

**EXAMINATION OF CERTAIN FINANCIAL OPERATIONS AND
INTERNAL POLICIES AND CONTROLS OF THE
TEAM WESTERN KENTUCKY TORNADO RELIEF FUND AND
TEAM EASTERN KENTUCKY FLOOD RELIEF FUND**



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

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

Contents

	<u>Page</u>
Transmittal Letter.....	1
Section 1 - Introduction	3
Section 2 - Examination Summary	4
Section 3 - Concerns Expressed By The Legislative Oversight And Investigations Committee And Others	5
Section 4 - General Observations	11
Section 5 - Team Western Kentucky Tornado Relief Fund.....	13
Section 6 - Team Eastern Kentucky Flood Relief Fund	30
Section 7 - Legislative Changes.....	39
Kentucky Public Protection Cabinet's Response.....	43



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

December 5, 2023

Ray A. Perry, Secretary
Public Protection Cabinet
500 Mero Street
Frankfort, KY 40601

The Auditor of Public Accounts (APA) has completed its special examination of the Team Western Kentucky Tornado and Team Eastern Kentucky Flood Relief Funds. This report summarizes the procedures performed and communicates the results of those procedures.

The purpose of this special examination was not to provide an opinion on the Tornado and Flood Relief Funds' financial statements but to review their governance and certain financial activity. This review also provides analysis about internal controls to ensure financial management activities are accurate and transparent.

We appreciate your assistance and the assistance of your staff throughout the examination and hope this report will help the Public Protection Cabinet make improvements for future disaster relief funding. If you have any questions or wish to discuss this report further, please contact me, or Jason Johnson, Executive Director, Office of State Government Audits and Technology.

Sincerely,

A handwritten signature in cursive script that reads "Farrah Petter".

Farrah Petter, CPA
Assistant Auditor of Public Accounts

c: Senator Brandon Storm, Co-Chair Legislative Oversight and Investigations Committee
Representative Adam Bowling, Co-Chair Legislative Oversight and Investigations Committee

Section 1 - Introduction

During December 2021 and July 2022, Kentucky experienced two major natural disasters causing significant loss of life and property. As a result, States of Emergency were enacted through executive orders. A State of Emergency directs the Division of Emergency Management to execute the Kentucky Emergency Operations Plan to coordinate the response and relief activities of all state agencies and private relief organizations in response to the emergency in order to continue essential public services and to prevent undue loss and suffering. The State of Emergency further directs the Kentucky Finance and Administration Cabinet to assist with incident/disaster resource management, procurements and contracting, and funding the obligations incurred in response to and recovery from the emergencies.

To further assist in the recovery efforts, relief funds were established to collect monies from public and private sources to be used for the public purposes of protecting and safeguarding the public health, safety, welfare, and protection of Kentuckians by providing relief to Kentuckians impacted by the severe weather systems.

In a letter dated July 17, 2023, the Legislative Oversight and Investigations Committee (the “Committee”) requested the Auditor of Public Accounts complete an audit and/or special examination of the Team Western Kentucky Tornado Relief Fund and the Team Eastern Kentucky Flood Relief Fund, as well as any related predecessor or successor funds. The request identified that over 200 checks were issued from these funds to persons who did not request the monies or who have later stated no objective need. The Committee indicated having serious concerns about the due diligence and general oversight of the funds as well as the lack of transparency surrounding the solicitation, administration, procurement rules, and the establishment of objective criteria for the disbursement of funds. Furthermore, the Committee identified concerns that the Executive Branch failed to seek any formal opinions regarding the ethical parameters for soliciting donations or to register under appropriate federal guidelines. The request was made pursuant to KRS 6.935(1) which identifies “[t]he Auditor of Public Accounts...shall assist the Legislative Oversight and Investigations Committee in whatever manner the co-chairs deem...helpful.”

Section 2 – Examination Summary

The examination evaluated the effectiveness of the Kentucky Public Protection Cabinet (PPC) in administering the receipt and subsequent disbursement of donations collected to benefit individuals impacted by the severe weather in Western Kentucky in December 2021 and Eastern Kentucky in July 2022.

Overall, PPC was aware of their oversight responsibilities and implemented control mechanisms to ensure funds were distributed only to eligible individuals or to entities who would assist in the recovery and rebuilding process. Even with the implementation of internal controls, there is always the potential for errors to occur undetected, especially in a program that aims to provide financial assistance quickly in response to needs created by a natural disaster.

While PPC was ultimately the entity accountable for the receipt and distribution of collected funds, a network comprised of local government entities, nonprofit organizations, and state and federal entities provided additional resources that were vital for identifying areas of need, monitoring activities, and providing case management surrounding the utilization of funds.

Data obtained from FEMA (Federal Emergency Management Agency) and the Kentucky Department of Insurance served as the basis for most of the payments made directly to impacted Kentuckians for each disaster. The volume of data received by PPC, which was further complicated by omitted or inaccurate information, most likely contributed to some exceptions that were noted during the examination.

Our examination identified the following inappropriate payments pertaining to funds distributed for the Team Western Kentucky Tornado Relief Fund and Team Eastern Kentucky Flood Relief Fund as of fiscal year end June 30, 2023:

Team Western Kentucky Tornado Relief Fund		
Total Inappropriate Payments	\$	239,785
Total Expenditures	\$	42,334,075
Error Rate		0.57%

Team Eastern Kentucky Flood Relief Fund		
Total Inappropriate Payments	\$	-
Total Expenditures	\$	5,390,286
Error Rate		0.00%

Items identified as inappropriate payments include duplicate payments, individuals receiving payments for which they were not eligible, and overpayments. PPC should consider the feasibility of recovering inappropriate payments. The majority of the identified inappropriate payments related to the \$1,000 2nd Assistance Payments of the Team Western Kentucky Tornado Relief Fund, which had a 2.14% error rate, representing \$213,000, or 88.83% of the identified inappropriate payments.

Subsequent sections of this report provide additional details on financial activity and exceptions for each disaster relief fund and responses to concerns from the Legislative Oversight and Investigations Committee.

Section 3 - Concerns Expressed by the Legislative Oversight and Investigations Committee and Others

The following section provides questions and answers pertaining to concerns expressed by the Legislative Oversight and Investigations Committee and others over the collection and subsequent disbursement of Team Western Kentucky Tornado and Team Eastern Kentucky Flood Relief Funds.

It should be noted the role of the auditor is to provide “independent auditing of the accounts, financial transactions, and performance of all spending agencies of the state” in accordance with KRS 43.050.

