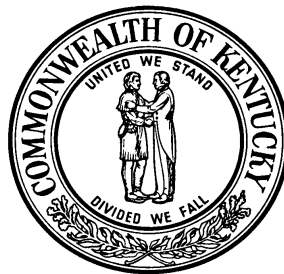


REPORT OF THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY

VOLUME I

**For the Year Ended
June 30, 2021**



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

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THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2021

Background

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), through our opinion on the Commonwealth's Annual Comprehensive Financial Report (ACFR) 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 ACFR. It includes the APA's opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements, the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and financial statement findings related to internal control and compliance.

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

Annual Comprehensive Financial Report

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

The scope of the ACFR audit included:

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

**THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY VOLUME I
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)**

Schedule of Expenditures of Federal Awards

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

For the fiscal year (FY) ended June 30, 2021, the total federal dollars expended by the Commonwealth of Kentucky were \$20,495,080,781 in cash awards and \$2,150,617,918 in noncash awards. For FY 2021, the total federal cash expenditures as reported on the SEFA increased by \$3,925,698,741 and noncash expenditures increased by \$1,181,319,675 in comparison with the total for FY 2020.

Component Units

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

February 9, 2022

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

As Assistant Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the Fiscal Year ended June 30, 2021. Volume I contains financial statement findings identified during our audit of the Annual Comprehensive Financial Report (ACFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

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

On behalf of the staff of the Auditor of Public Accounts, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Jason Johnson, Executive Director of the Office of State Government Audits and Technology or me.

Respectfully Submitted,

Farrah Petter, CPA
Assistant Auditor of Public Accounts



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated December 9, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Opinion

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



Honorable Andy Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky General Assembly
Page 2

Emphasis of Matter

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

Other Information

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

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Farrah Petter".

Farrah Petter, CPA
Assistant Auditor of Public Accounts

December 9, 2021

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	AGR	\$ 580,380	\$	\$
10.028	Wildlife Services (Note 15)	F&W			
10.072	Wetlands Reserve Program	F&W	271,242		
10.093	Voluntary Public Access and Habitat Incentive Program (Note 15)	F&W			
10.153	Market News	AGR	9,046		
10.162	Inspection Grading and Standardization	AGR	12,255		
10.163	Market Protection and Promotion	AGR	95,888		
10.170	Specialty Crop Block Grant Program - Farm Bill	AGR	265,538		
10.178	Trade Mitigation Program Eligible Recipient Agency Operational Funds (Note 10)	AGR	516,320	7,092,404	
10.351	Rural Business Development Grant (Note 15)	KAC			
10.479	Food Safety Cooperative Agreements	CHFS	32,013		
10.537	Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants	DWI	320,215		
		CHFS	74		
10.542	Pandemic EBT Food Benefits (Note 2) (Note 10)	CHFS		577,023,143	
SNAP Cluster:					
10.551	Supplemental Nutrition Assistance Program (Note 2) (Note 10)	CHFS		1,454,099,128	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2)	CHFS	84,853,988		10,745,014
10.561	ARPA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2) (Note 14)	CHFS	181,312		78,651
10.561	CRRSA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2) (Note 14)	CHFS	1,023,391		153,608
Total SNAP Cluster:			86,058,691	1,454,099,128	10,977,273
Child Nutrition Cluster:					
10.553	School Breakfast Program (Note 2)	EDU	2,760,665		2,760,665
		JUV			
10.555	National School Lunch Program (Note 2) (Note 10)	EDU	5,805,325		5,805,325
		AGR		16,256,803	
		JUV			
10.556	Special Milk Program for Children (Note 2)	EDU	5,855		5,855
10.559	Summer Food Service Program for Children (Note 2)	EDU	355,393,706		354,994,248
10.579	Child Nutrition Discretionary Grants Limited Availability (Note 2)	EDU	462,433		462,433
Total Child Nutrition Cluster:			364,427,984	16,256,803	364,028,526
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	CHFS	92,873,819		21,176,563
10.557	FFCRA-WIC Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2) (Note 14)	CHFS	7,071,935		2,618,334
10.558	Child and Adult Care Food Program (Note 2)	EDU	43,892,527		43,219,241
10.560	State Administrative Expenses for Child Nutrition	EDU	3,009,581		568,888
		AGR	1,112,736		
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program (Note 2) (Note 10) (Note 11)	AGR	2,274,914	9,162,708	
10.568	Emergency Food Assistance Program (Administrative Costs) (Note 2)	AGR	1,788,094		
10.568	CARES-Emergency Food Assistance Program (Administrative Costs) (Note 2) (Note 14)	AGR			
			2,340,835		
10.568	FFCRA-Emergency Food Assistance Program (Administrative Costs) (Note 2) (Note 14)	AGR			
			780,278		
10.569	Emergency Food Assistance Program (Food Commodities) (Note 2) (Note 10)	AGR	108,653	11,445,766	
10.569	CARES-Emergency Food Assistance Program (Food Commodities) (Note 2) (Note 10) (Note 14)	AGR		3,949,115	
10.569	FFCRA-Emergency Food Assistance Program (Food Commodities) (Note 2) (Note 10) (Note 14)	AGR			
Total Food Distribution Cluster:			7,292,774	27,371,307	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture (Continued)					
Direct Programs (Continued):					
10.572	WIC Farmers' Market Nutrition Program (FMNP)	CHFS	86,659		
10.575	Farm to School Grant Program	AGR	24,114		
10.576	Senior Farmers Market Nutrition Program	AGR	300,426		
10.578	WIC Grants to States (WGS)	CHFS	251,963		30,479
10.582	Fresh Fruit and Vegetable Program	EDU	2,722,071		2,721,410
10.592	Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects (Note 15)	CHFS			
10.596	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP (Note 15)	CHFS			
10.649	CRRSA-Pandemic EBT Administrative Costs (Note 14)	CHFS	1,352,409		
10.652	Forestry Research (Note 10)	EEC	359,142	61,753	
10.664	Cooperative Forestry Assistance	EEC	2,320,214		728,130
10.674	Wood Utilization Assistance (Note 15)	EEC			
10.676	Forest Legacy Program	EEC	7,925		
10.678	Forest Stewardship Program	EEC	10,504		
10.691	Good Neighbor Authority	EEC	31,733		
10.697	State & Private Forestry Hazardous Fuel Reduction Program	EEC	81,098		
10.771	Rural Cooperative Development Grants (Note 15)	AGR			
10.902	Soil and Water Conservation	EEC	128,853		
10.912	Environmental Quality Incentives Program	EEC	50,000		
10.913	Farm and Ranch Lands Protection Program	AGR	28,787		
10.923	Emergency Watershed Protection Program (Note 15)	TC			
10.924	Conservation Stewardship Program (Note 7)	COT	149,331		
10.931	Agricultural Conservation Easement Program (Note 7)	COT	100,000		
10.932	Regional Conservation Partnership Program (Note 15)	EEC			
10.U01	Rural Rehabilitation Student Loan Program (Note 3) (Note 15) (Note 16)	AGR			
10.U02	HWA Participating Agreement with Daniel Boone National Forest (Note 16)	EEC	4,264		
Total U.S. Department of Agriculture			\$ 615,852,511	\$ 2,081,904,538	\$ 446,068,844
U.S. Department of Commerce					
Direct Programs:					
11.302	Economic Development Support for Planning Organizations	DLG	\$ 847,515	\$	\$ 804,618
Economic Development Cluster:					
11.307	Economic Adjustment Assistance	DLG	1,346,563		1,327,647
Total Economic Development Cluster:			1,346,563		1,327,647
11.549	State and Local Implementation Grant Program	KSP COT	101,381		
Total U.S. Department of Commerce			\$ 2,295,459	\$	\$ 2,132,265
U.S. Department of Defense					
Direct Programs:					
12.104	Flood Plain Management Services (Note 15)	F&W	\$	\$	\$
12.106	Flood Control Projects	F&W	13,859		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	EEC	47,867		
12.219	EASE 2.0	SOS	85,560		
12.400	Military Construction, National Guard	MIL	7,125,774		
12.401	National Guard Military Operations and Maintenance (O&M) Projects	MIL	33,542,250		
12.404	National Guard ChalleNGe Program	MIL	6,958,875		
12.617	Economic Adjustment Assistance for State Governments	CMA	574,503		
12.700	Donations/Loans of Obsolete DOD Property (Note 10)	EEC		387,525	
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities (Note 16)	EEC	1,742,207		65,857
Total U.S. Department of Defense			\$ 50,090,895	\$ 387,525	\$ 65,857

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Housing and Urban Development					
Direct Programs:					
Community Development Block Grants-State-Administered Small Cities Program					
14.228	Community Development Block Grants/State's Program and Non- Entitlement Grants in Hawaii (Note 8)	DLG	\$ 20,735,899	\$	\$ 631,245
14.270	Appalachia Economic Development Initiative (Note 15)	MIL			
14.401	Fair Housing Assistance Program State and Local	DLG			
		HRC	185,809		
Total U.S. Department of Housing and Urban Development			\$ 20,921,708	\$	\$ 631,245
U.S. Department of the Interior					
Direct Programs:					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	EEC	\$ 12,608,251	\$	\$
15.252	Abandoned Mine Land Reclamation (AMLR) (Note 2)	EEC	35,602,121		450,704
15.255	Science and Technology Projects Related to Coal Mining and Reclamation (Note 15)	EEC			
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration (Note 7)	F&W	5,439,924		191,000
15.611	Wildlife Restoration and Basic Hunter Education (Note 7) (Note 9)	F&W	8,578,031		250,509
15.626	Enhanced Hunter Education and Safety	F&W	23,281		
Total Fish and Wildlife Cluster:			14,041,236		441,509
15.608	Fish and Wildlife Management Assistance (Note 7)	F&W	1,579,361		
15.614	Coastal Wetlands Planning, Protection and Restoration (Note 15)	F&W			
15.615	Cooperative Endangered Species Conservation Fund (Note 7)	F&W	117,550		3,629
		EEC	41,473		
15.616	Clean Vessel Act (Note 15)	F&W			
15.622	Sportfishing and Boating Safety Act (Note 15)	F&W			
15.623	North American Wetlands Conservation Fund (Note 15)	F&W			
15.631	Partners for Fish and Wildlife	EEC	28,471		
15.634	State Wildlife Grants (Note 7)	F&W	534,061		
15.656	ARRA-Recovery Act Funds - Habitat Enhancement, Restoration and Improvement (Note 13) (Note 15)	F&W			
15.657	Endangered Species Recovery Implementation (Note 7)	F&W	247,962		
		EEC	5,262		
15.664	Fish and Wildlife Coordination and Assistance	EEC	2,211		
15.808	U.S. Geological Survey Research and Data Collection (Note 15)	COT			
15.904	Historic Preservation Fund Grants-In-Aid	KHC	771,859		25,378
15.916	Outdoor Recreation Acquisition, Development and Planning (Note 6)	DLG	387,520		387,520
15.945	Cooperative Research and Training Programs - Resources of the National Park System (Note 15)	EEC			
15.981	Water Use and Data Research (Note 15)	EEC			
15.U01	Clark River NWR Fish Survey (Note 15) (Note 16)	F&W			
15.U02	Ohio River Survey (Note 15) (Note 16)	F&W			
Total U.S. Department of the Interior			\$ 65,967,338	\$	\$ 1,308,740
U.S. Department of Justice					
Direct Programs:					
16.017	Sexual Assault Services Formula Program	JUST	\$ 430,043	\$	\$ 429,763
16.034	Coronavirus Emergency Supplemental Funding	CORR	666,717		
		JUST	1,000,714		841,379
		KSP	250,019		
		OAG	160,041		
		PUBAD	92,149		
16.320	Services for Trafficking Victims	CHFS	8,296		
		OAG	667		
16.321	Antiterrorism Emergency Reserve	JUST	324,409		324,409

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.540	Juvenile Justice and Delinquency Prevention	JUV	375,221		366,475
16.543	Missing Children's Assistance	KSP	413,767		
16.550	State Justice Statistics Program for Statistical Analysis Centers	JUST	46,165		
16.554	National Criminal History Improvement Program (NCHIP)	KSP	95,200		
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	CORR	28,134		
16.575	Crime Victim Assistance (Note 2)	CORR	55		
		JUST	36,953,015		35,955,513
		KSP	1,558,800		
		OAG	88,573		
		UPS	1,257,184		
16.576	Crime Victim Compensation	PPC	142,926		
16.582	Crime Victim Assistance/Discretionary Grants	JUST	266,598		219,930
		OAG	791		
16.585	Drug Court Discretionary Grant Program (Note 7)	AOC	645,087		
16.588	Violence Against Women Formula Grants	JUST	2,151,101		1,913,960
		AOC	83,004		
		OAG	17,631		
		UPS	45,725		
16.593	Residential Substance Abuse Treatment for State Prisoners	CORR	129,215		
16.606	State Criminal Alien Assistance Program	CORR	124,816		
16.607	Bulletproof Vest Partnership Program (Note 15)	JUST			
16.609	Project Safe Neighborhoods	JUST	4,629		
16.610	Regional Information Sharing Systems (Note 15)	COT			
16.710	Public Safety Partnership and Community Policing Grants	KSP	2,402,541		
		OAG	98,726		
16.735	PREA Program: Strategic Support for PREA Implementation (Note 15)	JUST			
16.738	Edward Byrne Memorial Justice Assistance Grant Program	JUST	1,431,806		1,280,789
		KSP	470,678		
16.741	DNA Backlog Reduction Program	KSP	488,909		
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	KSP	36,812		
		JUST	88,820		
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program (Note 15)	AOC			
16.746	Capital Case Litigation Initiative (Note 15)	JUST			
16.750	Support for Adam Walsh Act Implementation Grant Program	CORR	269,736		
16.751	Edward Byrne Memorial Competitive Grant	UPS	83,567		
16.754	Harold Rogers Prescription Drug Monitoring Program	CHFS	434,453		
16.812	Second Chance Act Reentry Initiative	CORR	195,565		
16.813	NICS Act Record Improvement Program (Note 15)	KSP			
16.817	Byrne Criminal Justice Innovation Program (Note 15)	PUBAD			
16.820	Postconviction Testing of DNA Evidence	PUBAD	326,691		
16.823	Emergency Planning for Juvenile Justice Facilities (Note 15)	JUV			
16.833	National Sexual Assault Kit Initiative	JUST	1,528		
		KSP	203,215		
		OAG	427,769		48,698
16.838	Comprehensive Opioid, Stimulant, and Substance Abuse Program	JUST	23,058		
16.839	STOP School Violence (Note 15)	KSP			
16.922	Equitable Sharing Program	OAG	4,507		
16.U01	Drug Enforcement Administration (Note 16)	KSP	2,675,108		
16.U02	Federal Bureau of Investigation (Note 16)	KSP	60,421		
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program (Note 16)	KSP	21,099		
16.U04	District Fugitive Task Force (Note 16)	KSP	8,451		
16.U05	Equitable Sharing-Asset Forfeiture (Note 16)	KSP	626,432		
Total U.S. Department of Justice			\$ 57,740,584	\$	\$ 41,380,916

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	DWI	\$ 967,056	\$	\$
17.005	Compensation and Working Conditions	LABOR	129,638		
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	DWI	635,693		
		DLG			
		LABOR	1,655,858		
		PPC	182,540		
17.801	Jobs for Veterans State Grants (Note 15)	DWI			
Total Employment Service Cluster:			2,474,091		
17.225	Unemployment Insurance (Note 2) (Note 4)	DWI	298,480,769		
		LABOR	296,052,761		
17.225	ARRA-Unemployment Insurance (Note 13) (Note 15)	DWI	-		
17.225	CARES-Unemployment Insurance (Note 2) (Note 4) (Note 14)	DWI	879,642,352		
		LABOR	1,485,098,200		
17.225	FFCRA-Unemployment Insurance (Note 2) (Note 4) (Note 14)	LABOR	1,803,143		
17.235	Senior Community Service Employment Program	CHFS	1,269,143		1,178,202
17.245	Trade Adjustment Assistance	DWI	286,290		137,322
		LABOR	1,495,305		822,082
WIOA Cluster:					
17.258	WIOA Adult Program (Note 2)	DWI	13,362,864		12,408,171
17.259	WIOA Youth Activities (Note 2)	DWI	9,743,405		9,038,166
17.278	WIOA Dislocated Worker Formula Grants (Note 2)	DWI	15,584,364		12,701,964
Total WIOA Cluster:			38,690,633		34,148,301
17.261	WIOA Pilots, Demonstrations, and Research Projects (Note 7)	DWI	160,546		
17.270	Reentry Employment Opportunities (Note 15)	DWI			
17.271	Work Opportunity Tax Credit Program (WOTC)	DWI	507,605		
17.273	Temporary Labor Certification For Foreign Workers	DWI	34,778		
		LABOR	156,686		
17.276	Health Care Tax Credit (HCTC) National Emergency Grants (NEGs) (Note 15)	DWI			
17.277	WIOA National Dislocated Workers Grants/WIA National Emergency Grants (Note 15)	DWI			
17.277	CARES-WIOA National Dislocated Workers Grants/WIA National Emergency Grants (Note 14)	DWI	2,662,777		25,681
17.281	WIOA Dislocated Worker National Reserve Technical Assistance and Training (Note 15)	DWI			
17.285	Apprenticeship USA Grants	DWI	353,091		50,570
17.503	Occupational Safety and Health State Program	LABOR	4,406,068		
17.600	Mine Health and Safety Grants	EEC	440,849		
17.720	Disability Employment Policy Development	DWI	1,308,099		986,576
17.801	Jobs for Veterans State Grants	DWI	55,730		
		LABOR	826,912		
Total U.S. Department of Labor			\$ 3,017,302,522	\$	\$ 37,348,734
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program	TC	\$ 368,560	\$	\$
Highway Planning and Construction Cluster:					
20.205	Highway Planning and Construction (Note 2) (Note 5)	TC	934,779,189		31,300,362
		KSP	20,797		
20.219	Recreational Trails Program (Note 2) (Note 6)	DLG	871,482		866,078
Total Highway Planning and Construction Cluster:			935,671,468		32,166,440
FMCSA Cluster:					
20.218	Motor Carrier Safety Assistance	KSP	3,968,249		100,621
		TC	837,600		
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	TC	1,051,761		
Total FMCSA Cluster:			5,857,610		100,621

