicaid Services (DMS).

Recipient eligibility can be determined by the DCBS caseworkers, or the applicant can apply within the Integrated Eligibility and Enrollment System (IEES). Information submitted within IEES is electronically verified against electronic data sources that consist of federal and state interfaces (Internal Revenue Service, Social Security Administration, State Wage Information Collection Agency, etc.). If there is a discrepancy in what is reported by the caseworker or applicant and the electronic interfaces regarding the income of the recipient, IEES creates a Batch Match Discrepancy and a task for the caseworker to review.

In addition, the recipients are re-determined every 12 months for eligibility. There are two types of renewals: an automatic passive renewal and a manual active renewal. A passive renewal is when IEES recertifies the eligible recipient by verifying the existing data with the federal and state interfaces. If there are no discrepancies then the recipient receives a letter stating they are automatically renewed. If there are discrepancies, then a caseworker reviews the issue and sends a Request for Information, if needed, to the recipient.

Batch Match Discrepancies are visible in "real time", so testing case files reviewed were related to both FY2019 and FY2020; however, the purpose of testing was to ensure the effectiveness of controls over compliance with respect to member eligibility guidelines, which did not change during the time period. The following 15 Batch Match Discrepancies were present (indicating there was a discrepancy between the reported information and the data sources) related to income verification:

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-014: The Cabinet For Health And Family Services Did Not Resolve Income Discrepancies Timely To Ensure Member Eligibility (Continued)

- Two discrepancies were worked by caseworkers, but completed three months after the due date assigned by the case system.
- Thirteen discrepancies were still outstanding during the audit of which:
 - Two discrepancies have been outstanding for over a year.
 - Two system issues with the Batch Match Discrepancies were identified as follows:
 - One discrepancy was blank in IEES, and it could not be determined what potential issue prompted the Batch Match Discrepancy.
 - One discrepancy did not assign a task to the caseworker, and it could not be determined how long the discrepancy had been outstanding.

In addition, seven automatic passive renewals occurred when a Batch Match Discrepancy existed. One recipient does not appear to be eligible for MAP based on the income reported in the Batch Match Discrepancy. While the auto renewal occurred in FY 2020, the internal control over compliance was not working appropriately, and the individual is still active in Medicaid and able to receive MAP benefits.

The IEES software has a system error in regards to the Batch Match Discrepancies that need to be addressed. The Batch Match Discrepancies should automatically assign a task and be visible to the Caseworker. The system also allows automatic passive renewals even though there is a Batch Match Discrepancy noted.

Batch Match Discrepancies are not being worked timely by caseworkers, or tasks may not be assigned to caseworkers by the system; thus, MAP benefits could be paid to ineligible recipients. A member could be deemed eligible to receive Medicaid benefits when they exceed the income allowed for eligibility.

42 CFR 435.949, Verification of information through an electronic service, states:

- (a) The Secretary will establish an electronic service through which States may verify certain information with, or obtain such information from, Federal agencies and other data sources, including SSA, the Department of Treasury, and the Department of Homeland Security.
- (b) To the extent that information related to eligibility for Medicaid is available through the electronic service established by the Secretary, States must obtain the information through such service [...]

42 CFR 435.952, Use of information and request of additional information from individuals, states:

- (a) The agency must promptly evaluate information received or obtained by it [...] to determine whether such information may affect the eligibility of an individual or the benefits to which he or she is entitled.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-014: The Cabinet For Health And Family Services Did Not Resolve Income Discrepancies Timely To Ensure Member Eligibility (Continued)

- (b) If information provided by or on behalf of an individual (on the application or renewal form or otherwise) is reasonably compatible with information obtained by the agency [...] the agency must determine or renew eligibility based on such information.
- (c) An individual must not be required to provide additional information or documentation unless information needed by the agency [...] cannot be obtained electronically or the information obtained electronically is not reasonably compatible [...]
 - (1) Income information obtained through an electronic data match shall be considered reasonably compatible with income information provided by or on behalf of an individual if both are either above or at or below the applicable income standard or other relevant income threshold.
 - (2) If information provided by or on behalf of an individual is not reasonably compatible with information obtained through an electronic data match, the agency must seek additional information from the individual, including—
 - (i) A statement which reasonably explains the discrepancy; or
 - (ii) Other information (which may include documentation), provided that documentation from the individual is permitted only to the extent electronic data are not available and establishing a data match would not be effective, considering such factors as the administrative costs associated with establishing and using the data match compared with the administrative costs associated with relying on paper documentation, and the impact on program integrity in terms of the potential for ineligible individuals to be approved as well as for eligible individuals to be denied coverage;
 - (iii) The agency must provide the individual a reasonable period to furnish any additional information required under paragraph (c) of this section. [...]