In accordance with KRS 15.020, the Attorney General is “the chief law officer of the Commonwealth of Kentucky and all of its departments, commissions, agencies, and political subdivisions, and the legal adviser of all state officers, departments, commissions, and agencies, and when requested in writing shall furnish to them his written opinion touching any of their official duties...”. Accordingly, any formal evaluation and interpretation of Kentucky Laws and Regulations should be requested from the Attorney General.

Concern - 1: Did the Executive Branch consider if collecting donations was appropriate?

Yes. The Team Western Kentucky Tornado Relief Fund was created per Executive Order 2021-925, to be administered by PPC. Executive Order 2021-925 dated December 11, 2021 provided directives pertaining to the establishment and administration of the fund “pursuant to KRS 39A.180, KRS 12.270(2), KRS 13A.190, and other applicable law.” The identification of these statutes within the Executive Order provides sufficient evidence that a formal review was performed by the Executive Branch determining the collection of donations was allowable in accordance with state laws and regulations. There were no formal requests for Attorney General or Executive Branch Ethics Commission opinions regarding the creation of the funds. Executive Branch agencies are authorized, but not required, to request written opinions from the Attorney General pursuant to KRS 15.020, and the Executive Branch Ethics Commission pursuant to KRS 11A.110. Many Executive Branch agencies, such as PPC, are represented by their own attorneys who provide legal services pursuant to KRS 12.210 and 12.220. The APA cannot say that the decision by PPC to rely on the advice of its legal staff and not seek an opinion from the Attorney General or Executive Branch Ethics Commission was an abuse of discretion.

Concern - 2: Did the Public Protection Cabinet have the ability to accept donations?

Yes. Executive Order 2021-925 dated December 11, 2021 provided the authority for the establishment and administration of the fund “pursuant to KRS 39A.180, KRS 12.270(2), KRS 13A.190, and other applicable law.” Per KRS 39A.180, such orders, “shall have the full force of law” and as such this order placed additional duties and responsibilities upon PPC. Pursuant to KRS 12.270(2), each cabinet secretary “is authorized to accept and expend funds from any source, whether public or private, in support of the duties and responsibilities of the related cabinet.” To provide further guidance, the legislature subsequently enacted KRS 45.255 effective March 24, 2023, which established the Kentucky Contribution Trust Fund and authorized PPC to administer the fund.

Concern - 3: Is Executive Branch Ethics Commission Advisory Opinion 16-09 applicable and was PPC required to establish a nonprofit entity to be able to accept donations?

No. Executive Branch Ethics Commission Advisory Opinion 16-09 is guidance for executive branch agencies in relation to fundraising activities conducted in accordance with KRS 11A.055 for charitable nonprofit organizations established, created, and controlled by these agencies in anticipation of the effective date of the amendment to 9 KAR 1:060. In this instance, a nonprofit entity was not established. Establishment of a nonprofit entity was not required based on KRS 12.270(2) as described in Concerns 1 and 2.

Concern - 4: Did PPC have authority to expend donated funds without appropriation by the Legislature?

Unclear. Unlike the acceptance of donations under Concern 2, expenditures of those same donations potentially failed to comply with Section 230 of the Kentucky Constitution, as “No money shall be drawn from the State Treasury, except in pursuance of appropriations made by law.” As elaborated on by KRS 41.110: “(1) No public money shall be withdrawn from the Treasury for any purpose other than that for which its withdrawal is proposed in accordance with the Constitution and statutes of the Commonwealth of Kentucky, nor unless it has been appropriated by the General Assembly.”

Executive Order 2021-925 dated December 11, 2021 included a directive that the PPC Secretary “shall pursuant to KRS 39A.180, KRS 12.270(2), KRS 13A.190, and other applicable law, establish standards regarding of expenditure of funds related to the Fund.” PPC considered the funds to be private donations that retained their private character while being accounted for in separate funds and therefore not public funds. This presents a novel legal question and APA is unaware of controlling authority that would enable it to make a determination on this matter.

For clarity, APA found no evidence of bad faith or misappropriation of funds on the part of PPC. The actions by the cabinet were in good faith and appear to have been focused on quickly providing monetary relief to the unfortunate victims of the subject natural disasters.

PPC did not request an opinion from the Attorney General regarding the expenditure of the donated funds. Given the lack of clear guidance on this issue, an opinion from the Attorney General could

have provided useful advice. However, as noted above, Executive Branch agencies are authorized, but not required, to request written opinions from the Attorney General pursuant to KRS 15.020. Many Executive Branch agencies, such as PPC, are represented by their own attorneys who provide legal services pursuant to KRS 12.210 and 12.220. The APA has no articulable grounds to state that the decision by PPC to rely on the advice of its legal staff and not seek an opinion from the Attorney General was an abuse of discretion.

To provide additional guidance for potential future disaster response actions, the General Assembly enacted Senate Bill 99 during the 2023 Regular Session, creating KRS 45.255 addressing this concern on a going forward basis.

KRS 45.255 created the Contribution Trust Fund which now includes funds associated with the Team Western Kentucky Tornado Relief Fund and Team Eastern Kentucky Flood Relief Fund. Section 4(b) of KRS 45.255 identifies that moneys pertaining to the Team Kentucky Disaster Funds are appropriated for the purposes defined within KRS 45.255. Any future funds collected unrelated to the Team Kentucky Disaster funds will be tracked separately based on the purpose for which they were solicited and will be maintained in the fund until appropriated by the General Assembly.

The Team Kentucky Disaster Relief Funds were originally reported within fund 6300 which is recognized as an Other Expendable Trust Fund within the Commonwealth's accounting system. KRS 45.255 created the Kentucky contribution trust fund as a "trust and agency account" as reported within an Agency Revenue Fund. Per the Commonwealth's Annual Comprehensive Financial Report (ACFR) for fiscal year 2022, the Agency Revenue Fund "accounts for and reports specific taxes, fees, and charges that are restricted or committed to expenditures for a particular function or activity." Since solicited donations are not taxes, fees, or charges, further evaluation may be necessary in order to determine if this is the proper account to report these funds for financial statement purposes.

Concern - 5: The legislative request identified that over 200 checks were issued from disaster relief funds to persons who did not request the monies or who have later stated no objective need.

Two primary reasons explain why checks were received by individuals without request or need:

- An application process was not required for most assistance payments.
- Team Western Kentucky Tornado Relief Fund 2nd Assistance Payments had an unclear memo line on distributed checks creating confusion.