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Transportation (Continued)					
Direct Programs (Continued):					
20.231	Performance and Registration Information Systems Management	TC	142,032		
20.232	Commercial Driver's License Program Implementation Grant	TC	435,864		
		KSP	797,664		
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	REV	2,016		
		KSP	1,138		
		TC	5,540		
Federal Transit Cluster:					
20.500	Federal Transit Capital Investment Grants	TC	2,712,684		2,712,684
20.526	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	TC	3,769,734		3,407,509
Total Federal Transit Cluster:			6,482,418		6,120,193
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	TC	688,162		621,533
20.509	Formula Grants for Rural Areas and Tribal Transit Program (Note 2)	TC	5,572,795		4,343,484
20.509	CARES-Formula Grants for Rural Areas and Tribal Transit Program (Note 2) (Note 14)	TC	20,440,713		12,239,804
20.509	CRRSA-Formula Grants for Rural Areas and Tribal Transit Program (Note 2) (Note 14)	TC	9,416,447		9,416,447
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	TC	1,883,089		1,883,089
20.513	CRRSA-Enhanced Mobility of Seniors and Individuals With Disabilities (Note 14)	TC	160,790		160,790
Total Transit Services Programs Cluster:			2,043,879		2,043,879
Highway Safety Cluster:					
20.600	State and Community Highway Safety	KSP	926,861		
		TC	3,067,255		1,900,982
20.616	National Priority Safety Programs	TC	3,404,172		1,596,431
		KSP	1,380,919		
		UPS	177,808		
		AOC	37,527		
Total Highway Safety Cluster:			8,994,542		3,497,413
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	KSP	412,775		
		TC	10,655		
20.615	E-911 Grant Program	KOHS	319,958		
20.700	Pipeline Safety Program State Base Grant	EEC	980,439		
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	MIL	162,416		
20.720	State Damage Prevention Program Grants	EEC	72,959		
20.721	PHMSA Pipeline Safety Program One Call Grant	EEC	59,578		
20.933	National Infrastructure Investments	TC	6,357,727		3,784,784
20.934	Nationally Significant Freight and Highway Projects (Note 2)	TC	39,073,083		
Total U.S. Department of Transportation			\$ 1,044,370,438	\$	\$ 74,334,598
U.S. Department of Treasury					
Direct Programs:					
21.016	Equitable Sharing (Note 15)	UPS	\$	\$	\$
21.019	CARES-Coronavirus Relief Fund (Note 2) (Note 14)	AGR	2,000,000		
		CHFS	278,378,526		69,801,065
		CORR	56,394,000		
		COT	3,500,000		
		DLG	314,704,708		313,211,745
		DWI	1,558,210		
		EDU	137,265,955		135,431,522
		FIN	15,318,339		15,000,000
		GA	1,355,004		
		JUV	15,773,600		
		KSP	59,766,300		
		LABOR	319,362,224		
		LRC	991,079		
		MIL	66,196,005		
		OSBD	111,890,375		
		KBE	6,591,353		1,237,657
		PERS	568,200		
		PPC	35,660,089		
		TC	72,000		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of Treasury (Continued)</u>					
Direct Programs (Continued):					
21.023	Emergency Rental Assistance Program (Note 2)	FIN	75,036,142		75,000,000
21.U01	Internal Revenue Service (Note 15) (Note 16)	KSP			
21.U02	Equitable Sharing-Asset Forfeiture (Note 16)	KSP	250,000		
21.U03	State Small Business Credit Initiative (Note 16)	CED	1,000		
Total U.S. Department of Treasury			\$ 1,502,633,109	\$	\$ 609,681,989
<u>U.S. Appalachian Regional Commission</u>					
Direct Programs:					
23.002	Appalachian Area Development	DLG	\$ 8,810,977	\$	\$ 20
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects (Note 15)	DLG			
Total U.S. Appalachian Regional Commission			\$ 8,810,977	\$	\$ 20
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Programs:					
30.001	Employment Discrimination Title VII of the Civil Rights Act of 1964	HRC	\$ 26,288	\$	\$
Total U.S. Equal Employment Opportunity Commission			\$ 26,288	\$	\$
<u>U.S. General Services Administration</u>					
Direct Programs:					
38.006	State Appraiser Agency Support Grants	PPC	\$ 15,926	\$	\$
39.003	Donation of Federal Surplus Personal Property (Note 10)	FAC	709,795	13,283	
39.011	Election Reform Payments (Note 12)	KBE	50,914		
Total U.S. General Services Administration			\$ 776,635	\$ 13,283	\$
<u>National Aeronautics and Space Administration</u>					
Direct Programs:					
43.002	Aeronautics (Note 15)	COT	\$	\$	\$
Total National Aeronautics and Space Administration			\$	\$	\$
<u>U.S. National Foundation on the Arts and the Humanities</u>					
Direct Programs:					
45.025	Promotion of the Arts Partnership Agreements	KAC	\$ 702,695	\$	\$ 692,476
45.025	CARES-Promotion of the Arts Partnership Agreements (Note 14)	KAC	189,075		
45.149	Promotion of the Humanities Division of Preservation and Access (Note 15)	KHS			
45.161	Promotion of the Humanities Research (Note 15)	KHS			
45.301	Museums for America	KHS	1,382		
45.310	Grants to States	DWI	2,663,691		
45.310	CARES-Grants to States (Note 14)	DWI	403,692		
45.313	Laura Bush 21st Century Librarian Program (Note 15)	DLA			
Total U.S. National Foundation on the Arts and Humanities			\$ 3,960,535	\$	\$ 692,476
<u>U.S. Small Business Administration</u>					
Direct Programs:					
59.058	Federal and State Technology Partnership (Note 15)	CED	\$	\$	\$
59.061	State Trade Expansion	CED	205,458		
Total U.S. Small Business Administration			\$ 205,458	\$	\$
<u>U.S. Department of Veterans Affairs</u>					
Direct Programs:					
64.005	Grants to States for Construction of State Home Facilities (Note 15)	VA	\$	\$	\$
64.015	Veterans State Nursing Home Care	VA	23,711,184		
64.015	CARES-Veterans State Nursing Home Care (Note 14)	CHFS	5,447,330		
		VA	2,943,210		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Veterans Affairs (Continued)					
Direct Programs (Continued):					
64.101	Burial Expenses Allowance for Veterans	VA	947,112		
64.203	Veterans Cemetery Grants Program (Note 15)	VA			
Total U.S. Department of Veterans Affairs			\$ 33,048,836	\$	\$
U.S. Environmental Protection Agency					
Direct Programs:					
66.032	State Indoor Radon Grants	CHFS	\$ 284,711	\$	\$ 122,236
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Note 10)	EEC	368,048	133,365	
66.040	Diesel Emissions Reduction Act (DERA) State Grants	EEC	220,854		
66.202	Congressionally Mandated Projects	EEC	8,455		
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	EEC	111,084		
66.433	State Underground Water Source Protection (Note 15)	EEC			
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements-Section 104(b)(3) of the Clean Water Act	EEC	41,613		
66.444	Lead Testing in School and Child Care Program Drinking Water (SDWA 1464 (d))	EEC	114,423		112,032
66.454	Water Quality Management Planning	EEC	191,594		
Clean Water State Revolving Fund Cluster:					
66.458	Capitalization Grants for Clean Water State Revolving Funds	EEC PARKS	606,750		
Total Clean Water State Revolving Fund Cluster:			606,750		
66.460	Nonpoint Source Implementation Grants (Note 15)	EEC			
Drinking Water State Revolving Fund Cluster:					
66.468	Capitalization Grants for Drinking Water State Revolving Funds	EEC	5,533,278		31,774
Total Drinking Water State Revolving Fund Cluster:			5,533,278		31,774
66.605	Performance Partnership Grants (Note 10)	EEC	10,794,205	154,545	1,378,644
		AGR	616,892		
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	CHFS	182,853		
66.717	Source Reduction Assistance (Note 15)	EEC			
66.802		EEC	300,189		
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements				
66.804	Underground Storage Tank (UST) Prevention, Detection, and Compliance Program	EEC	518,654		
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	EEC	1,177,743		
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	EEC	46,089		
66.817	State and Tribal Response Program Grants	EEC	786		
66.818	Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements	EEC	161,904		107,000
66.951	Environmental Education Grants (Note 15)	DWI			
Total U.S. Environmental Protection Agency			\$ 21,280,125	\$ 287,910	\$ 1,751,686
U.S. Department of Energy					
Direct Programs:					
81.041	State Energy Program	EEC	\$ 961,846	\$	\$ 473,730
81.104	Environmental Remediation and Waste Processing and Disposal	EEC	663,081		
		CHFS	587,775		
81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13) (Note 15)	DLG			
81.138	State Heating Oil and Propane Program	EEC	4,788		
Total U.S. Department of Energy			\$ 2,217,490	\$	\$ 473,730
U.S. Department of Education					
Direct Programs:					
84.002	Adult Education - Basic Grants to States	DWI	\$ 7,970,125	\$	\$ 7,705,017
84.010	Title I Grants to Local Educational Agencies (Note 2)	EDU	225,443,671		217,520,640
84.011	Migrant Education State Grant Program	EDU	5,429,721		5,266,609
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	JUV	901,146		
		CORR	23,073		
		EDU	3,640		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
Special Education Cluster (IDEA):					
84.027	Special Education Grants to States (Note 2)	EDU	149,286,856		138,994,088
84.173	Special Education Preschool Grants (Note 2)	EDU	8,430,739		7,907,402
Total Special Education Cluster (IDEA):			157,717,595		146,901,490
84.048	Career and Technical Education-Basic Grants to States	EDU CORR EPSB	18,336,124		15,188,631
84.051	Career and Technical Education-National Programs	EDU	211,660		117,220
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States (Note 2)	DWI	46,306,712		7,307,820
84.144	Migrant Education Coordination Program	EDU	75,083		64,289
84.161	Rehabilitation Services Client Assistance Program	DWI	52,575		
		PUBAD	1,810		
84.177		DWI	217,915		
	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind				
84.181	Special Education-Grants for Infants and Families	CHFS	4,848,848		
84.184	School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs)	EDU	615,257		
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities (Note 15)	DWI			
84.196	Education for Homeless Children and Youth	EDU	830,751		748,762
84.215	Innovative Approaches to Literacy, Full-service Community Schools; and Promise Neighborhoods (Note 15)	KHS			
84.235	Rehabilitation Services Demonstration and Training Programs	DWI	343,902		340,264
84.240	Program of Protection and Advocacy of Individual Rights	PUBAD	197,682		
84.287	Twenty-First Century Community Learning Centers	EDU	9,375,987		9,177,658
84.323	Special Education-State Personnel Development	EDU	1,072,419		1,042,138
84.325	Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	EDU	2,268		2,268
84.358	Rural Education	EDU	5,405,447		5,343,247
84.365	English Language Acquisition State Grants	EDU	3,347,415		3,196,572
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	EDU	27,817,319		26,691,942
84.369	Grants for State Assessments and Related Activities	EDU	3,696,883		
84.371	Comprehensive Literacy Development	EDU	6,332,822		6,117,989
84.372	Statewide Longitudinal Data Systems	DWI EDU	1,319,172		62,311
84.377	School Improvement Grants	EDU	1,241,841		1,200,643
84.424	Student Support and Academic Enrichment Program	EDU	15,894,746		15,604,358
84.425	CARES-Education Stabilization Fund (Note 2) (Note 14)	EDU	240,822,796		233,251,102
Total U.S. Department of Education			\$ 785,856,405	\$	\$ 702,850,970
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	DWI KHS	\$ 18,832 25,000	\$	\$
Total U.S. National Archives and Records Administration			\$ 43,832	\$	\$
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments	KBE	\$ 917,320	\$	\$
90.404	CARES-2018 HAVA Election Security Grants (Note 14)	KBE	4,862,933		
Total U.S. Election Assistance Commission			\$ 5,780,253	\$	\$

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services					
Direct Programs:					
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	CHFS	\$ 47,340	\$	\$ 47,340
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	CHFS	132,017		96,927
93.042	CARES-Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals (Note 14)	CHFS	213,468		213,468
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	CHFS	242,936		153,772
Aging Cluster:					
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	CHFS	4,628,755		4,440,475
93.044	CARES-Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers (Note 14)	CHFS	1,974,553		1,974,553
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	CHFS	6,625,396		6,490,476
93.045	CARES-Special Programs for the Aging, Title III, Part C, Nutrition Services (Note 14)	CHFS	6,178,923		6,178,923
93.045	CRRSA-Special Programs for the Aging, Title III, Part C, Nutrition Services (Note 14)	CHFS	2,032,146		2,032,146
93.045	FFCRA-Special Programs for the Aging, Title III, Part C, Nutrition Services (Note 14)	CHFS	1,813,904		1,813,904
93.053	Nutrition Services Incentive Program	CHFS	1,480,929		1,480,929
Total Aging Cluster:			24,734,606		24,411,406
93.048	Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	CHFS	73,003		
93.048	CARES-Special Programs for the Aging, Title IV, and Title II, Discretionary Projects (Note 14)	CHFS	290,575		
93.048	CRRSA-Special Programs for the Aging, Title IV, and Title II, Discretionary Projects (Note 14)	CHFS	571		
93.051	Alzheimer's Disease Demonstration Grants to States (Note 15)	CHFS			
93.052	National Family Caregiver Support, Title III, Part E	CHFS	1,828,361		1,793,600
93.052	CARES-National Family Caregiver Support, Title III, Part E (Note 14)	CHFS	798,420		798,420
93.069	Public Health Emergency Preparedness (Note 10)	CHFS	6,654,220	119,371	2,739,670
		MIL	65,280		
93.070	Environmental Public Health and Emergency Response	CHFS	733,601		36,806
93.071	Medicare Enrollment Assistance Program	CHFS	629,420		504,647
93.073	Birth Defects and Developmental Disabilities-Prevention and Surveillance (Note 15)	CHFS			
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)	CHFS			
	Aligned Cooperative Agreements (Note 15)				
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	EDU	61,900		
93.087	Enhance Safety of Children Affected by Substance Abuse (Note 15)	CHFS			
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	CHFS	512,426		414,024
93.103	Food and Drug Administration Research	CHFS	107,812		
		AGR	703,315		
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	CHFS	1,362,192		304,607
93.110	Maternal and Child Health Federal Consolidated Programs	CHFS	87,323		
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	CHFS	736,864		
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	CHFS	208,670		
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	CHFS	193,460		46,583
93.136	Injury Prevention and Control Research and State and Community Based Programs	CHFS	589,874		589,874
		KSP	83,125		
93.136	CARES-Injury Prevention and Control Research and State and Community Based Programs (Note 14)	CHFS	47,542		47,542
93.138	Protection and Advocacy for Individuals with Mental Illness	PUBAD	329,204		
93.150	Projects for Assistance In Transition from Homelessness (PATH)	CHFS	448,910		429,449
93.184	Disabilities Prevention	CHFS	169,254		
93.217	Family Planning Services	CHFS	2,335,187		1,633,201
93.234	Traumatic Brain Injury State Demonstration Grant Program	CHFS	42,121		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.235	Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	CHFS	566,665		437,104
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance (Note 7)	CHFS	3,505,551		2,380,169
		AOC	1,190,849		
		EDU	1,288,575		1,216,547
93.251	Early Hearing Detection and Intervention	CHFS	180,935		
93.268	Immunization Cooperative Agreements (Note 2) (Note 10)	CHFS	5,157,568	58,251,045	
93.268	CARES-Immunization Cooperative Agreements (Note 2) (Note 14)	CHFS	2,881,007		
93.268	CRRSA-Immunization Cooperative Agreements (Note 2) (Note 14)	CHFS	5,781,811		5,192,061
93.270	Viral Hepatitis Prevention and Control	CHFS	267,805		
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	CHFS	2,209,555		339,260
93.292	National Public Health Improvement Initiative (Note 15)	CHFS			
93.296	State Partnership Grant Program to Improve Minority Health (Note 15)	CHFS			
93.305	PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)	CHFS	123,429		
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	CHFS	69,029		
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) (Note 2)	CHFS	1,698,226		
93.323	CARES-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) (Note 2) (Note 14)	CHFS	2,268,438		
93.323	CRRSA-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) (Note 2) (Note 14)	CHFS	10,889,107		99,510
93.323	PPP-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) (Note 2) (Note 14)	CHFS	21,989,437		2,649,366
93.324	State Health Insurance Assistance Program	CHFS	828,973		564,118
93.325	Paralysis Resource Center	DWI	7,052		
93.336	Behavioral Risk Factor Surveillance System	CHFS	307,245		
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	CHFS	51,000		51,000
93.354	CPRSA-Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response (Note 14)	CHFS	2,532,368		370,938
93.367	Flexible Funding Model - Infrastructure Development and Maintenance for State Manufactured Food Regulatory Programs	CHFS	611,291		
93.369	ACL Independent Living State Grants	CHFS	228,393		201,134
93.387	National and State Tobacco Control Program	CHFS	1,070,395		
93.426	Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	CHFS	1,614,586		
93.434	Every Student Succeeds Act/Preschool Development Grants	CHFS	2,574		
		DWI	500,411		120,458
		EDU	7,620		7,620
93.435	Innovative State and Local Public Health Strategies to Prevent and Manage Diabetes and Heart Disease and Stroke	CHFS	939,750		
93.464	ACL Assistive Technology	DWI	457,533		312,496
93.472	Title IV-E Prevention and Family Services and Programs	CHFS	5,832,457		1,542,294
93.472	CRRSA-Title IV-E Prevention and Family Services and Programs (Note 14)	CHFS	6,200,831		1,542,294
93.504	Family to Family Health Information Centers	CHFS	57,706		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (Note 15)	CHFS			
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers (Note 15)	CHFS			
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF (Note 15)	CHFS			
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds (Note 15)	CHFS			
93.556	MaryLee Allen Promoting Safe and Stable Families Program	CHFS	2,898,222		2,304,760
93.558	Temporary Assistance for Needy Families (Note 2)	CHFS	158,722,911		12,272,936
93.563	Child Support Enforcement (Note 2)	CHFS	42,728,539		28,144,453
		AOC	25,781		
93.564	Child Support Enforcement Research (Note 7)	CHFS	99,892		99,892

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.568	Low-Income Home Energy Assistance (Note 2)	CHFS	69,822,088		69,746,556
93.568	ARPA-Low-Income Home Energy Assistance (Note 2) (Note 14)	CHFS	107,700		107,700
93.568	CARES-Low-Income Home Energy Assistance (Note 2) (Note 14)	CHFS	13,745,001		13,745,001
93.569	Community Services Block Grant	CHFS	10,508,121		10,456,164
93.569	CARES-Community Services Block Grant (Note 14)	CHFS	8,652,633		8,652,633
CCDF Cluster:					
93.575	Child Care and Development Block Grant (Note 2)	CHFS	74,950,225		5,140,946
93.575	CARES-Child Care and Development Block Grant (Note 2) (Note 14)	CHFS	21,830,988		
93.575	CRRSA-Child Care and Development Block Grant (Note 2) (Note 14)	CHFS	122,940,129		
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	CHFS	23,711,906		
Total CCDF Cluster:			243,433,248		5,140,946
93.586	State Court Improvement Program	AOC	438,117		
93.590	Community-Based Child Abuse Prevention Grants	CHFS	2,129,713		1,863,690
93.597	Grants to States for Access and Visitation Programs	CHFS	134,572		
93.599	Chafee Education and Training Vouchers Program (ETV)	CHFS	514,420		
93.599	CRRSA-Chafee Education and Training Vouchers Program (ETV) (Note 14)	CHFS	400,000		
Head Start Cluster:					
93.600	Head Start	DWI	137,973		
Total Head Start Cluster:			137,973		
93.603	Adoption and Legal Guardianship Incentive Payments	CHFS	1,018,234		907,733
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems				
		PUBAD	90,958		
93.624	Community Health Access and Rural Transformation (CHART) Model (Note 15)	CHFS			
93.627	Affordable Care Act: Testing Experience and Functional Assessment Tools (Note 15)	CHFS			
93.630	Developmental Disabilities Basic Support and Advocacy Grants	PUBAD	446,026		
		TRES	887,018		
93.643	Children's Justice Grants to States	CHFS	194,445		111,945
93.645	Stephanie Tubbs Jones Child Welfare Services Program	CHFS	5,465,067		
93.645	CARES-Stephanie Tubbs Jones Child Welfare Services Program (Note 14)	CHFS	448,113		
93.647	Social Services Research and Demonstration	CHFS	326,688		
93.658	Foster Care Title IV-E (Note 2)	CHFS	42,972,305		4,321,710
		AOC	731,846		
93.658	FFCRA-Foster Care Title IV-E (Note 2) (Note 14)	CHFS	1,870,692		
93.659	Adoption Assistance (Note 2)	CHFS	76,273,541		
93.659	FFCRA-Adoption Assistance (Note 2) (Note 14)	CHFS	6,428,535		
93.664	Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment (SUPPORT) for Patients and Communities Act	CHFS	152,098		
93.665	Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	CHFS	1,848,299		1,366,593
93.667	Social Services Block Grant	CHFS	13,538,355		17,934
		JUV	3,439,664		
93.669	Child Abuse and Neglect State Grants	CHFS	373,897		241,562
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	CHFS	1,563,908		1,563,908
93.671	CARES-Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services (Note 14)	CHFS	415,953		415,953
93.674	John H. Chafee Foster Care Program for Successful Transition to Adulthood	CHFS	1,669,737		1,130,072
93.674	CRRSA-John H. Chafee Foster Care Program for Successful Transition to Adulthood (Note 14)	CHFS	352,408		
93.686	Ending the HIV Epidemic: A Plan for America-Ryan White HIV/AIDS Program Parts A and B	CHFS	179,517		
93.714	ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (Note 13)	CHFS	2,647,960		
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF) (Note 15)	CHFS			