2 CFR 200.303, states:

The non-Federal entity must:

- a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). [...]

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***Finding 2019-014: The Cabinet For Health And Family Services Did Not Resolve Income Discrepancies Timely To Ensure Member Eligibility (Continued)**

Recommendation

We recommend CHFS ensure:

- The Batch Match Discrepancies are worked in a timely manner.
- The system does not permit automatic passive renewals when a Batch Match Discrepancy is outstanding.
- Proper system configuration to assign a task for each Batch Match Discrepancy so the Caseworker is aware of the issue. In addition, the system should be able to display the information for the Batch Match Discrepancy to be worked.

Management's Response and Planned Corrective Action

DCBS has developed the following as a plan to address and correct this audit finding:

- *DCBS Division of Financial Services (DFS) will work with the Office of Application and Technology Services (OATS) to ensure any duplicate matches are removed.*
- *DFS will review, update, and redistribute the Batch Match Quick Reference Guide.*
- *We will work with Kentucky Online Gateway (KOG) to ensure all supervisors and casework staff have the appropriate roles assigned to be able to process batch matches.*
- *Division of Service Regions (DSR) will set an expectation around the number of untimely batch matches required to be completed per week with the region reporting these numbers weekly.*
- *A news message will be posted stressing the importance of timely completion of current batch matches.*
- *Supervisors and regional management will monitor for timely completion of current batch matches and continue to report numbers processed weekly until this issue is resolved.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-015: The Cabinet For Health And Family Services Failed To Timely Perform And Monitor Managed Care Organizations' Compliance With Targeted Case Management Assessments

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

The audit of the fiscal year 2019 Medicaid program (CFDA 93.778), administered by the Cabinet for Health and Family Services (CHFS), tested internal controls and compliance for Targeted Case Management to ensure all required documentation was filed and required assessments were performed. Targeted case management services must be provided to an eligible Medicaid recipient and must include comprehensive and periodic assessments of the individual's needs, development of a care plan, referrals to help the individual obtain services, and monitoring to ensure the care plan is implemented and services meet the individual's needs. CHFS was not able to provide required assessments or perform the assessments timely.

Providers are responsible for performing assessments. CHFS does not have internal controls in place to file or obtain assessments performed by the providers covered by the Managed Care Organizations (MCOs) nor are the assessments monitored to ensure compliance. CHFS was not able to provide documentation or evidence that assessments were performed on 23 individuals that received targeted case management services.

The Department of Community Based Services (DCBS) is responsible for performing targeted case management services for Medicaid recipients in the Title V program, which consists of children in the custody of the state or under the supervision of the state, and adults who require protective services. Of the 17 requested assessments for individuals receiving targeted case management services under the Title V program, six assessments were not performed during fiscal year 2019, including one that has not been performed since 2017.

CHFS does not have established internal control procedures for monitoring the targeted case management requirements for members covered by MCOs to ensure compliance with federal and state regulations. In addition, due to their workload, the DCBS caseworkers were not able to perform the assessments timely or complete the required evaluations.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-015: The Cabinet For Health And Family Services Failed To Timely Perform And Monitor Managed Care Organizations' Compliance With Targeted Case Management Assessments (Continued)

Failure to ensure sufficient targeted case management monitoring procedures are in place and working effectively leaves federal funds at risk of fraud, waste, or abuse, and could lead to substantial federal noncompliance. CHFS may be paying claims for a targeted case management service on a member that is not necessary or allowable. In addition, the member may not be receiving the services needed if an assessment is not performed timely.

42 CFR 440.169, Case Management Services, states:

- (d) The assistance that case managers provide in assisting eligible individuals obtain services includes—
 - (1) Comprehensive assessment and periodic reassessment of individual needs, to determine the need for any medical, educational, social, or other services [...]
 - (2) Development (and periodic revision) of a specific care plan based on the information collected through the assessment [...]
 - (3) Referral and related activities (such as scheduling appointments for the individual) to help the eligible individual obtain needed services, including activities that help link the individual with medical, social, and educational providers or other programs and services that are capable of providing needed services to address identified needs and achieve goals specified in the care plan.
 - (4) Monitoring and follow-up activities, including activities and contacts that are necessary to ensure that the care plan is effectively implemented and adequately addresses the needs of the eligible individual and which may be with the individual, family members, service providers, or other entities or individuals and conducted as frequently as necessary, and including at least one annual monitoring [...]