Most of the disaster funds distributed directly to individuals did not require an application, and as a result, recipients may not have been aware assistance funds were coming. For Tornado Relief Fund disbursements, 1st Assistance Payments and 2nd Assistance Payments were distributed based on Department of Insurance and FEMA verified data. Team Eastern Kentucky Flood Relief Fund \$500 Flood Assistance Payments were made based on FEMA verified data. Announcements were made to inform the public of assistance payments being made; however, it is likely not everyone was aware of all assistance payments. Additionally, PPC indicated letters accompanied distributed

checks informing recipients of why they were receiving an assistance payment. Auditors obtained template letters; however, it is impossible to validate if notification letters were included with each check as indicated.

PPC indicated there was confusion with the 2nd Assistance Payments of \$1,000. The memo line on the check indicated “Second Distribution”; however, for some individuals this was their first and only distribution. The 2nd distribution included additional FEMA eligible individuals who qualified under the “Other Needs Assistance” for categories other than home repair who did not qualify for the 1st Assistance Payment. As a result, some individuals were unsure if they should have received a 2nd Assistance Payment or questioned why they did not receive a 1st Assistance Payment.

Regarding reports of individuals receiving payments without an objective need, PPC developed a procedure to provide financial aid to impacted individuals in a timely manner based on verified data sources. For the Tornado Relief Fund, payments to refund insurance deductibles were made regardless of claim amount in the impacted disaster counties if the insurance claim was not rescinded or denied. As a result, some individuals with minimal damage and impacts could have received 1st and 2nd Assistance Payments comparable to those with a more substantial loss.

Additionally, other individuals who did not feel they had any objective need also received funds, due to PPC’s eligibility policies where the objective was to deliver funds to individuals in the impacted counties as quickly as possible based on verifiable data.

For the Tornado Relief Fund, 194 checks totaling \$200,000 were cancelled because the check was rejected by the recipient. Approximately 90% of these cancelled checks pertained to the 2nd Assistance Payment. An additional \$15,000 in payments were also later reimbursed by the recipient.

For the Flood Relief Fund, four checks totaling \$2,000 were canceled because the checks were rejected by the recipient.

Concern - 6: Why are there a significant number of outstanding checks?

While it is not possible to identify the cause for each outstanding check, possible explanations were identified during review which include:

- Potentially inaccurate or incomplete addresses from verified data sources were relied on to distribute checks.
- Since no application was required, some individuals were not expecting to receive a check resulting in potential confusion when a check was delivered.

Testing identified several checks were mailed to the FEMA-indicated Disaster Dwelling (DD) address which pertained to the location impacted by the disaster, instead of the Current Mailing Address (CMA). Checks should have been mailed to the current mailing address, as the disaster dwelling address was not where the person was receiving mail at that time. When asked, PPC indicated initially only the DD address was provided with FEMA documentation.

Additionally, insurance data included inaccurate mailing addresses for some eligible recipients. Zip codes are used by the U.S. Postal Service to route mail to the appropriate post office. The insurance database used by PPC for distributing payments contained errors in the zip codes. For example, Bowling Green, Kentucky has four zip codes, while the insurance database showed the city of Bowling Green with as many as 21 different zip codes.

Per the U.S. Postal Service, in cases where mail has a street/city/state of one place, but the zip code does not match, it is difficult to determine which post office is the actual office of destination. In this situation, mail is sent to the post office indicated by the zip code for possible delivery. If undeliverable, it is forwarded to the post office indicated by city and state.

As a result of inaccurate mailing information, checks could have been distributed to homes that were destroyed or no longer inhabited or to the incorrect post office delaying distribution.

Refer to Section 4 and the data analytics discussion in Section 5 for further information pertaining to the data utilized and checks being distributed to individuals outside the disaster area. While there is a reasonable expectation that individuals displaced by the disasters could relocate, errors in utilized reports did lead to inappropriate payments.

Check Status as of September 8, 2023

Outstanding checks are categorized in the following categories within the Commonwealth's accounting system:

- Disbursed - A check has been distributed; however, the check has not yet been cashed or funds have not transferred to the payee's bank account.
- Escheated - Check was uncashed during the 1-year negotiable period from the date of disbursement. Funds are maintained in the Escheated Fund and can be reissued within five years without legislative approval. After five years, these funds are still available to be reissued with legislative approval. Payments from the Commonwealth never become unclaimed property.

Tornado Relief Fund

As of September 8, 2023, 1,497 checks issued prior to June 30, 2023 were in either escheated or disbursed status in the Tornado Relief Fund totaling \$1,586,143. Just over 82% of these checks, totaling \$1,314,000, pertained to 2nd Assistance Payments. Most of the 2nd Assistance payments were issued on December 6, 2022.

Figure 1 - Tornado Relief Fund checks issued prior to June 30, 2023 that were uncashed as of September 8, 2023

Check Status	Amount	Check Count
Disbursed	1,428,202	1,367
Escheated	157,941	130
Total:	\$ 1,586,143	1,497

Source: Public Protection Cabinet and the Commonwealth's Accounting System (eMARS)

Flood Relief Fund

There were fewer outstanding checks pertaining to the Flood Relief Fund. As of September 8, 2023, 209 checks issued prior to June 30, 2023 were in disbursed status totaling \$104,500. Just over 96% of these checks, representing \$101,000 were issued in 2022. No checks were moved to escheated status for the Flood Relief Fund as of September 8, 2023 as all checks had been issued within one year.

PPC should explore if there is a mechanism to allow them to reclaim and reallocate funds for other disaster needs for checks that have been in escheated status for an extended period.

Section 4 - General Observations

Data Sets

PPC indicated their goal was to provide financial assistance to impacted Kentuckians as quickly and efficiently as possible. PPC relied heavily on FEMA and commercial insurance company data to assist in determining eligibility and payment amounts. The data utilized posed the following challenges:

- PPC received several reports and data sets which had to be evaluated to ensure payments were made only to eligible individuals. The sheer volume of information complicated the trail of supporting documentation.
- Reports received included inaccurate information. Kentucky Department of Insurance information obtained from insurance companies had instances where mailing addresses were incorrect or deductible amounts were omitted.
- Inconsistencies in data and formatting complicated the ability of PPC to identify errors or outliers.
- There is a potential for fraudulent information to be included in data sets obtained from FEMA which could enable ineligible individuals to receive assistance.
- Most reports received were of a specific point in time; however, the window to apply for FEMA assistance and file insurance claims could extend for several months following the disaster. As a result, the basis for assistance payments changed as new and updated information became available.