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs-financed by Prevention and Public Health Funds (PPHF) (Note 15)	CHFS			
93.735	State Public Health Approaches for Ensuring Qutline Capacity-Funded in part by Prevention and Public Health Funds (PPHF)	CHFS	219,372		
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	CHFS	290,055		176,608
93.767	Children's Health Insurance Program (Note 2)	CHFS	263,059,153		
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units (Note 2)	OAG	3,009,976		
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2)	CHFS	8,577,168		
93.777	CARES-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2) (Note 14)	CHFS	519,173		
93.778	Medical Assistance Program (Note 2) (Note 7)	CHFS	11,052,886,467		
93.778	ARRA-Medical Assistance Program (Note 2) (Note 13)	CHFS	17,083,056		
93.778	FFCRA-Medical Assistance Program (Note 2) (Note 14)	CHFS	595,375,616		
Total Medicaid Cluster:			11,677,451,456		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations (Note 15)	CHFS			
93.788	Opioid STR (Note 2)	CHFS	37,215,939		5,886,731
93.791	Money Follows the Person Rebalancing Demonstration	CHFS	1,015,885		
93.800	Organized Approaches to Increase Colorectal Cancer Screening	CHFS	437,528		
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	CHFS	2,047		2,047
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services (Note 15)	CHFS			
93.843	ACL Assistive Technology State Grants for Protection and Advocacy	PUBAD	50,133		
93.870	Maternal, Infant and Early Childhood Home Visiting Grant	CHFS	3,601,622		3,216,476
93.873	State grants for Protection and Advocacy Services	PUBAD	41,943		
93.881	The Health Insurance Enforcement and Consumer Protections Grant program	PPC	1,521		
93.889	National Bioterrorism Hospital Preparedness Program	CHFS	2,301,869		1,340,696
		MIL	56,801		
93.889	CARES-National Bioterrorism Hospital Preparedness Program (Note 14)	CHFS	931,481		919,758
93.889	CPRSA-National Bioterrorism Hospital Preparedness Program (Note 10) (Note 14)	CHFS	453,499	9,234,331	450,501
93.917	HIV Care Formula Grants	CHFS	13,403,261		5,845,582
93.917	CARES-HIV Care Formula Grants (Note 14)	CHFS	455,039		455,039
93.940	HIV Prevention Activities Health Department Based	CHFS	2,339,846		614,369
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance (Note 15)	CHFS			
93.945	Assistance Programs for Chronic Disease Prevention and Control	CHFS	771,937		
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	CHFS	283,464		
93.958	Block Grants for Community Mental Health Services	CHFS	8,738,277		7,664,565
93.959	Block Grants for Prevention and Treatment of Substance Abuse	CHFS	21,536,503		19,022,755
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants (Note 10)	CHFS	796,427	419,915	
93.981	Improving Student Health and Academic Achievement through Nutrition, Physical Activity and the Management of Chronic Conditions in Schools	EDU	419,384		126,302
		CHFS	767		
93.982	Mental Health Disaster Assistance and Emergency Mental Health	CHFS	1,880,606		1,578,992
93.991	Preventive Health and Health Services Block Grant	CHFS	2,045,913		97,589
93.994	Maternal and Child Health Services Block Grant to the States	CHFS	11,188,261		23,998
93.997	Assisted Outpatient Treatment	CHFS	449,398		365,315
93.U01	Other Federal Assistance (Note 16)	KSP	20,221		
93.U02	Medicare Nursing Home Care (Note 16)	VA	1,370,573		
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections (Note 16)	PPC	49,840		
Total U.S. Department of Health and Human Services			\$ 12,896,495,385	\$ 68,024,662	\$ 261,687,169
U.S. Corporation for National and Community Service					
Direct Programs:					
94.003	State Commissions	CHFS	\$ 307,933	\$	\$
94.006	AmeriCorps	CHFS	6,351,716		6,184,913
		DWI	155,073		
94.009	Training and Technical Assistance	CHFS	248,764		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

ALN	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Corporation for National and Community Service (Continued)					
Direct Programs (Continued):					
Foster Grandparent/Senior Companion Cluster:					
94.011	Foster Grandparent Program (Note 15)	CHFS			
Total Foster Grandparent/Senior Companion Cluster:					
94.021	Volunteer Generation Fund	CHFS	140,448		29,190
Total U.S. Corporation for National and Community Service			\$ 7,203,934	\$	\$ 6,214,103
U.S. Office of National Drug Control Policy					
Direct Program:					
95.001	High Intensity Drug Trafficking Areas Program	KSP	\$ 1,067,555	\$	\$
		OAG	87,941		
Total U.S. Office of National Drug Control Policy			\$ 1,155,496	\$	\$
U.S. Social Security Administration					
Direct Programs:					
Disability Insurance/SSI Cluster:					
96.001	Social Security Disability Insurance (Note 2)	CHFS	\$ 47,236,776	\$	\$
		OAG	459,731		
Total Disability Insurance/SSI Cluster:			47,696,507		
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	PUBAD	597,964		
Total U.S. Social Security Administration			\$ 48,294,471	\$	\$
U. S. Department of Homeland Security					
Direct Programs:					
97.012	Boating Safety Financial Assistance	F&W	\$ 1,286,343	\$	\$
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	EEC	259,556		
97.029	Flood Mitigation Assistance	MIL	3,322,200		3,322,200
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters) (Note 2)	TC	16,647,149		
		MIL	20,198,346		16,982,696
		PARKS	67,018		
97.039	Hazard Mitigation Grant	MIL	4,741,456		4,547,955
97.040	Chemical Stockpile Emergency Preparedness Program	MIL	14,608,631		11,960,914
		EEC			
97.041	National Dam Safety Program	EEC	267,189		
97.042	Emergency Management Performance Grants	MIL	3,790,215		1,674,761
		EEC			
97.045	Cooperating Technical Partners	EEC	4,299,482		
97.046	Fire Management Assistance Grant (Note 15)	MIL			
97.047	BRIC: Building Resilient Infrastructure and Communities	MIL	484,925		484,925
97.050	Presidential Declared Disaster Assistance to Individuals and Households-Other Needs (Note 2)	LABOR	229,097,475		
97.056	Port Security Grant Program	KSP	40,447		
97.067	Homeland Security Grant Program	KOHS	3,488,822		2,546,599
97.082	Earthquake Consortium	MIL	32,890		
97.089	Driver's License Security Grant Program (Note 15)	TC			
97.107	National Incident Management System (NIMS) (Note 15)	MIL			
97.108	Homeland Security, Research, Testing, Evaluation, and Demonstration of Technologies	EEC	117,953		
97.110	Severe Repetitive Loss Program (Note 15)	MIL			
Total U.S. Department of Homeland Security			\$ 302,750,097	\$	\$ 41,520,050
Other Federal Assistance					
Direct Programs:					
99.U01	Tennessee Valley Authority (Note 15) (Note 16)	F&W	\$	\$	\$
Total Other Federal Assistance			\$	\$	\$
Total All State Agencies			\$ 20,495,080,781	\$ 2,150,617,918	\$ 2,228,143,392

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

Note 1 - Basis of Presentation and Significant Accounting Policies

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule includes the federal award activity of the Commonwealth, except those programs administered by state universities and other discretely presented component units, for the year ended June 30, 2021. Because the Schedule presents only a selected portion of the operations of the Commonwealth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commonwealth.

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

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

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

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

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2021. The noncash expenditures presented on the Schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

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

Programs that do not have an Assistance Listing Number (ALN) are identified using the two-digit federal identifier prefix, the letter “U” for Unknown, and a preassigned two-digit number. Additional identifying factors used by the Commonwealth are described in Note 16.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

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

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal funds may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-through to state universities and discretely presented component units, as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys. State agencies that pass federal funds to state universities and discretely presented component units report those amounts as expenditures.
- (b) Federal funds received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as expenditures by the purchasing agency only.

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$33,968,548 for FY 2021. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 2021, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

ALN	Program Title	Expenditures
10.542	Pandemic EBT Food Benefits	\$ 577,023,143
Supplemental Nutrition Assistance Program Cluster		
10.551	Supplemental Nutrition Assistance Program	1,454,099,128
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	84,853,988
10.561	ARPA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	181,312
10.561	CRRSA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	1,023,391
Child Nutrition Cluster		
10.553	School Breakfast Program	2,760,665
10.555	National School Lunch Program	22,062,128
10.556	Special Milk Program for Children	5,855
10.559	Summer Food Service Program for Children	355,393,706
10.579	Child Nutrition Discretionary Grants Limited Availability	462,433

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

Note 2 - Type A Programs (Continued)

ALN	Program Title	Expenditures
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	92,873,819
10.557	FFCRA-WIC Special Supplemental Nutrition Program for Women, Infants, and Children	7,071,935
10.558	Child and Adult Care Food Program	43,892,527
Food Distribution Cluster		
10.565	Commodity Supplemental Food Program	11,437,622
10.568	Emergency Food Assistance Program (Administrative Costs)	1,788,094
10.568	CARES-Emergency Food Assistance Program (Administrative Costs)	2,340,835
10.568	FFCRA-Emergency Food Assistance Program (Administrative Costs)	780,278
10.569	Emergency Food Assistance Program (Food Commodities)	11,554,419
10.569	CARES-Emergency Food Assistance Program (Food Commodities)	3,949,115
10.569	FFCRA-Emergency Food Assistance Program (Food Commodities)	2,813,718
15.252	Abandoned Mine Land Reclamation	35,602,121
16.575	Crime Victim Assistance	39,857,627
17.225	Unemployment Insurance	594,533,530
17.225	CARES-Unemployment Insurance	2,364,740,552
17.225	FFCRA-Unemployment Insurance	1,803,143
WIOA Cluster		
17.258	WIOA Adult Program	13,362,864
17.259	WIOA Youth Activities	9,743,405
17.278	WIOA Dislocated Worker Formula Grants	15,584,364
Highway Planning and Construction Cluster		
20.205	Highway Planning and Construction	934,799,986
20.219	Recreational Trails Program	871,482
20.509	Formula Grants for Rural Areas and Tribal Transit Program	5,572,795
20.509	CARES-Formula Grants for Rural Areas and Tribal Transit Program	20,440,713
20.509	CRRSA-Formula Grants for Rural Areas and Tribal Transit Program	9,416,447

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

Note 2 - Type A Programs (Continued)

ALN	Program Title	Expenditures
20.934	Nationally Significant Freight and Highway Projects	39,073,083
21.019	CARES-Coronavirus Relief Fund	1,427,345,967
21.013	Emergency Rental Assistance Program	75,036,142
84.010	Title I Grants to Local Educational Agencies	225,443,671
Special Education Cluster (IDEA)		
84.027	Special Education Grants to States	149,286,856
84.173	Special Education Preschool Grants	8,430,739
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	46,306,712
84.425	CARES-Education Stabilization Fund	240,822,796
93.268	Immunization Cooperative Agreements	63,408,613
93.268	CARES-Immunization Cooperative Agreements	2,881,007
93.268	CRRSA-Immunization Cooperative Agreements	5,781,811
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	1,698,226
93.323	CARES-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	2,268,438
93.323	CRRSA-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	10,889,107
93.323	PPP-Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	21,989,437
93.558	Temporary Assistance for Needy Families	158,722,911
93.563	Child Support Enforcement	42,754,320
93.568	Low-Income Home Energy Assistance	69,822,088
93.568	ARPA-Low-Income Home Energy Assistance	107,700
93.568	CARES-Low-Income Home Energy Assistance	13,745,001

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

Note 2 - Type A Programs (Continued)

ALN	Program Title	Expenditures
CCDF Cluster		
93.575	Child Care and Development Block Grant	74,950,225
93.575	CARES-Child Care and Development Block Grant	21,830,988
93.575	CRRSA-Child Care and Development Block Grant	122,940,129
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	23,711,906
93.658	Foster Care Title IV-E	43,704,151
93.658	FFCRA - Foster Care Title IV-E	1,870,692
93.659	Adoption Assistance	76,273,541
93.659	FFCRA - Adoption Assistance	6,428,535
93.767	Children's Health Insurance Program	263,059,153
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	3,009,976
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	8,577,168
93.777	CARES-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	519,173
93.778	Medical Assistance Program	11,052,886,467
93.778	ARRA-Medical Assistance Program	17,083,056
93.778	FFCRA-Medical Assistance Program	595,375,616
93.788	Opioid STR	37,215,939
Disability Insurance/Supplemental Security Income Cluster		
96.001	Social Security Disability Insurance	47,696,507
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	36,912,513
97.050	Presidential Declared Disaster Assistance to Individuals and Households-Other Needs	229,097,475
Total Type A Programs		\$ 21,991,654,975

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

Note 3 - Federally Assisted Loan Program (ALN 10.U01)

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

All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2021 outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY 2021.

Note 4 - Unemployment Insurance (ALN 17.225)

The expenditures presented in the SEFA for Unemployment Insurance (ALN 17.225) are further identified as Benefits or Administrative Costs in the table below:

ALN	Program Title	Benefits	Administrative Costs	Total Expenditures
17.225	Unemployment Insurance	\$ 587,905,621	\$ 6,627,909	\$ 594,533,530
17.225	CARES-Unemployment Insurance	2,364,740,552	-	2,364,740,552
17.225	FFCRA-Unemployment Insurance	1,803,143	-	1,803,143
Total		\$ 2,954,449,316	\$ 6,627,909	\$ 2,961,077,225

Note 5 - Highway Planning and Construction (ALN 20.205)

The information reported for the Highway Planning and Construction program represents the activity of all open projects during FY 2021. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration. Expenditures for the Highway Planning and Construction Program were shown, net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$1,410,703 for FY 2021.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

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

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

Note 7 - Research and Development Expenditures

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

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

CFDA	Program Title	State Agency	Expenditures
10.924	Conservation Stewardship Program	COT	\$ 149,331
10.931	Agricultural Conservation Easement Program	COT	100,000
15.605	Sport Fish Restoration	F&W	558,673
15.608	Fish and Wildlife Management Assistance	F&W	1,579,361
15.611	Wildlife Restoration and Basic Hunter Education	F&W	808,960
15.615	Cooperative Endangered Species Conservation Fund	F&W	98,657
15.634	State Wildlife Grants (SWG)	F&W	469,061
15.657	Endangered Species Recovery Implementation	F&W	40,976
16.585	Drug Court Discretionary Grant Program	AOC	49,315
17.261	WIOA Pilots, Demonstrations, and Research Projects	DWI	73,068
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	AOC	202,516
93.564	Child Support Enforcement Research	CHFS	99,892
93.778	Medical Assistance Program	CHFS	2,008,369
Total Research and Development Expenditures			\$ 6,238,179

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)**

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

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

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

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

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

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

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

Note 10 - Noncash Expenditure Programs

The Commonwealth's noncash programs and a description of the method/basis of valuation for FY 2021 are as follows:

ALN	Program Title & (Method/Basis of Valuation)	Amount
10.178	Trade Mitigation Program Eligible Recipient Agency Operational Funds (Commodities issued for FY 2021 per WBSCM report)	\$ 7,092,404
10.542	Pandemic EBT Food Benefits (EBT Issuance)	577,023,143
10.551	Supplemental Nutrition Assistance Program (EBT Issuance)	1,454,099,128
10.555	National School Lunch Program (Commodities issued for FY 2021 per WBSCM report)	16,256,803
10.565	Commodity Supplemental Food Program (Commodities issued for FY 2021 per WBSCM report)	9,162,708
10.569	Emergency Food Assistance Program (Food Commodities) (Commodities issued for FY 2021 per WBSCM report)	11,445,766
10.569	CARES-Emergency Food Assistance Program (Food Commodities) (Commodities issued for FY 2021 per WBSCM report)	3,949,115
10.569	FFCRA-Emergency Food Assistance Program (Food Commodities) (Commodities issued for FY 2021 per WBSCM report)	2,813,718
10.652	Forestry Research (Determined by Federal Government)	61,753
12.700	Donations/Loans of Obsolete DOD Property (Acquisition Cost determined by the Department of Defense)	387,525
39.003	Donation of Federal Surplus Personal Property (22.47% of federal acquisition cost (\$59,112))	13,283
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Environmental Protection Agency contracts with Eastern Research Group for sample analysis)	133,365
66.605	Performance Partnership Grants (In-kind services valued by the donor, the U.S. Environmental Protection Agency)	154,545
93.069	Public Health Emergency Preparedness (NGA)	119,371
93.268	Immunization Cooperative Agreements (DPH Warehouse, KYEM, and CHFS OATS Staffs)	58,251,045
93.889	National Bioterrorism Hospital Preparedness Program (DPH Warehouse, KYEM, and CHFS OATS Staffs)	9,234,331
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants (CDC Report)	419,915
Total Noncash Expenditures		\$ 2,150,617,918

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

Note 11 - Activity Occurring in Programs with Inventoriable Items

The Department of Agriculture operates a statewide Commodity Supplemental Food Program (ALN 10.565). The dollar value of the inventory, based on the USDA Commodity File, dated June 30, 2021 is as follows:

Commodity Supplemental Food Program
ALN 10.565

Beginning Inventory, July 1, 2020	\$ 2,751,686
Price Adjustment	33,075
Adjusted Inventory, July 1, 2020	<u>2,784,761</u>
Received Commodities	9,164,244
Issued to Recipients	(9,162,708)
Net Value of Inventory Adjustments, June 30, 2021	(172,438)
Ending Inventory, June 30, 2021	<u><u>\$ 2,613,859</u></u>

Note 12 - Election Reform Payments (ALN 39.011)

Interest earned must be used for additional program expenditures.

Note 13 - Pertaining to ARRA

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

ARRA: American Recovery and Reinvestment Act.

Note 14 - Pertaining to Novel Coronavirus Pandemic Relief

In order to identify ARPA, CARES, CPRSA, CRRSA, FFCRA, and PPP funds on the Schedule, the prefix will precede the Program Title on the Grantor Schedule.

ARPA: American Rescue Plan Act

CARES: Coronavirus Aid, Relief and Economic Security Act

CPRSA: Coronavirus Preparedness and Response Supplemental Appropriations Act

CRRSA: Coronavirus Response and Relief Supplemental Appropriations Act

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)**

Note 14 - Pertaining to Novel Coronavirus Pandemic Relief (Continued)

FFCRA: Families First Coronavirus Response Act

PPP: Paycheck Protection Program and Health Care Enhancement Act

Note 15 - Zero Expenditure Programs

These programs had no expenditures related to the respective state organization during FY 2021. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. This also includes programs with activity other than expenditures.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)

Note 16 - Unknown ALN

When a Federal program has been awarded to the Commonwealth with an unknown ALN, the items discussed in Note 1 - *Significant Accounting Policies* are used to prepare the Schedule. The Commonwealth also uses other identifiers such as the major program, program, and function codes as established through grant accounting. A list of all Unknown ALNs and other identifying factors having expenditures during FY 2021 are listed below:

ALN	Program Title	Agency	Award Identifier	Expenditures
10.U01	Rural Rehabilitation Student Loan Program	AGR	MULTIPLE	\$ -
10.U02	HWA Participating Agreement with Daniel Boone National Forest	EEC	16-PA-11080200-009	4,264
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	EEC	ACWPRG-04-BBB0	1,742,207
15.U01	Clark River NWR Fish Survey	F&W		-
15.U02	Ohio River Survey	F&W		-
16.U01	Drug Enforcement Administration	KSP	MULTIPLE	2,675,108
16.U02	Federal Bureau of Investigation	KSP	MULTIPLE	60,421
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program	KSP	MOA# 19-LOU-168-AFF MOA# 20-LOU-168-AFF	21,099
16.U04	District Fugitive Task Force	KSP	MOU	8,451
16.U05	Equitable Sharing- Asset Forfeiture	KSP	ASSET FORFEITURE US DOJ	626,432
21.U01	Internal Revenue Service	KSP		-
21.U02	Equitable Sharing- Asset Forfeiture	KSP	ASSET FORFEITURE US TREASURY	250,000
21.U03	State Small Business Credit Initiative	CED	GEXP-11SB200Z	1,000
93.U01	Other Federal Assistance	KSP	2019-CIO-715-0457 2020-CIO-715-0457	20,221
93.U02	Medicare Nursing Home Care	VA	KY-074-1324-DA00-R604	1,370,573
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections	PPC	FDAPRG-FDA00-19-BB00/BG00	49,840
99.U01	Tennessee Valley Authority	F&W		-
Total				\$ 6,829,616

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the Fiscal Year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 9, 2021. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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



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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of financial statement findings as items 2021-001, 2021-002, 2021-003, 2021-004, 2021-005, 2021-006, 2021-007, and 2021-008 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of financial statement findings as items 2021-009, 2021-010, 2021-011, 2021-012, 2021-013, 2021-014, 2021-015, 2021-016, 2021-017, 2021-018, and 2021-019 to be significant deficiencies.