To ensure federal compliance with the Targeted Case Management Services, the Managed Care Organization contract, Appendix H. Covered Services, states:

VI. Current Medicaid Program's Services and Extent of Coverage.

The Contractor shall cover all services for its Members at the appropriate level, in the appropriate setting and as necessary to meet Members' needs to the extent services are currently covered. The Contractor may expand coverage to include other services not routinely covered by Kentucky Medicaid, if the expansion is approved by the Department, if the services are deemed cost effective and Medically Necessary, and as long as the costs of the additional services do not affect the Capitation Rate.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-015: The Cabinet For Health And Family Services Failed To Timely Perform And Monitor Managed Care Organizations' Compliance With Targeted Case Management Assessments (Continued)

The Contractor shall provide covered services as required by statutes or administrative regulations. The current location of Covered Services can be found in the following regulations:

- Targeted Case Management Services (907 KAR 15:005, 907 KAR 15:040 - 15:065)

907 KAR 15:040; 907 KAR 15:050; 907 KAR 15:060, Section 6 Covered Services, states:

- (1) Targeted case management services covered under this administrative regulation shall:
- (a) Be services furnished to assist a recipient in gaining access to needed medical, social, educational, or other services; and
 - (b) Include:
 1. A comprehensive assessment and periodic reassessments of the recipients needs to determine the need for any medical, educational, social, or other services;
 2. The development and periodic revision of a specific care plan for the recipient;
 3. A referral or related activities to help the recipient obtain needed services;
 4. Monitoring or follow-up activities; [...]
- (2)(b) A face-to-face assessment or reassessment shall be completed:
1. At least annually; or
 2. More often if needed based on changes in the recipient's condition.
- (5)(b) Monitoring shall:
1. Occur at least once every three (3) months;
 2. Be face-to-face; and
 3. Determine if:
 - a. The services are being furnished in accordance with the recipient's care plan;
 - b. The services in the recipient's care plan are adequate to meet the recipient's needs; and
 - c. Changes in the needs or status of the recipient are reflected in the care plan.

907 KAR 15:040; 907 KAR 15:050; 907 KAR 15:060, Section 9 Records Maintenance, Documentation, Protection, and Security, states:

- (1) A targeted case management services provider shall maintain a current case record for each recipient [...]
- (b) Be:
1. Maintained in an organized and secure central file;
 2. Furnished upon request:

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-015: The Cabinet For Health And Family Services Failed To Timely Perform And Monitor Managed Care Organizations’ Compliance With Targeted Case Management Assessments (Continued)

- a. To the Cabinet for Health and Family Services; or
- b. For an enrollee, to the managed care organization in which the recipient is enrolled or has been enrolled in the past if applicable;
3. Made available for inspection and copying by:
 - a. Cabinet for Health and Family Services’ personnel; or
 - b. Personnel of the managed care organization in which the recipient is enrolled if applicable;
4. Readily accessible; and
5. Adequate for the purpose of establishing the current treatment modality and progress of the recipient.

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CHFS does not have monitoring procedures in place with the MCO to ensure compliance of the covered services, including assessments, with Targeted Case Management.

Recommendation

We recommend CHFS:

- Establish internal control procedures for monitoring the targeted case management requirements for members covered by the MCOs to ensure compliance with the CFR and KAR requirements.
- Ensure assessments are performed for the Title V program in a timely manner to ensure the Medicaid members are receiving the care needed.

Management’s Response and Planned Corrective Action

Recommendation: *Establish internal control procedures for monitoring the targeted case management requirements for members covered by the Managed Care Organizations to ensure compliance with the CFR and KARs.*

Corrective Actions:

1. *The Division of Policy and Operations (DPO) has developed a checklist based on the KAR requirements to be used by the MCOs to verify Targeted Case Management Services.*
2. *The Division of Program Quality and Outcomes (DPQO) will require the MCOs to use the TCM checklist starting with the July 1, 2020 contract.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****Finding 2019-015: The Cabinet For Health And Family Services Failed To Timely Perform And Monitor Managed Care Organizations' Compliance With Targeted Case Management Assessments (Continued)**