Due to the dynamic nature of the supporting documentation, oversight and diligence were required to prevent duplicate payments and ineligible recipients from receiving assistance. Additionally, program requirements were updated and evaluated based on new information as it became available. There was a greater risk of error with the Team Western Kentucky Tornado Relief Fund due to the complexities of the data and calculation of assistance payments. PPC applied lessons learned to the Team Eastern Kentucky Flood Relief Fund as calculations were not required to determine payouts and data requested to support eligibility was simplified.

Internal Controls

It was evident that PPC was aware of their responsibilities to implement adequate internal controls to ensure payments were only made to eligible individuals. PPC indicated they completed data analysis and analytical procedures to identify potential ineligible payments. This was supported by provided reports where PPC had indicated items requiring further follow-up or those which could be a possible duplicate payment. Supporting documentation was provided indicating the results of PPC's follow-up procedures on potential errors or inconsistencies in the obtained data.

While controls were implemented, seemingly minor details or the failure to analyze data fully could cause potential undetected errors to occur. Data analytics, even when automated, still require

some intervention to evaluate results and validate the accuracy of the information being utilized. For instance, an added space before or misspelling of a name could cause data analytics to fail to identify a potential duplicate payment. Additionally, FEMA data included individuals whose disaster dwelling residence was outside the counties eligible for Individual Assistance, and therefore needed to be removed as those individuals did not qualify for assistance. Individual Assistance benefits survivors directly to assist those who have uninsured or under-insured necessary expenses and serious needs. The assistance is meant to return a home to a safe, sanitary, and functional residence. Refer to the Tornado Relief Fund data analytics discussion beginning on page 28 for inappropriate payments not identified by PPC internal controls.

Section 5 - Team Western Kentucky Tornado Relief Fund

On the evening of Friday, December 10, 2021, a widespread severe weather event impacted Western Kentucky. Heavy rain, thunderstorms, strong straight-line winds, and violent long-track tornadoes caused catastrophic destruction to portions of the region, killing 81 Kentuckians.

A State of Emergency was declared per Executive Order 2021-923 in response to the disaster. On December 11, 2021, Executive Order 2021-925 was issued requiring PPC to establish and administer the Team Western Kentucky Tornado Relief Fund. Per Executive Order, the fund “shall consist of monies received from public or private sources to be used solely for the public purpose of protecting and safeguarding the public health, safety, and welfare, and protection of Kentuckians, by providing relief to Kentuckians impacted by the severe weather system.” PPC was required to establish standards regarding expenditures of the Team Western Kentucky Tornado Relief Fund, including establishing eligibility criteria and a process for adjudicating and paying requests for assistance from the fund.

Executive Order

As required per Executive Order 2021-925, the Secretary of PPC enacted 800 KAR 1:020E - Team Western Kentucky Tornado Relief Fund to establish the manner in which funds would be accepted and expended in accordance with the executive order. This administrative regulation established that PPC can accept money from any source, public or private, for deposit into the Team Western Kentucky Tornado Relief Fund.

Eligibility requirements and allowable activities for receiving a financial award included the following:

- Applicants should be recognized as Qualified Nonprofit Organizations who submitted a complete application which included the proper name of the organization, current status of the organization, the charitable purpose of the organization, the geographic area the organization intends to serve with awarded funds, and a description of the proposed project and how any financial award would be used to positively benefit those impacted by the severe weather;
- All funds received shall be used to serve Kentucky residents affected by the severe weather events of December 10 and 11, 2021, by assisting with the provision of food, clothing, shelter, utilities, medical expenses, household needs, or other necessities of life. Funds can also be used to provide long-term financial or other assistance and rebuilding to those impacted by the severe weather events of December 10 and 11, 2021;
- Direct payment for funeral expenses to individuals not to exceed \$10,000 for the purpose of assisting in the payment of those funeral expenses or other expenses associated with a person's death caused by the severe weather;

- Subject to the availability of funds, the Cabinet, in its sole discretion, may elect to allocate funds, including but not limited to excess funds, to Qualified Nonprofit Organizations located within the Commonwealth of Kentucky that provide for the health and welfare of Kentuckians or may directly distribute funds to Kentucky residents affected by the severe weather events of December 10 and 11, 2021; and
- No financial awards shall be expended on administrative purposes.

Emergency regulations are effective when filed with the Legislative Research Commission and subject to review by the Administrative Regulation Review Subcommittee. By law, emergency administrative regulations expire in a set timeframe depending on the situation surrounding the emergency declaration. Per executive Order 2022-205 dated April 14, 2022, executive orders pertaining to the Team Western Kentucky Tornado Relief Fund including 800 KAR 1:020E were extended per the request of impacted local jurisdictions in accordance with KRS 39A.090(2)(b) to January 15, 2023. Per Executive Order 2023-030 dated January 13, 2023, the emergency actions were again extended to July 15, 2023 in 10 impacted jurisdictions per the requests of local County Judge Executives.