Compliance and Other Matters

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

Management's Responses to Findings

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

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

Purpose of this Report

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

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Farrah Petter".

Farrah Petter, CPA
Assistant Auditor of Public Accounts

December 9, 2021

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-001: The Finance And Administration Cabinet Did Not Accurately Compile The Financial Statements For The Unemployment Compensation Fund**

This is a repeat finding as reported in the fiscal year 2020 Statewide Single Audit of Kentucky (SSWAK) Volume I as finding 2020-002.

During the fiscal year (FY) 2021 audit of the Commonwealth's Annual Comprehensive Financial Report (ACFR), the Unemployment Compensation fund financial statements and associated journal vouchers were reviewed. Two journal vouchers were in error and corrected by the Finance and Administration Cabinet (FAC) before the financial statements were generated. In addition, misstatements were identified in the Statement of Revenues, Expenses, and Changes in Proprietary Fund Net Position related to unemployment insurance receipts, grants and subsidies expense, intergovernmental revenue accounts, and the restated fund balance and in the proprietary statement of cash flows relating to operating and noncapital financing activities. These misstatements were noted by the auditors and then corrected by FAC.

The journal vouchers involved FAC accruing \$70,376,399 in employer tax overpayments to grants and subsidies expense when it should have reduced unemployment insurance receipts and accruing \$90,461,996 in accounts payables to employer contributions revenue when it should have increased unemployment benefits expense.

The financial statement errors are as follows:

- FAC included \$42,996,952 in noncurrent other liabilities in their beginning balance restatement of fund balance for accounts payable.
- Due to an incomplete journal entry, unemployment benefits payable and grants and subsidies expense were understated by \$20,287,451.
- FAC classified \$177,299,903 in federal receipts as operating unemployment insurance revenues when it should have been classified as non-operating intergovernmental revenues.
- FAC included \$133,628,000 in cash received from non-operating intergovernmental revenues in the operating activities section of the proprietary statement of cash flows.

Regarding the journal voucher errors, FAC did not update their policy and procedures to record the proper account for employer tax overpayments and accounts payable.

Significant adjustments to the Office of Unemployment Insurance's closing package resulted in numerous changes and inadequate review of those adjustments resulted in misclassifications.

FAC did not update their cash flows worksheet to distinguish between operating and non-operating accounts receivable causing the error on the proprietary statement of cash flows.

The unemployment insurance receipts, grants and subsidies expense, accounts payable, and intergovernmental revenue accounts were misstated in the Unemployment Compensation fund financial statements.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-001: The Finance And Administration Cabinet Did Not Accurately Compile The Financial Statements For The Unemployment Compensation Fund (Continued)**

The statement of cash flows misstated the lines titled cash received from customers and cash flows from intergovernmental revenues, along with the corresponding reconciliation items.

The errors in the journal vouchers and in the accounts for unemployment insurance receipts and intergovernmental revenue and statement of cash flows were material to the financial statements.

Sound internal controls over financial reporting dictate transactions and events be recorded in the proper accounts and financial information be appropriately presented and described.

According to Generally Accepted Accounting Principles, (GAAP), current liabilities are those that are expected to liquidate within a year or normal operating cycle, whichever is longer. Current liabilities are reported separately from noncurrent liabilities.

According to the Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2020-1:

The CARES Act provides certain resources that should be classified as operating revenue for accounting and financial reporting purposes because the structure of the program results in payments for services...However, a significant portion of the resources provided pursuant to the CARES Act is provided as reimbursement of costs incurred, which result in subsidies (rather than payments for services), and, as a result, are identified as nonoperating revenue.

Recommendation

Changes to the closing package to accurately account for the employer tax overpayment liability should be discussed between FAC and OUI.

We recommend FAC review its compilation process to accurately account for the financial activity of the Unemployment Compensation fund.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-001: The Finance And Administration Cabinet Did Not Accurately Compile The Financial Statements For The Unemployment Compensation Fund (Continued)**

Management's Response and Planned Corrective Action

We agree with the auditors' comments. These errors were reported on the ACFR draft. An adjusting entry was made and the final ACFR statements accurately reflect the unemployment insurance receipts, grants and subsidies expense, accounts payable, other liabilities, and non-operating intergovernmental revenue accounts in the Unemployment Compensation Fund financial statements.

Further guidance and instruction will be provided by the FAC to the OUI. That guidance will include additional training to the OUI staff.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-002: The Finance And Administration Cabinet Failed To Ensure Debt Service Fund Activity Was Accurately Recorded On The Financial Statements

The Office of Financial Management (OFM) within the Finance and Administration Cabinet (FAC) is responsible for recording transactions related to debt issuances into the state's accounting system (eMARS). During fiscal year (FY) 2021, notes were issued by the Kentucky Asset/Liability Commission to refund prior debt issuances. The transaction recorded in eMARS incorrectly recorded the payment of note proceeds for this refunding as an expenditure of issuance costs, instead of an other financing use of payments to bond escrow agents.

The incorrectly recorded information in eMARS carried forward to the compilation of the Commonwealth's FY 2021 Annual Comprehensive Financial Report (ACFR) by the FAC Office of the Controller (OOC). Two financial statement items were affected for the Debt Service Fund, with a \$62,456,789 overstatement of "Other Expenditures" and a corresponding understatement of "Payments to Refunded Bond Escrow Agent."

Internal controls within FAC were inadequate in ensuring the transactions were accurately recorded in eMARS and properly reported within the ACFR. The amounts entered into the accounting system regarding debt issuances did not accurately reflect the payments made for the refunding of prior notes. This resulted in a material misstatement of the Debt Service Fund. An audit adjustment to the financial statements was proposed and accepted and the financial statements were updated accordingly.

An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting, whereby the financial statements are reliable, inclusive of all activities and transactions reflected in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and/or misstatements.

Recommendation

We recommend OFM and OOC strengthen internal controls to ensure the completeness and accuracy of debt related transactions within eMARS and within the ACFR. Additionally, OFM and OOC should review and update existing policies and procedures to properly identify these transactions for financial reporting purposes.

Management's Response and Planned Corrective Action

We agree with the auditor's comments. We corrected this error on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. The OFM and OOC will work together to strengthen internal controls, specifically the review and approval, of debt related transactions within eMARS. Existing policies and procedures will be reviewed and modified to properly identify these transactions in the future.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-003: The Finance and Administration Cabinet Failed To Ensure Financial Activity Reported By Function Was Accurately Recorded On The Financial Statements

Expenditures and receipts reported by Governmental function on the fiscal year (FY) 2021 Commonwealth's financial statements were materially misstated due to an error in financial compilation. Analysis identified that a department had been reported within the incorrect Governmental function resulting in a material misstatement on the Government Wide and Fund Financial Statements within the Commonwealth's Annual Comprehensive Financial Report (ACFR). Information reported between the Legislative and Judicial Function and Public Protection and Regulation Function were incorrectly reported.

A reorganization occurred within the Commonwealth's structure during FY 2021 which required adjustments within the State's accounting system to properly align the department with correct Governmental function. Internal controls failed to ensure this information was properly updated and the financial statements complete and accurate.

As a result of the error, expenses reported for the Legislative and Judicial function on the Government-Wide financial statements were overstated and expenses for the Public Protection and Regulation function were understated by \$355,673,000. Total revenues for the Legislative and Judicial function on the Government-Wide financial statements were overstated and revenue for the Public Protection and Regulation function were understated by \$368,037,000.

Additionally, this error impacted the Fund financial statements, most notably the Federal Fund where Legislative and Judicial function expenditures were overstated and Public Protection and Regulation expenditures were understated by \$353,165,000. Other impacts were also noted throughout the ACFR including the Agency Revenue Fund expenditures and receipts, statement reconciliations, and the notes to the financial statements which all required adjustment.

An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting, whereby the financial statements are reliable, inclusive of all activities and transactions reflected in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) pronouncements. Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and/or misstatements.

Recommendation

We recommend the Finance and Administration Cabinet implement adequate internal controls to ensure activity reported on the Commonwealth's Financial Statements is complete and accurate. Procedures should be implemented to ensure departments are associated with the correct governmental function when reorganizations occur during the fiscal year.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-003: The Finance and Administration Cabinet Failed To Ensure Financial Activity Reported By Function Was Accurately Recorded On The Financial Statements (Continued)**

Management's Response and Planned Corrective Action

We agree with the auditors' comments. As mentioned, when this error was discovered on the Government-Wide financial statements and Fund financial statements, most notably the Federal Fund, adjustments were appropriately made including on the financial statements, Management's Discussion and Analysis (MD&A), various Notes, and Statistical sections.

The FAC will modify the current policies and procedures, more specifically the reorganization checklist used when setting up department tables in eMARS, in order to strengthen internal controls and to ensure activity reported on the Commonwealth's Financial Statements are complete and accurate. This process will also include a review of the current table in eMARS that is used to identify governmental function on the Commonwealth's Financial Statements.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-004: The Office Of Unemployment Insurance Did Not Comply With Certain Federal And State Enterprise Policies Related To System Security

This is a repeat finding as reported in the fiscal year 2020 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2020-022.

The Kentucky Labor Cabinet's (Labor) Office of Unemployment Insurance (OUI) did not comply with certain Commonwealth enterprise policies related to information system security as it pertains to the Kentucky Electronic Workplace for Employment Services (KEWES) during fiscal year (FY) 2021.

OUI is required to follow enterprise policies established by the Commonwealth Office of Technology (COT). One of these policies, CIO-112 Security Planning Policy, requires state agencies to develop and manage system security plans (SSP) for IT systems under their control. In addition, CIO-093 Risk Assessment Policy, requires state agencies to categorize their information systems by assigning a Security Categorization (SC) and document it within the SSP. Discussions with the agency revealed OUI has not developed an SSP for KEWES, but has categorized KEWES as 'Confidential'. The SSP describes components included within a system, the environment in which a system operates, how security requirements are implemented, and relationships with or connections to other systems.

Furthermore, OUI does not comply with CIO-120 Security Assessment and Authorization Policy. This policy requires state agencies to develop a plan of action and milestones (POA&M) for their information system to document planned remedial actions to correct weaknesses noted during an assessment of security controls. While Labor has developed a central level POA&M, an internal security assessment was conducted by COT for the Salesforce application on or about February 15, 2021. The results of this assessment were not recorded or addressed in the Labor POA&M. Salesforce is used by external claimants for user registration, user password management, document uploads, payment methods, and change of user residence.

Numerous recommendations were made by COT to remediate the security weaknesses identified. While documentation was developed to track all weaknesses identified during this assessment, the documentation did not show that all issues were remediated prior to the application being moved into production. Labor stated that the Salesforce project was managed by the Education and Workforce Development Cabinet (EWDC) prior to its move to production in March 2021. However, OUI was reorganized to the Labor Cabinet on August 16, 2020 via Executive Order 2020-686. As such, Labor should have been aware of the security concerns identified by this assessment and should have worked jointly with EWDC executive and IT staff to ensure the concerns were remediated prior to the application being moved to production.

OUI has not developed an SSP for KEWES. OUI also did not ensure all security control weaknesses identified by the internal security assessment associated with KEWES were remediated prior to being placed in production.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-004: The Office Of Unemployment Insurance Did Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)

Information systems are subject to serious threats that can have adverse effects on organizational operations and assets, individuals, and other organizations by exploiting both known and unknown vulnerabilities to compromise the confidentiality, integrity, or availability of the information being processed, stored, or transmitted by those systems. Management must understand their responsibilities and should be held accountable for managing information security risk; that is, the risk associated with the operation and use of information systems that support the missions and business functions of their organizations.

POA&Ms are useful for organizations to track planned remedial actions associated with risk and control assessments. Without these documents, the agency may overlook critical issues that could negatively impact system processing or functionality. The public may also be negatively impacted in their ability to access the system and file claims.

Enterprise policies must be followed by all enterprise agencies to manage risks and protect the privacy of individuals. CIO-093, Risk Assessment Policy, states:

Agencies shall categorize the information systems within their control in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Agencies shall assign a Security Categorization (SC) and document the security categorization results, including supporting rationale, in the SSP for the information system...

...Each agency shall conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits. Agencies shall document the risk assessment results, review risk assessment results at least annually, disseminate the risk assessment results to the appropriate personnel, and update the risk assessment at least every three years or whenever there are significant changes to the information system or environment of operation...

...Agencies shall request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported...

Agencies shall analyze the vulnerability scan reports and results from the security control assessments and remediate legitimate vulnerabilities in accordance with an organizational assessment of risk...

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-004: The Office Of Unemployment Insurance Did Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)**

CIO-112, Security Planning Policy, states:

The Commonwealth Office of Technology (COT) and enterprise agencies with IT systems in the Commonwealth's infrastructure shall develop and manage security plans for the IT systems under their control. These security plans may be single documents or a collection of various documents..." Also, "agencies shall develop security plans, rules of behavior, and an information security architecture for Commonwealth systems in accordance with policies, procedures, and standards established by COT..."

CIO-120, Security Assessment and Authorization Policy, states "The Commonwealth Office of Technology (COT) and other enterprise agencies with IT systems in the Commonwealth's infrastructure shall protect sensitive information and information systems by establishing security assessment and authorization procedures..."

In addition, NIST Special Publication 800-53 Revision 4: Security and Privacy Controls for Federal Information Systems and Organizations, section CA-5 Plan of Action and Milestones, states that organizations should:

- a. Develop a plan of action and milestones for the system to document the planned remediation actions of the organization to correct weaknesses or deficiencies noted during the assessment of the controls and to reduce or eliminate known vulnerabilities in the system; and
- b. Update existing plan of action and milestones [Assignment: organization-defined frequency] based on the findings from control assessments, independent audits or reviews, and continuous monitoring activities.

Recommendation

We recommend OUI develop an SSP that complies with CIO-093 and CIO-112. Once developed, the SSP should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth. We also recommend the Labor Cabinet ensure all security weaknesses surrounding KEWES, whether identified by Labor, COT, or EWDC, are identified and tracked in their central level POA&M.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-004: The Office Of Unemployment Insurance Did Not Comply With Certain Federal And State Enterprise Policies Related To System Security (Continued)

Management's Response and Planned Corrective Action

The Labor Cabinet has received the recommendations from the Auditor of Public Accounts and takes the security of Commonwealth information seriously. Continued improvements and enhancements are being made along with strengthening internal controls around KEWES. During the OUI migration from Education and Workforce Development Cabinet to the Labor Cabinet and the 10-fold increase in UI claims caused by the pandemic, Labor Cabinet didn't update the paperwork for security plans to meet CIO-112 and CIO-120. Labor will coordinate with the Commonwealth CISO and create a recommended and agreed upon Security Planning Policy (SSP) to meet the requirements of CIO-112.

Labor/OUI made numerous security enhancements to the system during this time and requested a Security Assessment by COT in Feb 2021. Although the results were tracked and issues resolved by the team, they were not properly documented and included in the POA&M as required by CIO-120. The Labor Cabinet has hired an Executive Staff Assistant to create and track issues on a plan of action and milestones (POA&M) document. As mentioned in the recommendation, this is currently being completed and will be done moving forward.

The network and infrastructure continue to be realigned into the Labor Cabinet's domain; therefore, a review of current policies and is being completed. We will identify deficiencies and create or update policies based off our review and this audit.

Further, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-3680, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

Auditor's Reply

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System

Since the enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, which created several new temporary unemployment compensation (UC) programs, including Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC), and Pandemic Emergency Unemployment Compensation (PEUC), UI fraud has increased significantly. During fiscal year (FY) 2021, the Labor Cabinet's (Labor) Office of Unemployment Insurance (OUI) did not fully implement fraud-based services and features to curb fraudulent activity within KEWES. OUI also did not take advantage of all security features made available by the federal government to assist with detecting and deterring unemployment insurance (UI) fraud.

OUI procured products to assist with fraud detection during FY 2021; however, none were fully functional during the fiscal year. OUI procured a data analytics software that will be used to monitor incarceration-related claims. This interface is currently disabled due to erroneous issues that were created by the software. It has not been determined if the software will be returned to the 'continued claims' logic. OUI stated incarceration data will eventually be used for 'initial claims'. In addition, the Early Warning System is a product supplied by a financial institution and is used by various state agencies to identify and respond to fraudulent activity. OUI implemented this product on June 7, 2021; however, no reports were developed or utilized during FY 2021.

OUI has not completed quarterly wage cross-matches for UI, PUA, and PUEC claims for 2020 and 2021. Due to the workload created for staff because of the COVID-19 pandemic, OUI is still working to finalize the third quarter 2020 cross match. 20 CFR 603.23 (Code of Federal Regulations) requires state UC agencies to crossmatch quarterly wage information with UC payment information to identify ineligibility for benefits and prevent or discover incorrect payments. OUI staff stated they will begin quarterly cross matches for 2021 once the 2020 cross matches are completed.

In addition, the United States Department of Labor (USDOL) identified a concern involving OUI's use of the Integrity Data Hub (IDH), which was addressed in USDOL's enhanced desk monitoring review (EDMR) conducted on or about October 20, 2020 through September 9, 2021. The IDH is a secure, centralized, multi-state data system that allows participating state UI agencies to submit claims for cross-matching, provides a national fraud alert system to states, and supports data analytics on multi-state claims. OUI used the IDH to submit initial and additional claims on a weekly basis between March 6, 2020 and April 24, 2020 during FY 2020. At that time, OUI used two features – the Suspicious Actor Repository (SAR), which allows states to match UI claims against other states' known suspicious claims data, and Multi State Cross-Match (MSCM), which allows the IDH to collect and store claims data submitted by states creating a multi-state database of UI claims data. The SAR and MSCM were utilized again on April 27, 2021 and May 3, 2021, but have not been used since due to the large amounts of data returned, lack of automated rules in place, and the lack of manpower to review the results.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

Finally, OUI has not reported alleged or suspected UI fraud, misfeasance, malfeasance, nonfeasance, waste and program abuse, mismanagement, misconduct, and other criminal activities, which is required by the DOL Office of Inspector General (OIG) per UIPL 29-05 and UIPL 04-17. While OUI has provided the DOL OIG information based on specific requests for information and reports fraud cases in total on the ETA-227 Overpayment Detection and Recovery Activities report, it does not list specific details of each case.

A review of 13 claimants showing the Labor Cabinet or “Commonwealth of Kentucky” as their employer found each to be fraudulent, with payments totaling \$20,197. Each of the fraudulent claims has a stop applied to the claim, but the stop was applied after each fraudulent claimant was paid for at least two weeks.

The auditor also reviewed a sample of 26 claims filed between January and March 2021 due to the increase in the number of claims processed by OUI. This review revealed 25 of the 26 claims to be fraudulent, resulting in payments totaling \$29,050. Each of these claims has fraud stops applied, but again, the stops were applied after the fraudulent claimants were inappropriately paid for at least two weeks.

In addition to the auditor’s findings with the above-mentioned claims, out-of-state claims were reviewed. Out of 34 non-Kentucky claims evaluated, 15 were fraudulent. The total amount paid to these was \$69,703. Each of these sampled claims also have fraud stops applied, but were paid two weeks or more of benefits, with \$31,911 going to one fraudulent claimant. The auditor also noted 128 claims in the population with “Medical Doctor” listed as the employer. Review of a sample of these indicated each was a fraudulent claim. These “Medical Doctors” were paid a total of \$325,623.

Even though data analytic software is used for identity proofing, OUI staff stated these claims would have originally passed the authentication, which is a unique set of questions about an identity to verify that the individual on the other side of a transaction is not an imposter. OUI stated this was due to the vendor’s misconfiguration of the scoring which was in place until December 2020. Improvements to the scoring have since been made; however, OUI is working to stop use of this part of their data analytic software integration.