Management's Response and Planned Corrective Action (Continued)

3. *DPQO will require the MCOs to submit a monthly report to DMS of TCM cases. The reporting requirement will be effective July 1, 2020. The first TCM report covering July 2020 will be due August 15, 2020 from the MCOs.*
4. *The Division of Program Integrity (DPI) in consultation with the DPO and DPQO will develop an audit plan prior to July 1, 2020 to audit TCM cases included on the July 2020 MCO TCM report.*
5. *DPI will develop and use a sampling methodology for auditing and will secure an additional resource to perform MCO TCM auditing by July 1, 2020.*
6. *On September 1, 2020, DPI staff start auditing TCM cases contained on the July 1, 2020 MCO report.*
7. *Appropriate corrective action will be taken as needed to correct deficiencies.*

Recommendation: *Ensure assessments are performed for the Title V program in a timely manner to ensure the Medicaid members are receiving the care needed.*

Corrective Actions:

1. *The DPI in consultation with the DPO and the DPQO will develop an audit strategy prior to July 1, 2020 to audit DCBS TCM cases. Note the DCBS TCM case audit strategy and the MCO TCM case audit strategy may be incorporated into a single plan.*
2. *DPI will utilize the same sampling methodology developed to select MCO TCM cases to select DCBS TCM cases for audit.*
3. *Starting July 1, 2020, DPI will begin auditing DCBS TCM cases for compliance.*
4. *DMS will work with DCBS to develop tracking procedures to ensure assessment timelines are met.*
5. *Appropriate corrective action will be taken as needed to correct deficiencies.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-016: The Department Of Workforce Investment Did Not Review Quarterly Financial Reports Prior To Submission

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

As part of the audit of the Commonwealth’s compliance with the Workforce Innovation and Opportunity Act (WIOA), the Department of Workforce Investment’s (DWI) ETA-9130 Financial Report was reviewed. The ETA-9130 report is a comprehensive quarterly financial report that classifies and records expenditures across all aspects of WIOA.

DWI failed to implement proper segregation of duties with respect to preparing the ETA-9130 report and certifying the report on the Department of Labor’s (DOL) website. The preparer of the report also certifies them using a superior’s credentials on the website. There is no supervisory review over the report prior to submission.

Per inquiry with DWI, this practice is a result of staff turnover. Without adequate review, erroneous reporting could occur.

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

Section 10.03 – Segregation of Duties, within the Green Book states:

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***Finding 2019-016: The Department Of Workforce Investment Did Not Review Quarterly Financial Reports Prior To Submission (Continued)**

Recommendation

We recommend DWI implement adequate internal control and segregation of duties to ensure that a review of the ETA-9130 reports takes place, and that all certifications are true and accurate representations from the properly designated member of management.

Management's Response and Planned Corrective Action

The Education and Workforce Development Cabinet, Division of Fiscal Management plans to hire a Branch Manager for the Grants Management Branch. We plan to have a Branch Manager hired and on board no later than July 1, 2020. That person will be responsible for reviewing and certifying all 9130 and 425 quarterly reports.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-017: The Department Of Workforce Investment Included Erroneous Data In Reports Submitted To The Federal Government

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

As part of the audit of the Commonwealth’s compliance with the Unemployment Insurance (UI) program, the Department of Workforce Investment’s (DWI) Unemployment Insurance Financial Transaction Summary Reports (ETA 2112) were reviewed. The ETA 2112 reports are a monthly summary of transactions which account for all funds received by, passed through, or paid out of the State Unemployment Insurance Fund.

Errors were noted in two reports reviewed. The September 2018 report contained an error that resulted in net UI benefits being understated by \$6,282,000 and reimbursements to non-profits being overstated by \$6,282,000. The April 2019 report contained a discrepancy between the submitted report and supporting documentation that resulted in net UI contributions being overstated by \$333,000. DWI had inadequate internal controls to ensure the ETA 2112 reports were accurate.

While the Office of Unemployment Insurance has written procedures to guide personnel in the compilation of the ETA 2112 reports, it does not have an internal process to verify the accuracy of the data in the reports.

Without a process to verify the accuracy of the data, the risk of inaccurate reporting, as noted in this finding, is increased. Failure to ensure the accuracy of financial reports submitted to the United States Department of Labor could lead to noncompliance with federal regulations or impact determinations used in managing and evaluating the activities and effectiveness of the UI program.