Tornado Relief Fund Revenue

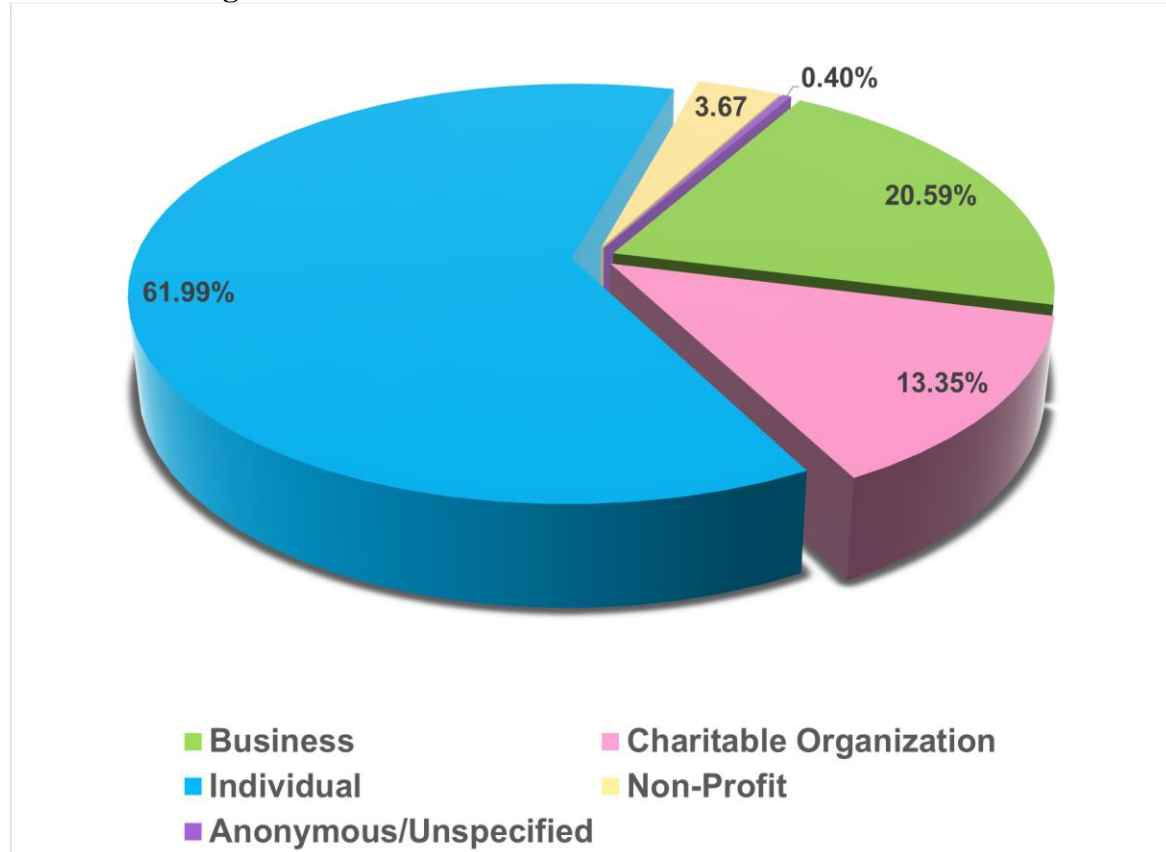
As of the fiscal year ended June 30, 2023, the Tornado Relief Fund collected \$52,381,984 from individuals and organizations throughout the world. Donations were collected through various mechanisms including PPC’s online donation portal, cash and checks received directly by PPC and Finance and Administration Cabinet (FAC), and wire transfers.

Figure 2 - Team Western Kentucky Tornado Relief Fund Donation Sources By Amount

Source	Amount
Individual	\$ 32,472,686
Business	10,787,461
Charitable Organization	6,995,027
Non-Profit	1,919,434
Anonymous	188,827
Not Specified	18,549
Grand Total	\$ 52,381,984

Source: Public Protection Cabinet and the Commonwealth’s Accounting System (eMARS)

Figure 3 - Team Western Kentucky Tornado Relief Fund Donations By Source - Percentage



Source: Public Protection Cabinet and the Commonwealth's Accounting System (eMARS)

Expenditures for the Tornado Relief Fund

Expenditures of the Tornado Relief Fund consisted of six primary categories including:

- Funeral Payments for Kentuckians who lost their lives as a result of the storms.
- Assistance payments to Insured and Uninsured/Underinsured (1st Assistance Payment).
- 2nd Assistance Payment of \$1,000 as additional support for those impacted by the storms.
- Grain Assistance to assist local farmers.
- Long Term Recovery Groups (LTRG) payments to those with additional unmet needs.
- Payments to nonprofit entities to assist with home reconstruction needs.

All payments were required to meet the Individual Traceability Requirement which refers to internal controls implemented by PPC to ensure each financial award or assistance could be traced through a verified data source to ensure funds were only paid to those individuals directly impacted by the severe storms in December 2021.

Additionally, except for funeral payments, assistance awards were only provided to Kentuckians in the FEMA Designated Individual Assistance Counties as listed in Figure 6.

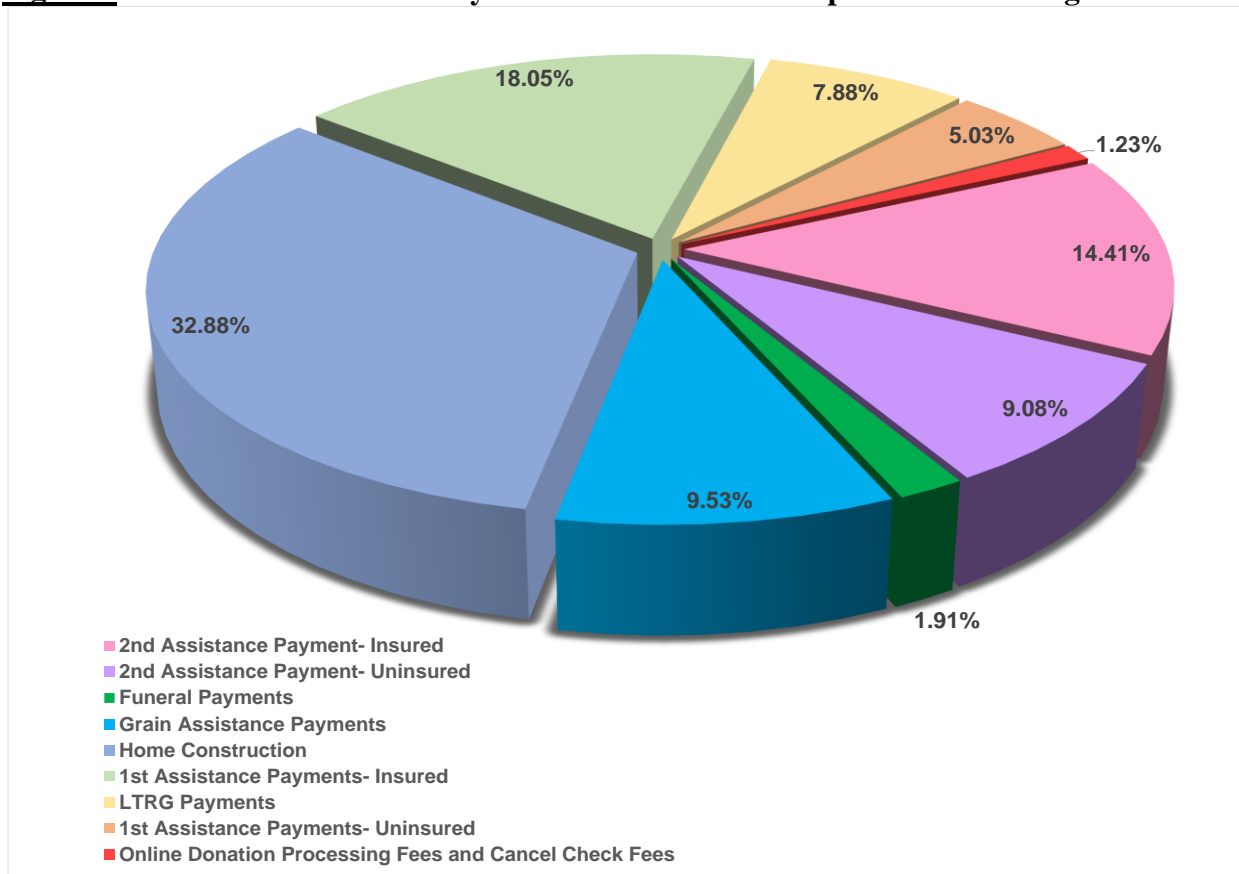
For the fiscal year ended June 30, 2023, the Tornado Relief Fund reported expenses totaling \$42,334,075.