KEWES was implemented during the late 1970s. KEWES and OUI staff were overwhelmed by the influx of claims submitted due to the COVID-19 pandemic. OUI staff that were knowledgeable about the programming language used by KEWES has since retired. This negatively impacts OUI’s ability to implement fraud prevention services and programs to KEWES. In addition, OUI has not taken advantage of all integrity measures available to them via the IDH to assist in this process.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

Identity proofing is the process of vetting an identity to confirm its validity and ownership claim. Even though improvements have been made to OUI's data analytic software, claimants are still being paid prior to being identified as fraudulent. In addition, OUI has not reported alleged or suspected UI fraud to the DOL OIG.

Due to the COVID-19 pandemic, cross match audits were suspended for a four month period. OUI began the third quarter 2020 cross match in August 2021 and is still working to finalize it.

Failure to take advantage of resources available on the IDH may result in OUI's inability to comply with Federal law to prevent, detect, and recover improper and fraudulent payments. In addition, fraudulent claims could be processed within KEWES without OUI's knowledge.

The Unemployment Insurance Program Letter (UIPL) 28-20 dated August 31, 2020 addresses fraud in UI systems. According to this UIPL, "States must make efforts to rapidly and proactively prevent, detect, and investigate fraudulent activity; establish and recover fraud overpayments; and pursue criminal and civil prosecution to deter fraud." This was previously communicated to states on May 11, 2020.

20 CFR 603.23, What information must State unemployment compensation agencies obtain from other agencies, and crossmatch with wage information, for purposes of an IEVS (Income Eligibility and Verification System), states:

- (a) Crossmatch with information from requesting agencies. Each State UC agency must obtain such information from the Social Security Administration and any requesting agency as may be needed in verifying eligibility for, and the amount of compensation payable under the State UC law.
- (b) Crossmatch of wage and benefit information. The State UC agency must crossmatch quarterly wage information with UC payment information to the extent that such information is likely, as determined by the Secretary of Labor, to be productive in identifying ineligibility for benefits and preventing or discovering incorrect payments.

2 CFR section 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 the guidance in "Standards for Internal Control in the Federal Government," issued by the Comptroller General of the United States (GAO Green Book) or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

UIPL 04-17 advises states that they must refer allegations which they reasonable believe constitute UC fraud, waste, abuse, mismanagement, or misconduct to DOL-OIG. According to UIPL 04-17 Change 1, SWA Administrators or their designees report the following to the DOL-OIG:

- A. Suspected or alleged illegal or fraudulent activity with a loss in excess of \$10,000 from the following categories will be reported to the DOL-OIG, but with the understanding that upon mutual agreement between the regional DOL-OIG SAC and SWA Administrator the dollar threshold for reporting may be adjusted on a State-by-State or Regional basis for the following programs:
 - Unemployment Compensation for Federal Employees (UCFE);
 - Unemployment Compensation for Ex-Service Members (UCX);
 - Federal-State Extended Benefits (EB);
 - Disaster Unemployment Assistance (DUA); and
 - Any temporary UC program enacted by Congress.
- B. Suspected or alleged illegal or fraudulent activity in any amount from the following categories:
 - Internal and external thefts and embezzlements of UI administrative funds;
 - Any matter involving alleged misconduct by a U.S. DOL employee;
 - Fictitious/fraudulent employer schemes, potentially involving multiple states and/or international boundaries;
 - Schemes involving claims or taxes in multiple states and/or international boundaries;
 - Multi-claimant or multi-state schemes involving identity theft; and
 - Schemes involving counterfeit benefit checks or multi-victim forgery cases such as forged UI weekly certifications and forged UI check cashing.
- C. For allegations or suspicions related to the UI program that do not meet the criteria above, or when there is uncertainty on whether a suspicion or allegation should be reported, the SWA Administrator or designee should report the activity as outlined in Section I above, to the DOL-OIG to determine if further action is necessary.

Recommendation

We recommend OUI review and implement all security measures available within the IDH to assist with the identification of fraudulent activity within KEWES. OUI should document procedures to ensure staff are reviewing the IDH data available and uploading relevant information for use by other states, if necessary. In addition, OUI should ensure the data analytics software and Early Warning System are fully implemented. If fraud is detected by OUI, this should be reported immediately to both federal and state authorities for further review and investigation.

We also recommend OUI ensure wages are cross-matched with UC payment information on a quarterly basis to ensure compliance with 20 CFR 603.23.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

Management's Response and Planned Corrective Action

The State Auditor and the Office of the State Auditor sent these findings to OUI, which OUI had never before seen, fewer than two business days before demanding a response. Management's response and planned corrective action is below. This further raises the concern that the conflicts of interest of the Auditor and the Office of the State Auditor under state law and applicable auditing standards are driving this audit, rather than the auditing standards the Auditor and the Office of State Auditor.

OUI and Labor Cabinet are engaged in numerous fraud mitigation, system security, and other integrity measures. OUI and Labor Cabinet implemented several of these measures during the FY '21 audit period. These measures include the following: Below is a listing of fraud mitigation OUI has implemented, attempted to implement, or plans to implement.

<i>Pre-existing</i>	<i>Elastic Search utilized to identify anomalies with IPs and login frequency</i>
<i>Pre-existing</i>	<i>SSA verification via mainframe</i>
<i>Pre-existing</i>	<i>Name match against wage records</i>
<i>Pre-existing</i>	<i>Mainframe checks (IBIQ) for claims in other states</i>
<i>8/2020 - 6/2021</i>	<i>Manual batch data analytics</i>
<i>11/4/2019</i>	<i>Weekly identification of claims filed in the prior seven days where there is a data match on one or more claims filed in the prior 30 days. (Email/Phone/Address)</i>
<i>2/28/2020</i>	<i>APPRISS implemented into continued claims. Disabled on 3/6/2020.</i>
<i>3/12/2020</i>	<i>Lexis Nexis during claim filing</i>
<i>3/12/2020</i>	<i>Lexis Nexis during payment method change</i>
<i>Mar-21</i>	<i>Two Factor verification during registration, filing and requesting payments</i>
<i>Mar-21</i>	<i>Requiring an external strong password with special characters</i>
<i>Mar-21</i>	<i>Email validation through token receipt</i>

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

Management's Response and Planned Corrective Action (Continued)

4/1/2021	<i>Required review of PUA claims filed for Out of State addresses</i>
May-21	<i>Require 8-digit PIN instead of 4-digit PIN during registration</i>
May-21	<i>Death verification</i>
May-21	<i>Chase direct deposit account validation</i>
7/2/2021	<i>Identification of claims filed against state agencies and universities (CHARGEABLE EMPLOYER IS STATE AGENCY OR UNIVERSITY)</i>
7/11/2021	<i>ID.me Hosted Landing Page Implementation</i>
8/1/2021	<i>ID.me Identification Requirements for suspicious data (and LN failures)</i>
9/1/2021	<i>Required review of PUA claims changing address to Out of State after filing and prior to first payment.</i>
1/3/2021	<i>Last Day Worked match against wage records</i>
11/3/2021	<i>Change from ID.me hosted landing page to ID.me Single Sign-On</i>
Early 2022	<i>Pondera (will include APPRISS and IDH)</i>

In addition, OUI currently works with and is a member with the National Association of State Workforce Agencies ("NASWA") and the Integrity Data Hub. We are working to implement full scale IDH into our system and workflow processes.

OUI is running wage cross matches with UC payment information to ensure compliance with 20 C.F.R. § 603.23. We acknowledge and will be working to procure a product that will assist in running current quarter cross matches.

OUI and Labor Cabinet also has concerns that the above finding contains statements of fact that are inaccurate. These include the following:

"OUI procured products to assist with fraud detection during FY 2021; however, none were fully functional during the fiscal year. "

This statement is inaccurate. Several fraud mitigations were fully functioning during the audit period. See accompanying timeline above.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

Management's Response and Planned Corrective Action (Continued)

“OUI procured a data analytics software that will be used to monitor incarceration-related claims. This interface is currently disabled due to erroneous issues that were created by the software. It has not been determined if the software will be returned to the ‘continued claims’ logic. OUI stated incarceration data will eventually be used for ‘initial claims’.”

This statement is inaccurate. APPRISS was disabled in the system shortly after implementation however, in September 2021 IT ran a data match against incarceration data to identify potential issues. Any claimant identified was then required to provide documentation.

“KEWES was implemented during the late 1970s.”

This statement is inaccurate. The mainframe was implemented in the 1970s. KEWES was implemented in 2004, upgraded in 2010 and again around 2015.

“OUI staff that were knowledgeable about the programming language used by KEWES has since retired.”

This statement is inaccurate. OUI and Labor Cabinet currently employs seven mainframe programmers on staff and five Siebel (specific) programmers for KEWES. Only one of those mainframe programmers was a state retiree who returned, all of which happened prior to the beginning of the pandemic

OUI and Labor Cabinet are concerned that APA's finding above does not adequately contextual its review of fraudulent claims in the UI system. Notably, the APA's finding states:

A review of 13 claimants showing the Labor Cabinet or “Commonwealth of Kentucky” as their employer found each to be fraudulent, with payments totaling \$20,197. Each of the fraudulent claims has a stop applied to the claim, but the stop was applied after each fraudulent claimant was paid for at least two weeks.

However, APA fails to state whether any these thirteen (13) claimants are, in fact, employed by the Commonwealth of Kentucky, or simply represent individuals who filed fraudulent claims, falsely claiming that they were employees of the Commonwealth. .

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

Management's Response and Planned Corrective Action (Continued)

Next, the APA finding above does not fully contextualize OUI and Labor Cabinet's coordination with US DOL OIG. OUI and Labor Cabinet have provided voluminous raw data and records to US DOL OIG in response to broad ranging data requests and specific investigative requests. The APA's finding states:

Finally, OUI has not reported alleged or suspected UI fraud, misfeasance, malfeasance, nonfeasance, waste and program abuse, mismanagement, misconduct, and other criminal activities, which is required by the DOL Office of Inspector General (OIG) per UIPL 29-05 and UIPL 04-17. While OUI has provided the DOL OIG information based on specific requests for information and reports fraud cases in total on the ETA-227 Overpayment Detection and Recovery Activities report, it does not list specific details of each case.

This statement is inaccurate. On July 10, 2020, OUI provided the US DOL OIG data and information, including the following data:

- *Claimant Name;*
- *Claimant ID (if the state UI agency uses a claimant ID number);*
- *Claimant Social Security Number;*
- *Date and time stamp of registration and application filing;*
- *Email associated with the registration and application filing;*
- *Claimant username/log-in name;*
- *Claimant password or password HASH value/checksum;*
- *Security questions and answers or security questions and answers HASH value/checksum;*
- *Bank Account Number on the original claim filed*
- *Bank Routing Number on the original claim filed*
- *Bank Routing Number if the account number was changed after the original claim was filed*
- *Phone number of registered applicant and claim filed*
- *Residential address of registered applicant and claim filed*
- *Amount Paid and date of payment*
- *Employer name*

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)

Management's Response and Planned Corrective Action (Continued)

On February 1, 2021, the OUI provided US DOL OIG a data file for the time period March 1, 2020 through October 31, 2020, that included the following on all claims from that time period:

- Claimant ID*
- Claimant SSN*
- Separating Employer*
- Total UI Payment to Date*
- Total FPUC Payment to Date*
- Total PUA Payment to Date*
- Total PUIC Payment to Date*
- Total LWAP Payment to Date*
- First Claim Payment Date*
- Weekly Claim Payment Amount*
- Weekly Benefit Amount*
- Date Unemployment Benefit Stopped*
- Date Unemployment Benefit Re-Open*

In addition to providing specific categories of information from all UI claimants, the Labor Cabinet and OUI has coordinated with US DOL OIG to provide specific information and records to US DOL OIG related to on-going fraud investigations. In doing so, the Labor Cabinet and OUI have supported US DOL OIG in fifteen specific instances. In order to protect the confidentiality and integrity of ongoing US DOL OIG investigations, Labor Cabinet and OUI did not provide specific information to APA about the data and records it produced to US DOL OIG.

Finally, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-3680, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-005: The Office Of Unemployment Insurance Did Not Prevent Fraudulent Activity Within The Kentucky Electronic Workplace For Employment Services System (Continued)**

Auditor's Reply

OUI notes several fraud mitigation products were implemented during fiscal year 2021 (July 1, 2020 through June 30, 2021), after the close of fiscal year 2021, or planned to be implemented in the future. However, fraud mitigation products were not used consistently during fiscal year 2021. Our discussions with OUI regarding these products revealed that once implemented, they were disabled due to fraudulent activity that was not being identified or caught based on the initial implementation of the products.

For further clarification, 54 claimants reported the Labor Cabinet or "Commonwealth of Kentucky" as their employer, receiving a total of \$333,165 in the fiscal year. Out of the 13 claimants randomly selected and reviewed, with payments totaling \$20,197, each of these were fraudulent as the claimants were not Commonwealth employees.

2,455 claims filed between January 2021 and March 2021 received only two weeks' worth of payments in the quarter, totaling \$2,916,790 in payments. Out of the 26 randomly selected and reviewed, 25 were fraudulent.

In addition, 28,377 out-of-state claimants were paid a total of \$195,881,004 in fiscal year 2021. Out of the 34 randomly selected and reviewed, 15 were fraudulent with payments totaling \$69,073. OUI identified the "Medical Doctors" payments as fraudulent after a total of \$325,623 was paid.

As noted in their response, OUI provided two specific sets of data to the USDOL during FY 2021. The auditor requested copies of the reports or emails to indicate when fraudulent information was sent by OUI to the OIG; however, OUI failed to provide this information to the auditors as part of the audit.

To clarify, while KEWES was implemented during 2004, the processing associated with this system heavily relies on the Mainframe, a backend system which was implemented during the 1970s. Staff familiar with mainframe processing have retired since then making it difficult for OUI to implement effective fraud programming.

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-006: The Office Of Unemployment Insurance Did Not Include Accounts Payable For Backlogged Claimants And Accounts Receivable For Federal Unemployment Compensation Funds On The Closing Package**

This is a repeat finding as reported in the fiscal year 2020 Statewide Single Audit of Kentucky (SSWAK) Volume I as findings 2020-007, 2020-009 and 2020-010.

As part of the audit of the Commonwealth's Annual Comprehensive Financial Report (ACFR), the Office of Unemployment Insurance's (OUI) accounts payable balance and accounts receivable balance was reviewed. OUI failed to ensure the accuracy of its closing package submitted to the Finance and Administration Cabinet (FAC) for inclusion in the ACFR. The following items were noted related to the accounts payable and accounts receivable process:

- The closing package initially submitted to FAC for inclusion in the ACFR did not include an accurate accounts payable estimate. OUI did not believe an accounts payable estimate for the backlog of claims was necessary for fiscal year (FY) 2021. Auditors reviewing the FY 2021 closing package brought the issue to the attention of OUI due to the publicly reported backlog of FY 2021 claims that had yet to be addressed. After this discussion, OUI asked FAC to help determine an accounts payable estimate.
- OUI did not include the amount received from the federal government for benefits paid to claimants in FY 2022 for claims outstanding in FY 2021.

OUI did not update its operating manual to require appropriate steps to quantify and verify accurate payable and receivable amounts. The OUI operations manual outlines the general procedure used to compile its closing package but it does not have procedures to verify the appropriateness of the data range, the completeness of the database, or the appropriateness of the query used to determine accounts payable and receivable amounts.

The current procedure used by OUI to determine accounts payable is to generate a report from the UI system to determine the amount paid. This procedure was not updated for the significant backlog of FY 2021 claims.

The OUI-Integrity Branch operations manual outlines the general procedure used to create their closing package input but it does not address how to account for federal receivables. In the prior year, OUI recorded a receivable for actual payments made in federal program benefits in FY 2021 using FY 2020 funds. This updated procedure in FY 2020 was not followed in the current year.

OUI failed to incorporate prior year recommendations to improve their accounts payable and accounts receivable reporting process. When submitting their closing package, OUI submitted an inaccurate accounts payable balance to FAC because an amount was not included for the potential benefits due to the backlog of over 120,000 claimants as of June 30, 2021.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-006: The Office Of Unemployment Insurance Did Not Include Accounts Payable For Backlogged Claimants And Accounts Receivable For Federal Unemployment Compensation Funds On The Closing Package (Continued)

OUI's failure to process the backlog of claimants resulted in the need for OUI to report an estimate for the payable balance. OUI worked with FAC to determine an estimate for their final accounts payable balance. OUI did not have sufficient information to provide FAC due to the limited capabilities of the current system. These limited system capabilities created inconsistent and incomplete information for FAC's use in the estimate calculation. In addition, the estimate calculation assumed all individuals in the backlog would be considered eligible and would be paid benefits when, in any given year, fewer than 100% of claims will be determined eligible for payment. The estimate calculation also considered the average claims paid to each individual in the backlog to be only \$1,468. This calculation assumes claimants will not be paid for more than two claim weeks even though OUI stated that claims could be paid up to 18 weeks or more based on eligibility.

OUI's initial closing package reported an understated accounts payable balance by both known amounts paid to claimants and by the estimated amount to be paid to eligible claimants. Actual benefits paid to claimants of \$113,429,221 were excluded from the closing package. This error has since been corrected. The second error is due to the estimate. Since OUI's payable balance for the backlog of claimants is an estimate and the estimate could not be reasonably calculated, the actual effect of this estimate is not known at this time.

OUI's failure to record accounts receivable for the federal portion of benefits caused the accounts receivable balance in the financial statements to initially be understated by \$133,628,332.

Regarding accounts payable, Generally Accepted Accounting Principles (GAAP) require expenses to be recorded in the period in which they are incurred, not paid, in accordance with the matching principle. GAAP also requires information reported in the financial statements to be comparable and consistent. Regarding accounts receivables, GAAP require revenues to be recorded in the period in which they are earned, not received, in accordance with the matching principle.

FAC's closing package instructions for accounts payable state, "Accounts payable, as applied to the Commonwealth of Kentucky's GAAP reporting system, includes liabilities incurred for goods received or services performed as of June 30 for which payment has not been made. Amounts reported on this form should include only amounts that will be paid with 'new year' funds." These instructions also state that in the absence of actual invoices for payments owed, "the department should estimate the liability to the best of their ability."

FAC's closing package instructions for accounts receivable state, "Reimbursement grants are funded after certain allowable expenditures/expenses have been made. Recognize revenue when the allowable expenditures/expenses have been incurred."

Sound internal controls dictate that data used to formulate accounting estimates be adequately reviewed prior to finalizing an estimate.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-006: The Office Of Unemployment Insurance Did Not Include Accounts Payable For Backlogged Claimants And Accounts Receivable For Federal Unemployment Compensation Funds On The Closing Package (Continued)**

Recommendation

We recommend OUI implement policies and procedures to ensure accurate reporting of their accounts payable and accounts receivable balances. OUI should develop procedures to calculate the estimate using consistent and comparable information. If actual amounts are available, OUI should include these amounts and only estimate future payments. An estimate may not be required if the backlog of claims is decreased significantly.

We recommend OUI modify its operating manual to require appropriate steps to quantify and verify accounts receivable amounts associated with funds owed to the Commonwealth from the federal government. This is especially pertinent for the federal receivable due to continued financial support from the federal government for the unemployment insurance program.

Management's Response and Planned Corrective Action

OUI will continue to work to implement procedures working with the Finance and Administration Cabinet on the reporting of the accounts payable and account receivable balances that reflect the landscape of current operations. The Finance and Administration Cabinet will continue to modify the procedures developed in FY21 that provided the estimates that all are agreeable to reflect the history of the reporting period. As noted in the recommendation "If" actual amounts are available and agreeable, OUI would provide and only such estimates of future payments. Backlog information can be provided once defined measures are agreed upon. The backlog information referenced in the APA findings was open ended appears to be a matter that is subjective to the APA.

Notably, as the APA finding confirms, OUI corrected the asserted error of actual benefits paid to claimants excluded from the closing package.