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

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

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

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*Significant Deficiencies Relating to Internal Controls and/or Noncompliances***Finding 2019-017: The Department Of Workforce Investment Included Erroneous Data In Reports Submitted To The Federal Government (Continued)**

Recommendation

We recommend DWI implement adequate internal controls to ensure ETA 2112 reports are prepared with accurate information. The review process should also be documented.

Management's Response and Planned Corrective Action

The monthly ETA 2112 is due to the United States Department of Labor following the 1st day of the 2nd month after the report period. The ETA 2112 requires monetary information from the UI Benefits Cashbook, the UI Tax Cashbook, and the Reimbursement Cashbook. The UI Benefits and Tax Cashbooks are reconciled to the UI Trust Fund Cashbook. Then, the Reimbursing Cashbook is provided to the UI Trust Fund Office by the 15th day of the 1st month by the UI Tax Collection Branch.

The UI Trust Fund Office will ensure that the ETA 2112 is correct and reasonable free of errors by:

- 1. Ensuring that both the Benefit and Tax Cashbooks are reconciled and that the UI Trust Fund Cashbook is reconciled prior to the due date of the ETA 2112.*
- 2. Confirming that the numbers manually entered into the Federal SUN system are consistent with those numbers calculated in the UI Trust Fund Cashbook and double checking prior to report transmittal.*
- 3. Extending the due date for the Reimbursing Employer Cashbook from the UI Tax Collection Branch from the 15th of the month to the 22nd of the month. This will allow for more accurate data at the time of submission of the ETA 2112 report due to the fact that the Reimbursement Cashbook could potentially change over the course of the month. Extending the due date could mitigate any changes that might occur between when the cashbooks were reconciled and the report was submitted to the time when the cashbooks are updated to include additional reimbursements.*
- 4. Correcting and updating the ETA 2112 report, if and when any changes occur, to the cashbooks after they were initially reconciled.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-018: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports

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

This is a repeat of prior year finding 2018-031 as reported in the 2018 Statewide Single Audit of Kentucky (SSWAK) Volume II.

The Department of Workforce Investment (DWI) failed to ensure the accuracy of data provided by the Local Workforce Development Areas (LWDA) as utilized in the preparation of financial reports for the Workforce Innovation and Opportunity Act (WIOA) program.

The United States Department of Labor (USDOL) Employment and Training Administration (ETA) 9130 financial reports are submitted quarterly by DWI to report LWDA expenditures. The LWDAs enter their expenditures into the Workforce Online Reporting for Kentucky System (WORKS). DWI utilizes the data from WORKS to prepare the quarterly ETA 9130, which cumulatively reports the expenditures of all LWDAs.

DWI's current procedure for verifying the accuracy of information utilized in preparing quarterly ETA 9130 reports involves reconciling annual LWDA audit reports to WORKS. Since LWDA annual audits are performed after the fiscal year end, DWI is unable to verify the accuracy of the ETA 9130 reports until months after they are submitted.

Additionally, DWI provided a spreadsheet documenting the reconciliations for all ten LWDAs. The spreadsheet identified \$1,269,276 in unreconciled differences between the financial statements of the LWDAs and DWI records.

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

Failure to ensure the accuracy of financial reports submitted to USDOL could lead to noncompliance with federal regulations as well as impact determinations used in managing and evaluating the activities and effectiveness of WIOA.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-018: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports (Continued)

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

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

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

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

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

Recommendation

We recommend DWI implement adequate internal controls to ensure ETA 9130 reports are prepared with complete and accurate information. DWI should establish procedures which allow the data within WORKS to be reconciled to the LWDA financial data.

Management’s Response and Planned Corrective Action

OAS staff will work diligently to insure that all discrepancies for grant years 17, 18 and 19 are reconciled by June 30, 2020.

Thereafter, our goal is to reconcile all discrepancies by June 30th following the audit period. We have revised Procedures for Reconciliation of LWDB Audit Reports and have attached a copy for your review.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

Finding 2019-019: The Kentucky Transportation Cabinet Failed To Ensure The Accuracy Of The Schedule Of Expenditures Of Federal Awards

State Agency: Kentucky Transportation Cabinet
 Federal Program: CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
 Federal Agency: U.S. Department of Homeland Security
 Pass-Through: Not Applicable
 Compliance Area: Activities Allowed or Unallowed
 Questioned Costs: \$0

The Kentucky Transportation Cabinet’s (KYTC) Public Assistance program provides assistance for debris removal, emergency protective measures, and permanent repairs of infrastructure that is damaged during disaster events receiving a presidential declaration. With prior approval, these expenditures are eligible for reimbursement from the Federal Government. Such expenditures of federal funds are recorded on the Commonwealth’s Schedule of Expenditures of Federal Awards (SEFA) under the appropriate Catalog of Federal Domestic Assistance (CFDA) number.