Figure 4 - Team Western Kentucky Tornado Relief Fund Expenses By Amount

Expense Category	Amount
Non-Profit Home Construction	\$ 13,920,000
1st Assistance Payments- Insured	7,641,699
1st Assistance Payments- Uninsured	2,130,137
2nd Assistance Payment- Insured	6,099,000
2nd Assistance Payment- Uninsured	3,845,000
Grain Assistance Payments	4,032,479
Long Term Recovery Groups Payments	3,337,045
Funeral Payments	810,000
Online Donation Processing Fees	516,665
Check Cancellation Fee	2,050
	<u>\$ 42,334,075</u>

Source: Public Protection Cabinet and the Commonwealth's Accounting System (eMARS)

Figure 5 - Team Western Kentucky Tornado Relief Fund Expenses - Percentage



Source: Public Protection Cabinet and the Commonwealth's Accounting System (eMARS)

Figure 6 - FEMA Individual Assistance Counties eligible for the Tornado Relief Fund

Barren County	Logan County
Caldwell County	Lyon County
Christian County	Marion County
Fulton County	Marshall County
Graves County	Muhlenberg County
Hart County	Ohio County
Hickman County	Taylor County
Hopkins County	Warren County

Source: <https://www.fema.gov/disaster/4630/designated-areas>

Tornado Relief Fund Funeral Payments

Public Notification

In a press release and news conference on December 13, 2021, Governor Beshear announced the Tornado Relief Fund would provide funding to the family of each person that lost his or her life as a result of the storms.

Eligibility Requirements

Per 800 KAR 1:020E Team Western Kentucky Tornado Relief Fund, Section 9 Direct Payment for Funeral Expenses, “the person who is responsible, or would be responsible absent donations, for the payment of funeral expenses for an individual whose death was related to the severe weather events of December 10 and 11, 2021, may receive direct financial assistance from the Fund in an amount not to exceed \$10,000 for the purpose of assisting in the payment of those funeral expenses or other expenses associated with the person’s death.”

Application Requirements

An application was not required to receive funeral benefits.

Funding Amount/Determination

Through collaboration with the Funeral Directors Association of Kentucky, the average cost of a funeral was determined to be \$10,000. Funeral homes were requested to offer a service that would be fully paid with the provided funds.

Individual Traceability Requirement Evaluation Methodology

Information was corroborated with the assistance of Coroners, Medical Examiners, and the Kentucky Office of Vital Statistics. The Kentucky Office of Vital Statistics (OVS) acted as the liaison between PPC and victims’ families and was responsible for confirming deaths were the result of the severe weather events on December 10 and 11, 2021. Additionally, in most instances, checks were made payable to the responsible party for the funeral and delivered to funeral homes to ensure payments were utilized for funeral services. The storms claimed the lives of 81 Kentuckians, with \$810,000 expensed from the fund for funeral assistance.

Testing Approach

Of the 81 funeral disbursements, 14 transactions (17.28% of the population) were selected to ensure payments were supported and paid in accordance with 800 KAR 001:020E. Auditors reviewed information maintained by PPC confirming all funeral payments were appropriate. Additionally, auditors confirmed this information with OVS.

Results of Testing

No exceptions were noted. The Funeral Assistance benefits had established guidelines and internal controls were designed effectively to ensure benefits were only made to the eligible families for individuals who tragically lost their lives during the severe storms of December 10 and 11, 2021.

Tornado Relief Fund Payments to Insured and Uninsured/Underinsured (1st Assistance Payment)

1st Assistance Payments were PPC's means to provide financial assistance to impacted individuals quickly without administration costs. Payments included covering home insurance deductibles for impacted individuals or providing additional assistance to those uninsured or underinsured who also received assistance from FEMA, as FEMA has payout limits and is not intended to make an individual whole.

Public Notification

Insured

Per a press release from the Governor's Office dated March 3, 2022, the Commonwealth announced Kentuckians with tornado related insurance claims would receive reimbursement of their deductible up to a maximum of \$2,500.

Uninsured/Underinsured

Per a press release from the Governor's Office dated January 20, 2022, Governor Beshear announced that the Tornado Relief Fund would be providing 20% additional assistance on top of what FEMA awarded in individual assistance for uninsured homeowners and renters impacted by the storms.

Eligibility Requirements

Eligible individuals were those with a residence impacted by the storms in the FEMA Individual Assistance designated counties (see Figure 6). All recipients were to have either filed an insurance claim or received FEMA assistance in the home repair category because of the severe weather on December 10 and 11, 2021.

The home repair category includes repair or replacement of owner-occupied homes that serve as the household's primary residence. Repairs are intended to make the home safe to live in and may not restore the home to its pre-disaster state. Hazard mitigation measures may help eligible homeowners repair or rebuild.

Application Requirements

No application was required. Per 800 KAR 1:020E Section 10, subject to the availability of funds, PPC, in its sole discretion, may directly distribute funds to Kentucky residents affected by the severe weather events of December 10 and 11, 2021.

Funding Amount/Determination

PPC determined the amount to provide for direct assistance payments. Amounts provided to insured individuals included payments for deductibles up to a maximum of \$2,500. Uninsured and Underinsured individuals received 20% of the amount FEMA provided in the home replacement/repair categories, with a minimum payment of \$500.