OUI has been and will continue to work with the Finance Cabinet to quantify and verify accounts receivable amounts associated with funds owed to the Commonwealth from the federal government. OUI will the review and modify the operating manual as appropriate and agreed upon with the Finance and Administration Cabinet.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-006: The Office Of Unemployment Insurance Did Not Include Accounts Payable For Backlogged Claimants And Accounts Receivable For Federal Unemployment Compensation Funds On The Closing Package (Continued)**

Management's Response and Planned Corrective Action (Continued)

Further, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-3680, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

Auditor's Reply

The backlog of OUI claims has been a well-publicized issue, and is based on information provided to the APA by OUI. OUI should consider all outstanding claims when determining the accounts payable amount to report on the closing package.

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-007: The Office Of Unemployment Insurance Did Not Have Policies Or Procedures In Place Governing Changes Made To The Kentucky Electronic Workplace For Employment Services System

The Kentucky Labor Cabinet's Office of Unemployment Insurance (OUI) did not have adequate change management policies and controls in place over the Kentucky Electronic Workplace for Employment Services (KEWES) application during fiscal year (FY) 2021. During the FY 2020 audit, OUI organizationally resided within the Education and Workforce Development Cabinet (EWDC) and used the Standard Procedures for Unemployment Insurance System Modification and Enhancement Process when making changes to Unemployment Insurance (UI) systems. On August 16, 2020, Executive Order 2020-686 reorganized OUI to the Labor Cabinet (Labor). Labor staff confirmed that at the time of the reorganization, the EWDC procedures were no longer applicable. The change management process used during FY 2021 was primarily communication and coordination that was handled jointly between the information technology (IT) staff and Executive Leadership in both cabinets. The informal process resulted in Labor drafting the System Modification and Enhancement Process (SMEP), which was not in place during FY 2021.

Testing could not be conducted to ensure changes made to KEWES were properly authorized and securely implemented since formal procedures were not in place. However, 18 of the 398 changes made to KEWES during FY 2021 were selected to determine what documentation was being maintained. The controls established by the National Institute of Technology Standards (NIST) Special Publication (SP) 800-53, Revision 4 were used as guidance since the Commonwealth Office of Technology (COT) has adopted this compliance standard, thereby requiring all executive branch agencies to adhere to it.

NIST SP 800-53 states that organizations should prohibit changes to a system until designated approvals are received. OUI did not have management approval at the onset of ticket creation for two of the 18 KEWES changes reviewed, validating that these were necessary system changes. NIST SP 800-53 also states that organizations should document all changes to the system, including justification of the change. Five of the 18 KEWES changes did not include sufficient justification or explanation of the work performed. For example, one of the five changes had a description of "Benefits Update (Covid-19)." However, the details captured did not explain what update was actually being made to UI benefits.

NIST 800-53 states organizations should test, validate, and document changes to a system before finalizing implementation of the changes. Seven of the 18 KEWES changes did not have sufficient documentation in place to support the testing conducted by OUI. Logs from OUI's tracking system show dates in which testing occurred, but did not show the test data used, the testing performed, or the results. OUI staff confirmed that the process used during FY 2021 was to test changes, but not include formal written acceptance of all changes.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-007: The Office Of Unemployment Insurance Did Not Have Policies Or Procedures In Place Governing Changes Made To The Kentucky Electronic Workplace For Employment Services System (Continued)

NIST 800-53 also states organizations should verify controls are operating as intended after changes are implemented to production. Eight changes were implemented to production, but the associated ticket appeared to be updated on August 24, 2021 after auditors requested documentation supporting the 18 changes. OUI confirmed updates were made to these tickets to indicate customer acceptance of deployed changes. These updates were made between five and 16 months after the changes were moved to production.

OUI did not have proper configuration management controls in place during FY 2021 for system changes to the KEWES system.

Failure to develop, update and consistently apply proper configuration management control procedures increases the risk that incorrect or unauthorized changes to KEWES could be placed into the live production environment and adversely affect processing results. If procedures are not followed, there is a risk that system related issues could delay payments or incorrect benefit amounts could be issued which could cause problems for recipients at a later date. If benefits are issued to ineligible claimants due to inadequate system testing, the Commonwealth would have to attempt to recoup these overpayments from the recipient.

Configuration management control procedures should be formalized and consistently applied to ensure only appropriately authorized changes to KEWES are made and implemented within the production environment.

A well-defined system development life cycle provides the foundation for the successful development, implementation, and operation of information systems. The Configuration Management (CM) section of the NIST SP 800-53, Revision 4, specifically CM-1 – Policy and Procedures, states:

- a. Develop, document, and disseminate to [Assignment: organization-defined personnel or roles]:
 1. [Selection (one or more): organization-level; mission/business process-level; system-level] configuration management policy that
 - a. Addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance; and
 - b. Is consistent with applicable laws, executive orders, directives, regulations, policies, standards, and guidelines; and
 2. Procedures to facilitate the implementation of the configuration management policy and the associated configuration management controls;

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-007: The Office Of Unemployment Insurance Did Not Have Policies Or Procedures In Place Governing Changes Made To The Kentucky Electronic Workplace For Employment Services System (Continued)

- b. Designate an [Assignment: organization-defined official] to manage the development, documentation, and dissemination of the configuration management policy and procedures; and
- c. Review and update the current configuration management:
 - 1. Policy [Assignment: organization-defined frequency] and following [Assignment: organization-defined events]; and
 - 2. Procedures [Assignment: organization-defined frequency] and following [Assignment: organization-defined events].

NIST SP 800-53, Revision 4, section CM-3 – Configuration Change Control, states:

- a. Determine and document the types of changes to the system that are configuration-controlled;
- b. Review proposed configuration-controlled changes to the system and approve or disapprove such changes with explicit consideration for security and privacy impact analyses;
- c. Document configuration change decisions associated with the system;
- d. Implement approved configuration-controlled changes to the system;
- e. Retain records of configuration-controlled changes to the system for [Assignment: organization-defined time period];
- f. Monitor and review activities associated with configuration-controlled changes to the system; and
- g. Coordinate and provide oversight for configuration change control activities through [Assignment: organization-defined configuration change control element] that convenes [Selection (one or more): [Assignment: organization-defined frequency]; when [Assignment: organization-defined configuration change conditions].

NIST SP 800-53, Revision 4, section CM-9 – Configuration Management Plan, states:

Develop, document, and implement a configuration management plan for the system that:

- a. Addresses roles, responsibilities, and configuration management processes and procedures;
- b. Establishes a process for identifying configuration items throughout the system development life cycle and for managing the configuration of the configuration items;
- c. Defines the configuration items for the system and places the configuration items under configuration management;

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-007: The Office Of Unemployment Insurance Did Not Have Policies Or Procedures In Place Governing Changes Made To The Kentucky Electronic Workplace For Employment Services System (Continued)**

- d. Is reviewed and approved by [Assignment: organization-defined personnel or roles]; and
- e. Protects the configuration management plan from unauthorized disclosure and modification.

Recommendation

We recommend OUI ensure the SMEP is implemented and consistently apply the policies and procedures outlined in the policy; specifically retaining documentation to support the configuration management process, including approvals. All policies and procedures related to the configuration management process should be reviewed and updated periodically. Once updated, the policy should be distributed to the appropriate personnel.

Management's Response and Planned Corrective Action

The Labor Cabinet has received the above recommendation from the Auditor of Public Accounts; however, the Division of Information of Technology has already implemented the process in November 2021 and this was provided to the APA. There were several personnel changes during this time creating a delay in finalizing the policy. Once the entire process was reviewed, tested and the Division of IT was certain the process they created would work, the process was finalized. Kentucky Labor Cabinet Standard Process "Change Management" was implemented on November 1, 2021. All staff involved in the process were included in creating it and multiple sessions were held to walk through the process to ensure it would be implemented quickly and followed.

Further, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-3680, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-007: The Office Of Unemployment Insurance Did Not Have Policies Or Procedures In Place Governing Changes Made To The Kentucky Electronic Workplace For Employment Services System (Continued)**

Auditor's Reply

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls

FINDING 2021-008: The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of Its Benefits Receivable

As part of the audit of the Annual Comprehensive Financial Report (ACFR), the Office of Unemployment Insurance's (OUI) benefits receivables were reviewed. OUI failed to ensure the accuracy of the receivables information submitted to the Finance and Administration Cabinet (FAC) to compile the ACFR. The following errors were noted:

- OUI provided FAC incorrect amounts to use in the benefits receivables journal voucher (JV) regarding revenues from refunds of claimant overpayments and expenditures of benefits for other states. OUI understated their revenue account by \$112,222,180 and overstated their expenditure account by the same amount.
- OUI miscalculated their allowance for uncollectible accounts balance on the Annual Financial Report (AFR) submitted to FAC by using an incorrect rate. This led to the allowance for uncollectible accounts balance being overstated by \$34,405,813 and the accounts receivable balance being understated by the same amount.

When FAC asked OUI for additional detail while developing the JV to record the receivables, OUI mistakenly flipped the revenue and expenditure codes in their response to FAC. No controls were in place to prevent or detect this error prior to their response.

OUI mistakenly used a rate of 55% rather than 0.55% in calculating the amount to be reported as the allowance for uncollectible accounts balance. OUI did not review the calculations or amounts reported in the AFR prior to submitting it to FAC.

OUI submitted inaccurate accounts receivables information to FAC for inclusion in the Commonwealth's ACFR. Correcting the first error required FAC to process an adjusting JV. OUI submitted a revised AFR to FAC to correct the second error. Had these errors not been detected and corrected during the audit process, revenues would have been understated by \$112,222,180, expenditures would have been overstated by \$112,222,180, the allowance for uncollectible accounts balance would have been overstated by \$34,405,813, and the accounts receivable balance would have been understated by \$34,405,813.

FAC's closing package instructions designate the section in the AFR-32 to report non-operating revenues and states "If this is a refund of expenditure, please give the expenditure object." In addition, the instructions also state, "Based on experience, determine the amount of receivables that are due but not expected to be collected."

Effective internal controls over data compilation requires a review to ensure the correct information is used to produce the year-end receivables balances in accordance with generally accepted accounting principles.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls*****FINDING 2021-008: The Office Of Unemployment Insurance Failed To Ensure The Accuracy Of Its Benefits Receivable (Continued)**

Recommendation

OUI should implement adequate policies, procedures, and internal controls to ensure the accuracy and completeness of the accounts receivable data prior to submitting to FAC. Since the closing package preparation process occurs only once per year, management should design sufficient procedures to identify misstatements and mitigate the risk of material errors. Additionally, a review of the closing package information should be documented, verifying that reported information is complete and accurate.

Management's Response and Planned Corrective Action

The Labor Cabinet has received the recommendation from the Auditor of Public Accounts and is reviewing internal closing package instructions. The Office of Unemployment Insurance, in conjunction with the Finance and Administration Cabinet, have corrected errors identified. Over this past year the Office of Unemployment Insurance has seen significant staff turnover in this area with the primary closing package staff and their backups leaving the Cabinet. The Labor Cabinet is working with the Finance and Administration Cabinet to ensure all staff involved with the closing package process complete additional training and strengthen internal controls. In addition, the Labor Cabinet is implementing additional reviews of the closing package documents and processes to strengthen internal instructions involving the closing package and methodology. This additional review will be completed to ensure all processes and controls are being followed.

Further, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-3680, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

Auditor's Reply

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FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-009: The Commonwealth Office Of Technology Did Not Maintain Sufficient Logical Security Controls For The Oracle Production Databases

While logical security procedures exist for granting and revoking access to the KEWES Oracle production database, the Commonwealth Office of Technology (COT) did not ensure the Labor Cabinet's Office of Unemployment Insurance (OUI) complied with these procedures.

Per OIS-112 Oracle Database User Account Review Procedures, the COT Database Administrator (DBA) Team generates a yearly report of the database user accounts, their access, and granted privileges across all Oracle databases. Once the report is created, the DBA Team creates a service request ticket to initiate review of this access. COT's Security Risk and Compliance Team is responsible for providing the list of users and their access for each Oracle database to each affected agency for review. Agency staff are responsible for submitting a new service request ticket in order for the DBA Team to change or revoke Oracle database access upon completion of their review.

Testing was conducted to ensure access to the KEWES Oracle production database was appropriate during FY 2021 for OUI. This testing revealed 19 out of 91 open accounts for OUI were no longer needed or used. All but one of these accounts had access to the KEWES Oracle production database since November 4, 2020. The remaining account had access since February 22, 2021. Agency review of the KEWES Oracle database access for FY 2021 was initiated on July 2, 2020 and OUI did not submit a service ticket for changes to the listing of accounts reported.

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

While COT administers and secures Oracle databases at the enterprise level, agencies are responsible for securing the data residing on these databases by ensuring appropriate access is granted. Therefore, security of the Oracle databases is a joint process. While enterprise level policies and best practices are available on COT's website, internally developed procedures are not. Such procedures are only provided upon request. Therefore, state agencies may not be aware of all relevant OIS and other internally developed procedures by COT that they would be jointly responsible for complying with.

Failure to implement and consistently apply logical security controls could lead to lack of understanding by management and users that could result in failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources.

When a user retains access to a system after transferring or exiting the agency, the opportunity increases for unauthorized modification to financial information, destruction of assets, interruption of services, or inappropriate or illegal use of system resources.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-009: The Commonwealth Office Of Technology Did Not Maintain Sufficient Logical Security Controls For The Oracle Production Databases (Continued)

According to KRS 42.726:

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

CIO-091, Enterprise Information Security Program Policy, states:

...The Commonwealth Office of Technology (COT), Office of the Chief Information Security Officer (CISO) shall establish and maintain an Information Security Program with concomitant policies to adopt security controls and standards to protect the Commonwealth's IT infrastructure, systems, and data...

...All executive branch agencies and non-executive branch agencies using COT-managed infrastructure or services must adhere to this policy. This includes employees, contractors, consultants, temporaries, volunteers, and other workings within state government...

The CIO-072 IT Access Control and User Access Management Policy states, "The Commonwealth Office of Technology (COT) and agencies shall restrict access to resources based on the principles of need-to-know and least privilege to ensure only authorized users have access to Commonwealth of Kentucky resources and data."

Per ENT-201 Enterprise Security Controls and Best Practices, agencies and service providers shall:

- 7. Notify account managers when:
 - a. accounts are no longer required,
 - b. users are terminated or transferred,
 - c. individual information system usage or need-to-know changes, and
 - d. users will not be accessing their respective account for greater than 30 days.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-009: The Commonwealth Office Of Technology Did Not Maintain Sufficient Logical Security Controls For The Oracle Production Databases (Continued)**

Recommendation

We recommend COT provide all executive branch agencies with the internally developed procedures, including OIS-112, to ensure they are aware of and can comply with the procedures that they are jointly responsible for. In addition, we recommend COT assist agencies with performing a review of Oracle database users bi-annually. Once user access listings are submitted to state agencies, COT should request confirmation of necessity for all accounts. Any accounts that are no longer needed should be reported to COT with a request for the access to be removed. Agencies should be encouraged to notify COT throughout the year, or as soon as a user's access to Oracle is no longer needed.

Management's Response and Planned Corrective Action

The Commonwealth Office of Technology acknowledges the finding but disagrees that this finding is assigned to the Commonwealth Office of Technology.

Industry standards, regulatory guidance, and best practices align the responsibility of access authorization to the data owner. The Commonwealth Office of Technology, while implementing the permissions as requested by the agency, does not hold the necessary institutional knowledge of the individuals or accounts that may require access to data to perform the access reviews. The recommendation that the Commonwealth Office of Technology conduct account reviews bi-annually should apply only to databases that contain data specifically owned by the Commonwealth Office of Technology. All other account review should be the responsibility of the agency as the data owner.

The Commonwealth Office of Technology will review OIS-112 to determine required updates to reflect appropriate process, roles, and responsibilities. Once these updates have been completed, the Commonwealth Office of Technology will advise agency IT Directors regarding the appropriate mechanisms to use to request account access information for their respective agencies through the enterprise ticketing system. Following this process will empower the agency to obtain the required information to be reviewed within their internal processes. This is anticipated to be completed by 03/31/2022.

Auditor's Reply

As acknowledged in the response, COT is responsible for implementing the database permissions requested by the agency. Agencies do not have the authority or access that would allow them to make Oracle permission changes for their staff. As such, the auditor continues to recommend COT assist state agencies with bi-annual reviews of access to all Oracle databases.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-010: The Department Of Revenue Did Not Comply With Certain Enterprise Policies Related To System Security**

This is a repeat finding as reported in the fiscal year 2020 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2020-014.

Our fiscal year (FY) 2021 audit revealed the Department of Revenue (DOR) does not comply with certain state enterprise policies related to information system security as it pertains to the Compliance and Receivables System (CARS) and the Accounts Receipts Posting System (ARPS).

DOR is required to follow enterprise policies established by the Office of the Chief Information Officer (CIO) of the Commonwealth Office of Technology (COT). DOR does not comply with COT enterprise policy CIO-112: Security Planning Policy. CIO-112 requires agencies with IT systems in the Commonwealth's infrastructure to develop and manage security plans, rules of behavior, and an information security architecture for the IT systems under their control. Inquiry with DOR staff revealed they do not have a system security plan (SSP) for any of their systems.

In addition, DOR does not comply with COT enterprise policy CIO-093 Risk Assessment Policy. CIO-093 requires agencies to identify and categorize the information systems within their control by assigning a security categorization (SC), which should be documented in an SSP for the information system. As previously noted, DOR does not have an SSP for CARS or ARPS. They have also not assigned an SC to these systems.

Furthermore, DOR did not comply with COT enterprise policy CIO-106 Enterprise Privacy Policy. CIO-106 requires agencies to conduct a Privacy Impact Assessment (PIA), which can be used to assess individuals' privacy risk associated with the information processed by their critical systems. Inquiry with DOR staff revealed they do not have a PIA for any of their systems.

DOR has not created SSPs and PIAs due to the ongoing Department of Revenue Integrated System (DORIS) project. DOR plans to develop these documents for DORIS once in production. DORIS is expected to replace all legacy Revenue applications.

Information systems are subject to serious threats that can have adverse effects on organization operations and assets, individuals, and other organizations by exploiting both known and unknown vulnerabilities to compromise the confidentiality, integrity, or availability of the information being processed, stored, or transmitted by those systems. Management must understand their responsibilities and should be held accountable for managing information security risk; that is, the risk associated with the operation and use of information systems that support the missions and business functions of their organizations.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-010: The Department Of Revenue Did Not Comply With Certain Enterprise Policies Related To System Security (Continued)

National Institute of Standards and Technology Special Publication 800-30, Guide for Conduction Risk Assessments, defines Risk Assessment as the process of identifying, estimating, and prioritizing risks to organizational operations (including mission, functions, image, and reputation), organizational assets, individuals, other organizations, and the Nation, resulting from the operation of the information system. This guide defines a SSP as a formal document that provides an overview of the security requirements for an information system and describes the security controls in place or planned for meeting those requirements.

Enterprise policy CIO-112 Security Planning Policy, states:

The Commonwealth Office of Technology (COT) and enterprise agencies with IT systems in the Commonwealth's infrastructure shall develop and manage security plans for the IT systems under their control. These security plans may be single documents or a collection of various documents...

Agencies shall develop security plans, rules of behavior, and an information security architecture for Commonwealth systems in accordance with policies, procedures, and standards established by COT...

Enterprise policy CIO-093, Risk Assessment Policy, states:

Agencies shall categorize the information systems within their control in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Agencies shall assign a Security Categorization (SC) and document the security categorization results, including supporting rationale, in the SSP for the information system...

Enterprise policy CIO-106, Enterprise Privacy Policy, states:

AR-2 Privacy Impact and Risk Assessment: The agency must:

- a. Document and implement a privacy risk management process that assesses privacy risk to individuals resulting from the collection, sharing, storing, transmitting, use, and disposal of PI; and
- b. Conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk in accordance with applicable law, policy, or any existing agency policies and procedures.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-010: The Department Of Revenue Did Not Comply With Certain Enterprise Policies Related To System Security (Continued)**

Recommendation

We recommend DOR ensure compliance with enterprise policies CIO-093, CIO-106, and CIO-112. To comply with these policies, DOR should assess the privacy impact associated with CARS and ARPS by completing the PIA documentation developed by COT. DOR should also develop a SSP that assigns a Security Categorization for CARS and ARPS. Once the documentation has been developed, it should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth. We recommend DOR apply the same recommendations to DORIS once in production.