As part of the Commonwealth’s Single Audit, expenditures at KYTC eligible for reimbursement from the Federal Emergency Management Agency (FEMA) for Presidentialy Declared Disasters (CFDA 97.036) were reviewed. In three instances, KYTC recorded \$187,878 in expenditures for unallowable activities on the SEFA under CFDA 97.036. KYTC had not yet requested reimbursement from FEMA for these expenditures.

In another instance, it could not be determined on what particular segment of roadway work had been performed, and therefore, it was not possible to confirm that the expenditure was for an allowable activity.

Controls are insufficient to properly code CFDA 97.036 project expenditures. Per discussion with staff, the current approach to coding CFDA 97.036 and non-CFDA 97.036 projects requires extensive review in order to detect coding errors and identify unallowable activities. While these corrections occur in many cases, in these particular instances that review had not taken place prior to the expenditures being recorded on the SEFA.

Inadequate review could lead to misstatements on the Commonwealth’s SEFA and requests for federal reimbursement of expenditures for unallowable activities. In this case, KYTC inappropriately recorded \$187,878 under CFDA 97.036 on the fiscal year 2019 SEFA.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****Finding 2019-019: The Kentucky Transportation Cabinet Failed To Ensure The Accuracy Of The Schedule Of Expenditures Of Federal Awards (Continued)**

44 CFR section 206.205, states:

- (b) Large projects. (1) The Grantee shall make an accounting to the Regional Administrator of eligible costs for each approved large project. In submitting the accounting the recipient shall certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement, and that payments for that project have been made in accordance with 2 CFR 200.305. Each large project shall be submitted as soon as practicable after the sub-grantee has completed the approved work and requested payment. [...]

2 CFR 200.510, states:

- (b) Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. [...]

Recommendation

We recommend KYTC:

- Improve its oversight of CFDA 97.036 expenditures and develop a system for the timely identification of allowable activities.
- Ensure timely review of expenditures recorded on the SEFA.

Management's Response and Planned Corrective Action

\$187,878 has been moved from the FD51-FEMA account to the proper funding source. These charges were from the 2018 disaster. KYTC charged all disaster costs to FD51 from the start of the 2018 disaster. As the 2018 projects are finished and submitted to FEMA for reimbursement, costs charged to FD51 will be substantiated and moved out of FD51 if necessary. This will be completed before the end of the fiscal year.

KYTC changed accounting methods for the 2019 and future disasters. All 2019 disaster costs are being charged to the FE01- Maintenance account. Costs are only charged to FD51 once projects are approved by FEMA. This change has prevented ineligible costs from being charged to FD51 for the 2019 disaster. KYTC will continue to charge disaster costs to FE01 until FEMA projects are approved and the costs documented as FEMA eligible expenses.

APPENDIX

COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2019

This report is available on the Auditor of Public Accounts' website, www.auditor.ky.gov. For other requests, contact Tim Gutman, Open Records Administrator, with the APA at (502) 564-5841 or tim.gutman@ky.gov. If copies of the Commonwealth's FY 19 Comprehensive Annual Financial Report are required, visit www.finance.ky.gov.

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

Agency	Contact
Cabinet for Health and Family Services	Kelli Hill, Director Division of General Accounting Cabinet for Health and Family Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone: (502) 564-8890
Department of Military Affairs	Rebecca Dittert, Acting Staff Assistant Office of Management and Administration Boone National Guard Center 100 Minuteman Parkway Bldg. 100 Frankfort, KY 40601 Phone: (502) 607-1545
Department of Workforce Investment	Beth Roark, Director Office of Administrative Services 500 Mero Street, 4 th Floor Frankfort, KY 40601 Phone: (502) 564-0372
Department of Education	Charles Harman, Director Division of Budget and Finance 300 Sower Blvd. Suite 524 Frankfort, KY 40601 Phone: (502) 564-1979
Kentucky Transportation Cabinet	Teri Harmon, Assistant Director Division of Audit Services 200 Mero Street – 4 th Floor East Frankfort, KY 40601 Phone: (502) 782-4073