Individual Traceability Requirement Evaluation Methodology

Insured

The Kentucky Department of Insurance (DOI) ran a market share report for PPC who selected the top 25 insurance companies doing business in the Commonwealth to send a data request to identify insured individuals with paid and partially paid insurance claims related to the severe weather events on December 10 and 11, 2021. According to PPC, the top 25 insurance companies constitute approximately 90% of the market share in Kentucky, therefore, the vast majority of impacted individuals were captured with the data call. Other individuals were identified through local officials and other ongoing programs such as LTRGs. PPC inquired with additional insurance companies as additional survivors were identified. PPC analyzed the data and reimbursed deductibles, within established limits, for individuals with storm-related claims within the FEMA Individual Assistance designated counties. Checks were sent to the mailing address of the insured on file per DOI's data report.

Uninsured/Underinsured

For payments for uninsured and underinsured individuals, PPC coordinated with FEMA to acquire a listing of all individuals receiving FEMA assistance for disaster DR-4630-KY which pertained to the Western Kentucky tornado event. Individuals were only paid when FEMA assistance related to the Individual Household Program awards and Other Needs Assistance awards in the home replacement/repair categories.

Testing Approach

Insured

PPC processed 6,386 transactions (including reissued and cancelled checks when applicable) to reimburse deductibles for those impacted by the tornados in the amount of \$7,641,699. Thirty (30) transactions (.47% of the population) were selected to ensure recipients were supported by DOI records as having tornado related insurance claims, payment amounts agreed to claim deductibles in an amount not to exceed \$2,500, and that the insured residence was within one of the FEMA designated Individual Assistance counties.

Uninsured and Underinsured

PPC processed 1,403 transactions (including reissued and cancelled checks when applicable) to qualified individuals receiving FEMA assistance in the home repair category in the amount of \$2,130,137. Thirty (30) transactions (2.14% of the population) were selected to ensure payments were made to individuals verified as eligible per FEMA records, amounts were properly calculated at 20% of FEMA assistance with a minimum of \$500, and that the impacted individual resided in one of the FEMA designated Individual Assistance counties.

Results of Testing

Insured Results

No exceptions were noted. All payments were supported by Department of Insurance records or other maintained supporting documentation to verify individuals met eligibility requirements. During testing, auditors identified several individuals who were not identified during the initial data call. In all instances, PPC acquired appropriate documentation confirming the individual was eligible for assistance payments and all amounts were supported without exception.

Review of the data call documentation did indicate there was originally an error on the data call request where information requested included some counties which were not eligible for Individual Assistance and omitted some counties which were eligible. PPC indicated they were aware that the data call was for a point in time, so additional procedures were necessary regardless to ensure ineligible claims were not paid while validating additional requests as they were communicated. No exceptions were identified due to this error.

Uninsured and Underinsured Results

In one instance, an individual was overpaid by \$50. In this scenario, the individual received three separate uninsured/underinsured payments. Individuals are allowed to appeal FEMA determinations so initial payments may be adjusted. Since PPC paid a minimum of \$500, any adjustments would need to be monitored to ensure the total payment equaled 20% of the total FEMA payments with a minimum of \$500. In this instance the overpayment was not detected. Expanded testing identified three additional individuals who received multiple payments within the First Assistance Payments – Uninsured and Underinsured category. All 3 individuals were tested without exception indicating the initial exception was an isolated error.

Tornado Relief Fund 2nd Assistance Payment

Public Notification

At the one-year anniversary of the deadly tornado outbreak, the Governor announced via social media that an additional \$1,000 would be provided to insured homeowners and those receiving FEMA assistance to assist with further unmet needs. Additionally, per PPC, the program was announced locally at anniversary events in the region on December 10, 2022.

Eligibility Requirements

All individuals who received a 1st Assistance Payment were automatically eligible to receive a 2nd Assistance payment. This included individuals confirmed eligible based on DOI and FEMA data. Additionally, PPC elected to include individuals from the FEMA verified assistance listing, who had requested Other Needs Assistance in a category that wasn't covered under home repair or other related needs and therefore did not qualify for the 1st assistance payment.

Application Requirements

No application was required. Per 800 KAR 1:020E Section 10, subject to the availability of funds, PPC, in its sole discretion, may directly distribute funds to Kentucky residents affected by the severe weather events of December 10 and 11, 2021.

Funding Amount/Determination

Public outreach indicated individuals still had unmet needs because of the storms, and based on the availability of donation funds, PPC elected to provide additional supplemental payments in the amount of \$1,000 to eligible individuals.

Individual Traceability Requirement Evaluation Methodology

All payments were provided to eligible individuals as supported by records from the 1st Assistance payments or to individuals verified by FEMA to be eligible to receive assistance.

Testing Approach

2nd Assistance Payments - Insured

PPC records indicated 6,099 insured individuals received 2nd Assistance payments totaling \$6,099,000. Thirty (30) transactions (.49% of the population) were tested to ensure the individual was eligible to receive a second payment and had previously received an Insured Payment as deemed eligible based on Department of Insurance records or other supporting documentation maintained by PPC.

2nd Assistance Payments - Uninsured/underinsured or Other Needs Assistance

PPC records indicated 3,845 individuals who were identified as uninsured, underinsured, or those receiving Other Needs Assistance received 2nd Assistance payments totaling \$3,845,000. Twenty-five (25) transactions (.65% of the population) were tested to ensure the individual was eligible to receive a second payment and had previously received a 1st Assistance payment or was included on FEMA provided documentation confirming they had received Other Needs Assistance from FEMA.

Results of Testing

2nd Assistance Payment - Insured

No exceptions were noted as a result of testing. All tested payments were verified to have been provided to individuals who received a first insurance payment and were supported by Department of Insurance or other supporting documentation as maintained by PPC.

2nd Assistance Payment - Uninsured/Underinsured, or those Receiving Other Needs Assistance

Two transactions (8% of the sample selected) were identified to have been disbursed to individuals who did not reside in the FEMA Individual Assistance counties and were therefore ineligible to receive payments in accordance with PPC's policy. The individual's disaster dwelling was identified in FEMA documentation as McCracken and Laurel County, which were counties not eligible for individual assistance. As a result, of the sample group, \$2,000 was provided to ineligible individuals who should not have received a 2nd Assistance Payment.

Refer to the Tornado Relief Fund Data Analytic Section of this report on page 28 for the results of additional audit procedures performed due to the exceptions noted above.