Management's Response and Planned Corrective Action

The Kentucky Department of Revenue (DOR) acknowledges and agrees to this audit finding. Recent staff changes in the Security and Disclosure area for DOR more align to the importance and usefulness of these documents.

To correct the deficiency, DOR will work to comply with enterprise policies CIO-093, CIO-106, and CIO-112 by completing the Privacy Impact Assessment documentation developed by COT for CARS and ARPS. DOR will also develop a System Security Plan that assigns a Security Categorization for CARS and ARPS.

With respect to doris, the project team will build a full System Security Plan prior to Phase I go-live, which is currently Summer 2022.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-011: The Finance And Administration Cabinet Did Not Identify All Amounts Required To Be Reported As Passed Through To Subrecipients On The Schedule Of Expenditures Of Federal Awards

Review of the Schedule of Expenditures of Federal Awards (SEFA) as compiled by the Finance and Administration Cabinet (FAC) identified two instances where the amount provided to subrecipients was incorrectly reported. Review of the SEFA identified \$75 million had not been properly classified as provided to subrecipients for Assistance Listing Number (ALN) 21.023 Emergency Rental Assistance Program and \$15 million for ALN 21.019 Coronavirus Relief Fund. This was a non-compliance with 2 CFR 200.510(b)(4) which requires the total amount provided to subrecipients to be reported for each federal program on the SEFA.

Initially, there was confusion on whether a portion of the ALN 21.023 and 21.019 funds provided to a component unit of the Commonwealth would create a subrecipient relationship. Internal discussions incorrectly determined not to recognize this activity as passed through to subrecipients on the Commonwealth's SEFA.

Failure to report all funds passed through to subrecipients caused a misstatement on the Commonwealth's SEFA of \$90 million impacting two ALNs. The incorrect identification of whether a subrecipient or contractor relationship exists could lead to further noncompliances with federal requirements over subrecipient monitoring.

2 CFR 200.510(b) states "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." 2 CFR 200.510(b)(4) further requires that the SEFA must "Include the total amount provided to subrecipients from each Federal program."

2 CFR 200.331 Subrecipient and contractor determinations, states:

The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. The Federal awarding agency may supply and require recipients to comply with additional guidance to support these determinations provided such guidance does not conflict with this section.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-011: The Finance And Administration Cabinet Did Not Identify All Amounts Required To Be Reported As Passed Through To Subrecipients On The Schedule Of Expenditures Of Federal Awards (Continued)**

Recommendation

We recommend FAC strengthen internal controls to ensure amounts reported as passed through to subrecipients is complete and accurate on the prepared SEFA for each federal program. In instances where subrecipient verse contractor determinations are not clear, FAC should open communication with impacted agencies documenting the rationale behind any final determination.

Management's Response and Planned Corrective Action

We agree with the auditor's comments. The Schedule of Expenditures of Federal Awards (SEFA) was revised and the amounts reported as "provided to subrecipients" for Assistance Listing Number (ALN) 21.023 Emergency Rental Assistance Program is \$75 million and \$15 million for ALN 21.019 Coronavirus Relief Fund. FAC will strengthen internal controls by improving communication with impacted agencies where subrecipient verse contractor determinations are not clear and documenting the rationale behind any final determinations.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-012: The Finance And Administration Cabinet Did Not Comply With Certain Enterprise Policies Related To System Security**

This is a repeat finding as reported in the fiscal year 2020 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2020-015.

The fiscal year 2021 audit of the Finance and Administration Cabinet (Finance) revealed Finance did not comply with certain Commonwealth enterprise policies related to information system security as it pertains to the state's accounting system, enhanced Management Administrative and Reporting System (eMARS).

Finance is required to follow enterprise policies established by the Office of the Chief Information Officer (CIO) of the Commonwealth Office of Technology (COT). One of these policies, CIO-112 Security Planning Policy, requires COT and enterprise agencies with IT systems in the Commonwealth's infrastructure to develop and manage security plans for the IT systems under their control. The system security plan (SSP) may be single documents or a collection of various documents. Inquiry with Finance staff revealed an SSP has not been developed for eMARS.

Another enterprise policy, CIO-093 Risk Assessment Policy, requires agencies to do three things: 1) categorize the information systems within their control by assigning a Security Categorization (SC); 2) conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits; and 3) request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported. Inquiry with Finance staff revealed none of the three requirements have been met for eMARS.

Finance is also required to follow enterprise policy CIO-106 Privacy Policy, which requires agencies to conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk to the Commonwealth. Inquiry with Finance staff revealed this document has not been developed for eMARS.

Finance staff indicated that they assumed COT would be responsible for certain security controls over eMARS since all related databases and servers are hosted by COT. However, enterprise policies established by COT require agencies and business owners take responsibility for their data and applications. After receiving this clarification, Finance indicated they would develop the required documentation for eMARS.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-012: The Finance And Administration Cabinet Did Not Comply With Certain Enterprise Policies Related To System Security (Continued)

Information systems are subject to serious threats that can have adverse effects on organizational operations and assets, individuals, and other organizations by exploiting both known and unknown vulnerabilities to compromise the confidentiality, integrity, or availability of the information being processed, stored, or transmitted by those systems. Management must understand their responsibilities and should be held accountable for managing information security risk; that is, the risk associated with the operation and use of information systems that support the missions and business functions of their organizations.

Enterprise policies must be followed by all consolidated agencies to manage risks and protect privacy of individuals. CIO-093, Risk Assessment Policy, states:

Agencies shall categorize the information systems within their control in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Agencies shall assign a Security Categorization (SC) and document the security categorization results, including supporting rationale, in the SSP for the information system...

Each agency shall conduct a risk assessment, including the likelihood and magnitude of harm from the unauthorized access, use, disclosure, disruption, modification, or destruction of the information system and the information it processes, stores, or transmits. Agencies shall document the risk assessment results, review risk assessment results at least annually, disseminate the risk assessment results to the appropriate personnel, and update the risk assessment at least every three years or whenever there are significant changes to the information system or environment of operation...

Agencies shall request a vulnerability scan against their information systems and hosted applications on a schedule based on federal, state, or business compliance needs for all systems, or when new vulnerabilities potentially affecting the system or applications are identified and reported...

Agencies shall analyze the vulnerability scan reports and results from the security control assessments and remediate legitimate vulnerabilities in accordance with an organizational assessment of risk...

CIO-106, Enterprise Privacy Policy, specifically section AR-2 Privacy Impact and Risk Assessment, states that agencies must “Document and implement a privacy risk management process that assesses privacy risk to individuals resulting from the collection, sharing, storing, transmitting, use, and disposal of PI; and Conduct Privacy Impact Assessments (PIAs) for information systems, programs, or other activities that pose a privacy risk in accordance with applicable law, policy, or any existing agency policies and procedures.”

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-012: The Finance And Administration Cabinet Did Not Comply With Certain Enterprise Policies Related To System Security (Continued)

CIO-112, Security Planning Policy, states “The Commonwealth Office of Technology (COT) and enterprise agencies with IT systems in the Commonwealth’s infrastructure shall develop and manage security plans for the IT systems under their control. These security plans may be single documents or a collection of various documents...” Also, “agencies shall develop security plans, rules of behavior, and an information security architecture for Commonwealth systems in accordance with policies, procedures, and standards established by COT...”

Recommendation

We recommend Finance ensure compliance with all enterprise policies by:

- Developing an SSP that assigns a Security Categorization for eMARS that complies with CIO-093 and CIO-112.
- Conducting and documenting a risk assessment and vulnerability assessment for eMARS. For compliance with CIO-093, the risk assessment should be repeated at least annually and be updated in a timely manner. In addition, once developed, the SSP should be distributed to the appropriate personnel to ensure risk is appropriately mitigated throughout the Commonwealth.
- Fully assessing the privacy impact associated with eMARS by completing the PIA documentation developed by COT.

Management’s Response and Planned Corrective Action

COT is responsible for hosting all IT infrastructure but they do not complete the required assessments as deemed necessary under CIO-093. We initiated conversations with COT for them to complete a vulnerability scan on our systems that should comply with CIO-093. We will work with COT to create the necessary SSP and PIA documents associated with those scans.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-013: The Finance And Administration Cabinet Did Not Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information

This is a repeat finding as reported in the fiscal year 2020 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2020-016.

The fiscal year (FY) 2021 audit revealed weaknesses in the Finance and Administration Cabinet's (Finance) procedures regarding the security of confidential and sensitive data associated with the enhanced Management Administrative and Reporting System (eMARS). Finance is required to follow Commonwealth Office of Technology (COT) enterprise policies and standards, several of which address data protection. Detailed information that could possibly increase the risk that agency security is compromised was intentionally omitted from this comment, but have been communicated to the agency.

Additionally, the Finance and Administration Cabinet Standard Procedure (FAP) 1.8: Storing and Collection of Confidential Information references an outdated version of enterprise policy CIO-072. This policy was previously known as the Identity and Access Management Policy, but was updated in 2019 to IT Access Control and User Access Management Policy.

Although Finance indicated plans were developed to identify and protect sensitive and confidential data, these plans were not fully completed during FY 2021. Finance has not updated FAP 1.8 to reflect the changes made to enterprise policy CIO-072.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors. Failure to update policies and procedures to reflect and refer to the versions of the updated policies could mislead/misinform employees or vendors.

Based on KRS 42.726(1)(p), COT is responsible for developing "a coordinated security framework and model governance structure relating to the privacy and confidentiality of personal information collected and stored by state executive branch agencies." Numerous policies, procedures and standards have been developed by COT that address data protection. Data classified as confidential and internal must be protected from unauthorized users or exposure to the general public.

With respect to access control, CIO-092 states, "Only authorized individuals are permitted access to media containing State information. In addition to controlling physical access, user authentication will provide audit access information. Any access must also comply with any applicable regulatory requirements. Non-digital media should be hidden from the view of individuals that do not have authorization to access the information contained on or within the media."

The National Institute of Standards and Technology (NIST) SC-28 Protection of Information requires entities to protect the confidentiality and integrity of information at rest.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-013: The Finance And Administration Cabinet Did Not Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information (Continued)**

Recommendation

We recommend Finance sufficiently protect eMARS data classified as confidential or internal in compliance with COT enterprise policies and standards by completing current work plans to enhance security over certain confidential and internal data.

We also recommend Finance review and update FAP 1.8 to ensure it is compliant with enterprise policies related to data protection.

Management's Response and Planned Corrective Action

Finance management and the eMARS Team will continue to work with COT to ensure that all eMARS data is protected in accordance to the rules and policies set forth by COT. All eMARS technology structure is maintained by COT, and assumes that COT is following all internal policies and recommendations when setting up systems containing sensitive/secure data.

We will follow up with COT to recommend that they update FAP 1.8.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-014: The Kentucky Department Of Agriculture Failed To Analyze Potential Subrecipient Relationships On The Schedule Of Expenditures Of Federal Awards**

The Kentucky Department of Agriculture (KDA) failed to analyze activity related to federal expenditures to determine if there were subrecipient relationships present which are required to be reported on the Commonwealth's Schedule of Expenditures of Federal Awards (SEFA). KDA did not identify any federal funds as passed through to subrecipients during fiscal year 2021. Analysis of the Food Distribution Cluster, which is a major program for fiscal year 2021, revealed the majority of the program's activity was related to providing cash and non-cash assistance to non-profit organizations to carry out the program's objectives which could create a subrecipient relationship. Failure to analyze federal activity and document the nature and substance of the agreements with external parties could lead to a non-compliance with 2 CFR 200.510(b)(4) which requires reporting of amounts provided to subrecipients.

KDA was unaware of requirements to evaluate federal activities and make subrecipient and contractor determinations in accordance with 2 CFR 200.331. Failure to identify and report all funds passed through to subrecipients could cause a misstatement on the Commonwealth's SEFA. The amount required to be reported as provided to subrecipients, if any, is unknown until an evaluation of the contracts and agreements by KDA pertaining to their federal activity is performed. Additionally, the incorrect identification of whether a subrecipient or contractor relationship exists could lead to noncompliance with federal requirements over subrecipient monitoring.

2 CFR 200.510(b) states, "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." 2 CFR 200.510(b)(4) further requires that the SEFA must "Include the total amount provided to subrecipients from each Federal program."

2 CFR 200.331 Subrecipient and contractor determinations, states,

The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. The Federal awarding agency may supply and require recipients to comply with additional guidance to support these determinations provided such guidance does not conflict with this section.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-014: The Kentucky Department Of Agriculture Failed To Analyze Potential Subrecipient Relationships On The Schedule Of Expenditures Of Federal Awards (Continued)**

Recommendation

We recommend KDA complete subrecipient and contractor determinations in accordance with 2 CFR 200.331. Additionally, KDA should implement internal controls to ensure the total amount reported as passed through to subrecipients is complete and accurate on the Commonwealth's SEFA.

Management's Response and Planned Corrective Action

The Kentucky Department of Agriculture has reported federal expenditures to the Food Distribution Cluster in a similar manner since at least 1997. A review of the Food Distribution Cluster by the Auditor of Public Accounts in 2020 did not lead to any substantial change in KDA's reporting of federal expenditures to the cluster. As discussed with the APA on December 2, 2021, KDA will seek guidance from the USDA, Finance Cabinet and APA to determine which, if any, changes are appropriate when reporting federal expenditures. KDA will begin this review process in 2022.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-015: The Kentucky Horse Park Failed To Ensure All Capital Asset Records Were Complete And Accurate

The Kentucky Horse Park (KHP) failed to ensure all capital asset records were complete and accurate. KHP initially reported \$74,329 in capital asset additions during fiscal year 2021. A scan and subsequent review of financial activity identified four additional capital assets, totaling \$103,303, which were not identified, tagged, or tracked for financial reporting purposes.

Additionally, KHP's annual capital asset observations identified four capital assets that needed to be removed from KHP's records in fiscal year 2021. This consisted of two duplicate entries and two items that were no longer in possession of KHP. Review identified these items, totaling \$113,671, were not removed from the capital asset records utilized in preparing KHP's financial statements at fiscal yearend.

KHP failed to implement adequate internal controls and follow established guidelines over capital asset tracking and reporting. Additionally, the identification of capital assets for financial reporting purposes is a manual process that can be susceptible to error without sufficient knowledge of reporting requirements.

Failure to follow guidelines established for tracking and recording capital asset additions and disposals would have led to a misstatement on KHP's financial statements if undetected. Offsetting errors in both additions and disposals limited the overall impact on KHP's net position in fiscal year 2021; however, several account balances were impacted and the potential exists for a significant misstatement on KHP's financial statements. Adjusting entries to KHP's financial statements as a result of the errors included correcting expenditures by \$103,303, loss on disposal of assets by \$57,340, accumulated depreciation by \$30,160, and depreciation expense by \$10,277.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, provides requirements over the accounting and financial reporting of capital assets.

The Commonwealth's fixed asset policy requires equipment and vehicles valued at \$5,000 or more be capitalized for financial reporting purposes. Improvements to buildings are capitalized when a) the addition to an existing building significantly increases the buildings capacity and the building renovations or replacements enhance the third party market value and/or prolong its useful life, and b) cost at least 15% of the building's recorded value as reflected in the financial system.

The Fiscal Year 21 Physical Inventory Procedures guide, as distributed by the Finance and Administration Cabinet (FAC), identifies that an FD document should be prepared to update the fixed asset records within the Commonwealth's accounting system if it is determined through the inventory observation process that the asset was disposed of.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-015: The Kentucky Horse Park Failed To Ensure All Capital Asset Records Were Complete And Accurate (Continued)**

Recommendation

We recommend KHP strengthen internal controls to ensure all capital assets are properly tracked and recorded for financial statement reporting purposes. KHP should follow prescribed policies and procedures when recording capital asset additions and disposals and should consult with FAC when necessary.

Management's Response and Planned Corrective Action

KHP accepts the finding. FAC has made the adjustment to the capital assets. KHP Finance with oversight from management, will review the Physical Inventory Procedures guide, as distributed by the Finance and Administration Cabinet (FAC) to ensure it is properly recording and disposing its assets. KHP will continue to follow the Finance and Administration Cabinet's policies and procedures regarding capital assets and disposals and will consult with FAC, should any questions arise regarding the treatment of capital assets going forward. KHP staff will immediately conduct an internal review of its capital assets to ensure items are properly recorded and disposed of. KHP staff will continue to monitor its internal processes to ensure documents are being processed to properly record and dispose of its capital assets in a timely manner in accordance with the FAC guidelines. KHP staff will review Fixed Asset training to ensure they are up to date on all FAC policies and procedures.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-016: The Office Of Unemployment Insurance Applied Federal Funding To An Ineligible Program

As part of the audit of the Commonwealth's Annual Comprehensive Financial Report (ACFR), the Office of Unemployment Insurance's (OUI) expenditure accounting and journal vouchers were reviewed. Journal vouchers are used to adjust expenditure accounts in the Commonwealth's accounting system. A review of journal vouchers created by OUI indicated one journal voucher was incorrect, resulting in an error of \$203,470,548. The journal voucher was incorrectly applied to the federally-funded Pandemic Unemployment Assistance (PUA) program instead of the traditional unemployment insurance benefits program.

The COVID-19 pandemic caused dramatic increases in traditional unemployment benefit claims as well as the creation of new federal unemployment benefits programs. The result was both an increase in the complexity of the accounting for these programs and a strain on the funds available for traditional unemployment insurance benefits.

To accommodate the increases in traditional unemployment insurance benefits payments, OUI borrowed funds from the Federal government. Federal funding through the Coronavirus Relief Fund (CRF) was subsequently made available to alleviate costs related to the COVID-19 pandemic. The CRF could be used for unemployment costs, as long as the costs could not be reimbursed by the federal government. OUI was approved to use part of the Commonwealth's allotment of CRF funds to offset the federal loan. A journal voucher was created to document this loan repayment; however, the repayment was applied to the PUA program, rather than the traditional unemployment insurance benefits program. The PUA program is already reimbursed by different federal funds and therefore ineligible for repayment with CRF funds.

Based on discussions with OUI and Kentucky Labor Cabinet personnel, the complexity of the accounting environment may have caused the error. Labor Cabinet accounting personnel were not aware that the Program Code in the Commonwealth's accounting system that was cited on the journal voucher applied to the PUA program and not the traditional unemployment insurance benefits program.

The initial journal voucher incorrectly reimbursed \$203,470,548 to an ineligible federally-funded program. When OUI was notified of the error by the Auditor of Public Accounts, the Labor Cabinet corrected the journal voucher, applying it to an eligible program.

Failure to apply the correct Program Code to the journal voucher would have resulted in inaccurate reporting on the Commonwealth's Schedule of Expenditures of Federal Awards (SEFA). Had the error not been detected, the Unemployment Insurance expenditures would have been reported on the SEFA incorrectly for both the non-Coronavirus Aid, Relief, and Economic Security (CARES) Act expenditures and the CARES Act expenditures. The non-CARES Act expenditures would have been overstated and the CARES Act expenditures would have been understated by \$203,470,548.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-016: The Office Of Unemployment Insurance Applied Federal Funding To An Ineligible Program (Continued)

Coronavirus Relief Fund for States, Tribal Governments, and Certain Eligible Local Governments, 86 Fed. Reg. 10, 4185, paragraph 4 (January 15, 2021) lists as an example of CRF ineligible expenditures “Expenses that have been or will be reimbursed under any federal program, such as the reimbursement by the federal government pursuant to the CARES Act of contributions by States to State unemployment funds.”

Recommendation

The Labor Cabinet and OUI should strengthen policies, procedures, and internal controls over the recording of journal vouchers to ensure they are recorded properly. In addition, journal vouchers should be reviewed and verified to further ensure the accuracy and completeness of the SEFA.

Management’s Response and Planned Corrective Action

The Labor Cabinet acknowledges the above finding and is providing the attached Corrective Action Plan (below).

<i>Corrective Action(s):</i>	
<i>A journal voucher was incorrectly applied to the federally-funded Pandemic Unemployment Assistance (PUA) program instead of the traditional unemployment insurance benefits program.</i>	<i>Complex Journal Vouchers should be thoroughly reviewed and discussed with the Controller’s Office. Labor will use historical information and internal controls as guidance.</i>
<i>Labor Cabinet corrected the journal voucher, applying it to an eligible program.</i>	<i>A JV2E document was processed in the E-Management Administrative Reporting System, applying the \$203,470,548 to the eligible program.</i>

The ongoing COVID pandemic and the transition of the Office of Unemployment Insurance to the Labor Cabinet has created increased workloads and new funding streams for the Labor Cabinet Accounting Branch. Procedures, processes and internal controls have been reviewed and strengthened. For complex journal vouchers, the Labor Cabinet will consult with the Controller’s Office, Finance Cabinet and Upper Management. The Labor Cabinet will use historical information and follow internal controls in place to ensure errors do not occur. As soon as the Auditor of Public Accounts found the error and notified the Labor Cabinet of the error, it was corrected immediately. Labor will also take under advisement the recommendations of the APA office.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-016: The Office Of Unemployment Insurance Applied Federal Funding To An Ineligible Program (Continued)**

Management's Response and Planned Corrective Action (Continued)

Further, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-368O, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

Auditor's Reply

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-017: The Office Of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace For Employment Services System Was Properly Secured**

This is a repeat finding as reported in the FY 2020 Statewide Single Audit of Kentucky (SSWAK) as finding 2020-024.

The Office of Unemployment Insurance (OUI) did not properly secure the Kentucky Electronic Workplace for Employment Services System (KEWES) during fiscal year 2021. Six users were granted access to the Siebel Administrator account, SADMIN. Siebel provides a graphical interface to unemployment insurance (UI) data stored within an Oracle database. Since multiple users have access to one account, there is no way to track or identify who is actually using the account. OUI staff stated the SADMIN account is used in rare circumstances to view system data. Even though this account is not used regularly by OUI staff, access to an account with elevated privileges poses a significant risk to system security.

Further noted, KEWES has not been configured to require periodic changes of passwords. As such, KEWES is not compliant with the Commonwealth Office of Technology (COT) policy, COT-156 Password Management Process, which requires passwords be changed every 90 days for non-privileged accounts.

Also, Mainframe KEWES sessions are set to automatically terminate after 10 hours of inactivity. OUI is currently working with COT to reduce this setting to 30 minutes of inactivity.

OUI has created the SADMIN account in which multiple users have access. Since this acts as a group account, auditing is hindered as there is no way to track or identify who is actually using the account.

OUI has not configured KEWES to require periodic password changes by users. OUI is working to make this system change; however, it had not been completed prior to the end of FY 2021.

OUI has set the mainframe session to trigger a termination of the session to 10 hours. OUI is working with COT to set the termination of a session to 30 minutes; however this was not completed prior to the end of FY 2021.

Organizations employ passwords, physical authenticators, or biometrics to authenticate user identities. Without authentication, agencies could not properly identify and track improper access or transactions within the system.

Failure to consistently apply logical security controls could result in failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources. Without a session limit of inactivity, there is an increased risk of unauthorized access.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-017: The Office Of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace For Employment Services System Was Properly Secured (Continued)

ENT-201 Enterprise Security Controls and Best Practices, IA-2 – Identification and Authentication (Organizational Users) states:

COT, agencies, and service providers shall ensure that information systems uniquely identify and authenticate agency users or processes acting on behalf of users. Unique identifier and authentication requirements are outlined in the IA controls below. In providing access to Commonwealth systems, COT, agencies, and service providers shall:

- Assign User IDs individually so that a single individual shall be responsible for every action initiated by that ID.

Furthermore, Social Security Provided Information (SSPI) Security Awareness Training produced by the Labor Cabinet, Electronic Safeguards to Protect SSPI section pertains to Network and secure login and states, “Each UserID must be used by only a single individual who is responsible for every action initiated by that account. There must be no reuse of the UserID.”

COT-156 Password Management Process states “Passwords shall:...Be changed at least every 60 days for all elevated privileged accounts, and every 90 days for all non-privileged accounts”

ENT-201: Enterprise Security Controls and Best Practices section AC-12 – Session Termination states:

Agencies shall ensure service providers configure the information system to terminate a user session automatically after defined conditions or trigger events requiring session disconnect. Conditions or trigger events requiring automatic session termination can include, for example:

1. agency-defined periods of user inactivity,

Recommendation

We recommend OUI disable the SADMIN user account and grant individual administrator accounts to KEWES. Additionally, we recommend OUI ensure system changes are made to require periodic password changes within KEWES. Furthermore, we recommend OUI reduce the time limit to terminate a session due to user inactivity.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-017: The Office Of Unemployment Insurance Did Not Ensure The Kentucky Electronic Workplace For Employment Services System Was Properly Secured (Continued)****Management's Response and Planned Corrective Action**

The Labor Cabinet takes the security of Commonwealth information seriously and has received the recommendations from the Auditor of Public Accounts. The APA is recommending to disable the SADMIN user account; however, this account is necessary for Siebel account administration. This SADMIN account will be restricted from being used as a group account. Which users require access will be re-assessed and those requiring elevated access will be provisioned individual accounts based on need and separation of duties. To ensure security best practices are followed, those with access to the SADMIN account have been informed not to reset accounts through the SADMIN account. In addition, an alert is being set to monitor the account is used as intended.

Additionally, KEWES has been configured to require password changes every 90 days following the Commonwealth Office of Technology (COT) policy, COT-156 Password Management Process. This change was completed in September 2021. In addition, other changes were made to strengthen security and require a complex password for KEWES.

Furthermore, the Labor Cabinet is working with the Commonwealth Office of Technology to address the session termination time frame. The goal will be to terminate sessions after 30 minutes of inactivity.

Finally, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-3680, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

Auditor's Reply

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-018: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System**

This is a repeat finding as reported in the fiscal year 2020 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2020-004.

Complete system documentation describing processing, data entry, system validations, edits, audits, and errors established within the Kentucky Electronic Workplace for Employment Services (KEWES) was not maintained by the Kentucky Labor Cabinet's Office of Unemployment Insurance (OUI) during fiscal year 2021. KEWES is the system used by OUI to process Unemployment Insurance (UI) for the Commonwealth of Kentucky.

Claims data is sent to OUI multiple ways for entry into KEWES including fax, mail, e-mail, scan, claimant upload, and e-claimants. OUI confirmed there is not one single document that explains all of the data entry processes. Given the complexity of UI processes, all data entry methods should be documented within a single manual.

Since a complete population of system errors and security alerts could not be provided, OUI staff provided examples of system errors and security alerts that occur during processing. OUI also has files depicting the proposed flow of data to register an account, file a claim, and claim weeks. However, this documentation does not describe system functionality, edits, audits, alerts, or errors processed by the system. Edits verify the accuracy, validity, required presence, format, consistency, allowable values, and integrity of data submitted. Audits determine if there are any restrictions based on historical claims. An error message alerts users of a problem that has already occurred.

Further noted, OUI does not have complete documentation explaining how stops are used in KEWES to identify fraud. When an unemployed worker files a claim for unemployment benefits, certain verifications occur in KEWES that allow the claim to move forward. However, if there is an error, KEWES automatically places a "stop" on the claim, which has to be removed in order for the claimant to receive benefits. Stops can also be manually placed on a claim based on information the agency receives from the claimant or employer. While there are no stops configured within KEWES specifically for fraud, OUI stated they are using stop codes 1 and X to indicate possible fraud. However, documentation was not provided to substantiate that a stop of X had been configured within KEWES. OUI acknowledged they are applying stop X on UI claims when the claimant has been disqualified for regular UI and is being transitioned to Pandemic Unemployment Assistance (PUA). Also, the description associated with stop 1 states, "COMPLETE STOP FOR DISQUALIFYING REASONS OTHER THAN FRAUD. CAN BE REMOVED WHEN DISQUALIFICATION LIFTED" indicating that it is not related to fraud.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-018: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System (Continued)

Furthermore, the Commonwealth Office of Technology (COT) Production Services Branch is responsible for production batch operations and scheduling UI job streams. These Mainframe jobs interact with KEWES to process things including UI benefits payments. The auditor was provided 25 schedules reflecting UI jobs running in production. These schedules run jobs daily, weekly, on weekends, or as needed. While the various jobs have a description associated with them, the schedules do not have descriptions indicating their purpose or explain why certain jobs are running as part of that schedule. One schedule may run two jobs daily while another schedule may run five jobs daily.

OUI has not properly documented system processing, data entry, system validations, edits, audits, and errors established within KEWES. In addition, KEWES stop codes have not been properly documented and adequately explained as to their purpose or function. Also, neither COT nor OUI staff have developed or maintained complete system documentation to explain all mainframe jobs running in production.

System documentation describes the requirements, capabilities, limitations, design, operation, and maintenance of a system, including communications and data processing. Failure to accurately document system errors, audits and edits increases the risk of erroneous UI claims being processed or valid UI claims being denied. It could also result in transactions for inaccurate or excessive amounts to be processed successfully, or transactions not being paid timely or accurately. Further, the existence of basic controls cannot be confirmed without a complete population of edits and audits.

A stop code is a number that uniquely identifies a specific stop error. If these are not properly configured or documented, staff may not identify all possible fraudulent claims within the system, resulting in fraudulent benefit payments being made.

Validations and verifications ensure a system complies with state and federal regulations, business requirements and specifications, or an imposed condition. They also ensure the system meets the operational needs of the user. Validation of data results in fewer errors and less risk to business processes and data integrity. It also reduces long term system and project costs by minimizing the cost of maintenance and system changes.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-018: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System (Continued)

The System and Information Integrity (SI) section of the National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, specifically SI-10 – Information Input Validation, states: “The information system checks the validity of [Assignment: organization-defined information inputs].” Supplemental guidance states:

Checking the valid syntax and semantics of information system inputs (e.g., character set, length, numerical range, and acceptable values) verifies that inputs match specified definitions for format and content...

... Input validation helps to ensure accurate and correct inputs and prevent attacks such as cross-site scripting and a variety of injection attacks.

In addition, NIST section SI-11 – Error Handling, states that an information system should generate error messages that provide information necessary for corrective actions without revealing information that could be exploited by adversaries and reveals error messages only to defined personnel or roles.

The System and Services Acquisition (SA) section of the NIST, specifically SA-5 Information System Documentation, states that the organization:

- a. Obtains administrator documentation for the information system, system component, or information system service that describes:
 1. Secure configuration, installation, and operation of the system, component, or service;
 2. Effective use and maintenance of security functions/mechanisms; and
 3. Known vulnerabilities regarding configuration and use of administrative (i.e., privileged) functions;
- b. Obtains user documentation for the information system, system component, or information system service that describes:
 1. User-accessible security functions/mechanisms and how to effectively use those security functions/mechanisms;
 2. Methods for user interaction, which enables individuals to use the system, component, or service in a more secure manner; and
 3. User responsibilities in maintaining the security of the system, component, or service;
- c. Documents attempts to obtain information system, system component, or information system service documentation when such documentation is either unavailable or nonexistent and takes [Assignment: organization-defined actions] in response;
- d. Protects documentation as required, in accordance with the risk management strategy; and

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-018: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System (Continued)**

- e. Distributes documentation to [Assignment: organization-defined personnel or roles].

Recommendation

We recommend OUI ensure complete and accurate system documentation explaining all processing performed by KEWES and UI-related mainframe batch jobs is documented. In addition, all validations, error warnings, edits, and audits established within KEWES should be thoroughly documented to support the processing being performed by KEWES. We also recommend OUI ensure all stop codes being used to identify and review fraudulent claims are documented. Stop code descriptions should be updated to properly reflect their use within KEWES.

Management's Response and Planned Corrective Action

The Labor Cabinet has received the above recommendation from the Auditor of Public Accounts. As stated in the response from 2020-04, this documentation will detail the mainframe related batch jobs, workflows, interfaces and security features in addition to the validations, error warnings, edits and audits established within KEWES and the stop codes mentioned in the recommendation. The Labor Cabinet is in the process of hiring a technical writer to complete this work and is currently searching for the appropriate person with the technical knowledge needed to complete documentation. Once a person has been identified and hired, the Labor Cabinet will work with the Branch Manager of the COT UI Systems Branch to complete the documentation. In addition, as the Office of Unemployment Insurance begins work on a new system and it is implemented, this documentation will no longer be needed.

Further, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-3680, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-018: The Office Of Unemployment Insurance Does Not Have Adequate Technical Documentation Associated With The Kentucky Electronic Workplace For Employment Services System (Continued)**

Auditor's Reply

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-019: The Office Of Unemployment Insurance Submitted Incorrect Other Liabilities Information To The Finance And Administration Cabinet.

The Office of Unemployment Insurance (OUI) submits an Annual Financial Report (AFR) to the Finance and Administration Cabinet (FAC) for purposes of compiling the Commonwealth's Annual Comprehensive Financial Report (ACFR). OUI submitted an inaccurate AFR which included errors in the other liabilities account balance.

- OUI did not include certain employer balances in the other liabilities amount, resulting in the other liabilities account balance being understated by \$6,336,539. Per KRS 341.330, employers are permitted to request refunds or adjustments to subsequent contributions for no later than five years after any contributions, interest, or penalties were paid. Based on agency inquiry, it is OUI's policy that a payable associated with an account that has had activity within the last five years be recorded as a liability. Accounts with payable amounts that have not had activity in more than five years are considered inactive and are no longer included in the other liabilities balance. The accounts in question were classified as inactive and excluded from the other liabilities amount even though they had not exceeded the five-year non-payment threshold.
- OUI initially classified the entire other liabilities amount as "Payable In Future Period" (non-current) while a portion of this balance should have been classified as "Payable Within One Year" (current). Upon further inquiry, OUI determined they had made an error and promptly submitted a revised closing package, moving \$62,049,346 from non-current other liabilities to current other liabilities. This revision also corrected the error noted in the first bullet.

For the inactive employers, OUI did not follow its written procedure to include those accounts that have had no activity for two to five years in the other liabilities amount. OUI's closing package review process did not detect the error.

For the current and non-current other liabilities, OUI's closing package instructions require the use of an Excel Workbook entitled "...Working Detail" to pull all the details together to calculate and classify closing package figures. OUI's workbook automatically classifies all other liabilities as non-current regardless of whether the underlying payables are likely to be paid within one year or not, and OUI does not split the current amounts out for reporting on the AFR.

OUI submitted inaccurate other liabilities information to FAC for inclusion in the Commonwealth's ACFR. Had the errors not been detected and corrected during the audit, the total other liabilities would have been understated by \$6,336,539. Furthermore, had OUI not re-evaluated the non-current and current other liabilities process, current other liabilities would have been understated by \$62,049,346.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2021-019: The Office Of Unemployment Insurance Submitted Incorrect Other Liabilities Information To The Finance And Administration Cabinet (Continued)

Effective internal control over data compilation requires sufficient procedures and review to ensure the correct data is used and properly classified to produce accurate account balances in accordance with generally accepted accounting principles.

KRS 341.330 states, in part, “(1) Not later than five (5) years after the date on which any contributions, interest, or penalties were paid, an employing unit which has paid such contributions, interest, or penalties may make application for an adjustment in connection with subsequent contribution payments, or for a refund thereof...”

FAC closing package guidance requires that Other Liabilities be reported in two classifications: “Payable Within One Year” and “Payable In Future Period.” The guidance further defines “Payable Within One Year” by declaring, “These amounts will require the use of fiscal year 2022 funds for repayment.”

Recommendation

OUI should implement adequate policies, procedures, and internal controls to ensure the accuracy and completeness of the other liabilities data prior to submitting to FAC. Since the closing package preparation process occurs only once per year, management should design sufficient procedures to identify misstatements and mitigate the risk of material errors. Additionally, a review of the closing package information should be documented, verifying that reported information is complete and accurate.

Management’s Response and Planned Corrective Action

The Labor Cabinet has received the recommendation from the Auditor of Public Accounts and is reviewing internal closing package instructions. The Office of Unemployment Insurance, in conjunction with the Finance and Administration Cabinet, have corrected errors identified. Over this past year the Office of Unemployment Insurance has seen significant staff turnover in this area with the primary closing package staff and their backups leaving the Cabinet. The Labor Cabinet is working with the Finance and Administration Cabinet to ensure all staff involved with the closing package process complete additional training and strengthen internal controls. In addition, the Labor Cabinet is implementing additional reviews of the closing package documents and processes to strengthen internal instructions involving the closing package and methodology. This additional review will be completed to ensure all processes and controls are being followed.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2021-019: The Office Of Unemployment Insurance Submitted Incorrect Other Liabilities Information To The Finance And Administration Cabinet (Continued)**

Management's Response and Planned Corrective Action (Continued)

Further, the State Auditor and the Office of the State Auditor are in violation of both state law and applicable auditing standards. See AICPA Code, 1.110.010.12, Conflicts of Interest for Members in Public Practice, Disclosure of a Conflict of Interest and Consent; AICPA Code, 0.300.050, Objectivity and Independence, .01-.02; GAO-21-368O, Government Auditing Standards, 3.11, Objectivity; GAO 21-3680, Government Auditing Standards, 3.15, Proper Use of Government Information, Resources, and Positions; KRS 11A.020-.030. The State Auditor is aware of, failed to disclose, and chooses to ignore this clear conflict of interest.

Auditor's Reply

The Auditor of Public Accounts is in compliance with all applicable laws and auditing standards. The APA has safeguards in place, both statutorily and procedurally, to assure that objectivity and independence are maintained in accordance with professional auditing standards. Strong safeguards have been in place for decades at the APA to insulate the agency's audit work from any political bias resulting from the fact that every four years, a sitting Auditor may again run for statewide office in a partisan election. These longstanding safeguards were enhanced to provide additional assurance and to mitigate the perceived conflict of interest. This information was clearly spelled out in memos addressed to the Kentucky Labor Cabinet Secretary - dated August 17, 2021 and August 30, 2021.

APPENDIX

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2021**

This report is available on our website, auditor.ky.gov, in PDF format. For other requests, please contact Tim Gutman, the APA's Open Records Administrator, at (502)564-5841 or tim.gutman@ky.gov. If copies of the ACFR for FY 2021 are required, the report is available on the Finance and Administration Cabinet website at finance.ky.gov in PDF format.

The list includes entities included in the Commonwealth's ACFR with separate audited financial statement reports issued by the Auditor of Public Accounts or Certified Public Accounting firms. Audit reports are available upon request to the respective agency.

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

Turnpike Authority of Kentucky
200 Mero Street, 5th Floor
Frankfort, KY 40622

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

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

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

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

Kentucky Public Pension Authority
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Teachers' Retirement System of the State of Kentucky
479 Versailles Road
Frankfort, Kentucky 40601

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)**

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

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

Murray State University
102 Curris Center
Murray, Kentucky 42071

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

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

Kentucky State Fair Board
Kentucky Fair and Exposition Center
937 Phillips Lane
Louisville, KY 40209

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

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

Kentucky Higher Education Student Loan Corporation
P.O. Box 24328
Louisville, KY 40224-0328

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)**

Kentucky Infrastructure Authority
100 Airport Road, 3rd Floor
Frankfort, Kentucky 40601

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

University of Kentucky
410 Administration Drive
Lexington, Kentucky 40506-0005

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

Morehead State University
Office of Accounting and Financial Services
207 Howell-McDowell Administration Building
Morehead, Kentucky 40351

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

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

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

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

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2021
(Continued)**

Council on Postsecondary Education
100 Airport Road
Frankfort, KY 40601

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

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

Kentucky Public Employees' Deferred Compensation Authority
501 High Street, 2nd Floor
Frankfort, KY 40601

Workers' Compensation Program
500 Mero Street, 3rd Floor
Frankfort, KY 40601

Kentucky Department of Labor - Special Fund
500 Mero Street, 3rd Floor
Frankfort, KY 40601

Kentucky Horse Park Foundation
4075 Iron Works Parkway, Building D
Lexington, Kentucky 40511

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

Kentucky Communications Network Authority
500 Mero Street
Frankfort, KY 40601

Louisville Arena Authority
1 Arena Plaza
Louisville, KY 40202