Grain Assistance Program

Public Notification

In a press release dated June 23, 2022, Governor Beshear announced the Team Western Kentucky Tornado Relief Fund would provide up to \$3.25 million to help farmers in Western Kentucky continue to grow and process grains after the Mayfield Grain Company grain elevator was critically damaged by December's deadly tornados. The Grain Assistance Program was established to provide a one-time assistance payment to local eligible farmers for their additional transportation costs incurred due to the loss of the Mayfield Grain Company grain elevator. The application portal closed at 4:00 PM EDT on August 15, 2022.

Eligibility Requirements

Kentucky farmers who delivered grain to the Mayfield Grain Company in 2021 and remained in business in 2022 were eligible to participate in the program. Only the farmers/producers of the crops were eligible for assistance, therefore landlords who did not directly incur additional transportation costs were not eligible.

Application Requirements

Farmers were required to complete an online application to request and support their one-time assistance payment. An online portal was developed by PPC which allowed farmers to upload their contact information and all required supporting documentation necessary to substantiate the request for assistance.

Funding Amount/Determination

Through discussions with the owners of the Mayfield Grain Company, PPC decided to provide assistance in the amount of \$0.50 per bushel to eligible farmers, based on a typical farmer's 2021 net bushel delivery amounts to the Mayfield Grain Company.

Individual Traceability Requirement

At the time of application, farmers were required to upload a copy of their State ID to verify they were a Kentucky resident and a 2021 delivery sheet or ticket summary issued by the Mayfield Grain Company to support they were impacted by the damage caused to the Mayfield Grain Company. Additionally, farmers were required to upload 2022 crop delivery documentation by December 31, 2022. Delivery sheets or ticket summaries supporting calendar year 2022 deliveries were utilized to ensure the applicant remained in operation in 2022 and that the farming operations for 2022 were comparable to 2021.

Testing Approach

The Grain Assistance Program provided payments to 165 Kentucky farmers totaling \$4,032,479. Of the 165 Kentucky farmers receiving assistance, 17 (10.30% of the population) were selected to ensure payments were supported and paid in accordance with the Grain Assistance Program Guidelines.

Results of Testing

The Grain Assistance Program had established program guidelines and internal controls were designed effectively to ensure payments were only made to eligible Kentucky farmers. However, two exceptions were noted including:

- Documentation submitted by one farmer for 2022 crop deliveries as required by PPC to verify the farmer remained in operation in 2022 and that farming operations for 2022 were comparable to 2021 was not sufficiently detailed to determine the deliveries occurred in 2022;
- One farmer was incorrectly reimbursed based on the gross bushel deliveries in 2021 instead of the net bushel deliveries. The farmer was overpaid by \$4,238 based on supporting documentation. PPC internal tracking documentation identified that internal controls worked as the reviewer identified the calculation error; however, the application was not corrected as indicated prior to sending the payment.

Long Term Recovery Group Payments

FEMA's Voluntary Agency Liaisons worked with communities to establish LTRGs. An LTRG is a cooperative body that is made up of representatives from faith-based, nonprofit, government, business, and other organizations working within a community to assist individuals and families as they recover from disasters. These groups work to assess the needs of the survivors in their

communities then seek and vet resources to fulfill a survivor's unmet disaster needs. Per FEMA documentation, LTRGs are an integral part of the mission to provide support and guidance to communities recovering from disasters. The goal of LTRGs is to unite recovery resources with community unmet needs to ensure that even the most vulnerable in the community can recover. Note: Local LTRG processes and procedures were not within the scope of this examination.

Public Notification

On July 6, 2022, PPC communicated with LTRGs regarding available assistance. Additionally, the Team Western Kentucky Tornado Relief Fund website identifies the 11 LTRGs in Caldwell, Christian, Fulton, Graves, Hickman, Hopkins, Marshall, Muhlenberg, Ohio, Taylor, and Warren Counties as well as the LTRG contact and email addresses. The LTRGs were responsible for communicating with their service areas and completing case management. Per PPC, LTRGs were also responsible for communicating their case management processes and availability of funds in their respective service area.

It should be noted that Ohio and Warren County LTRGs did not utilize any of the originally allocated funds.

Eligibility Requirements

LTRGs

In accordance with 800 KAR 1:020E, Qualified Nonprofit Organizations, defined as a non-profit organization, entity, or institution including but not limited to tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or 501(c)(4), are eligible to receive a financial award from the Team Western Kentucky Tornado Relief Fund

Individual Assistance

In accordance with 800 KAR 1:020E, Section 4(3), all funds received shall be used to serve Kentucky residents affected by the severe weather events of December 10 and 11, 2021, by assisting with the provision of food, clothing, shelter, utilities, medical expenses, household needs, or other necessities of life. Funds can also be used to provide long-term financial or other assistance and rebuilding to those impacted by the severe weather events of December 10 and 11, 2021.

Application Requirements

PPC requested LTRGs submit a proposal by June 3, 2022, indicating:

- The legal structure of the long-term recovery group (for example, if the group is a 501(c)(3) entity or some other structure);
- If the long-term recovery group is not a legal entity, the identity of the entity that would be responsible for contracting with the Commonwealth for the proposed transfer of funds;

- An estimate of the total impacted families within the community with unmet needs;
- A description of other funding sources and donations available to the LTRG;
- A description of the process used by the LTRG for evaluating individual applications for funding including verifying that the applicant was impacted by the storms on December 10 and 11, 2021;
- The total amount being requested;
- A listing of the categories of unmet needs for which the LTRG is seeking funding from the Tornado Relief Fund (for example, home repair, furniture replacement, repairing/replacing vehicles, etc.); and
- A description of the proposed process to distribute funding directly to impacted individuals should an award be made.

Individual Application Requirements

A dual application process was utilized requiring an independent approval by the LTRG and PPC to validate an individual's need and eligibility for assistance.

The Team Western Kentucky Tornado Relief Fund Long Term Recovery Group Pre-Funding application required individuals to validate their county of residence on December 10, 2021 and their current county of residence at the time of preparing the application to ensure they were remaining in the impacted area; identify the applicant's impact from the severe weather event as of December 10 and 11, 2021; identify the unmet needs for which funding was sought, a description of the applicant's efforts to meet any unmet needs through personal means, insurance, and other existing programs; and identify the maximum amount to be requested from the Tornado Relief Fund. The individual requesting funds was anonymous on the initial application provided to PPC.

Once the Pre-Funding application was approved by PPC, the Team Western Kentucky Tornado Relief Fund Long Term Recovery Group Payment Processing application was provided by the LTRG to PPC. This application provided the applicant's identity, reconfirmed the details of the project and unmet needs, and provided a vendor, when applicable, to be utilized for the project.

Funding Amount/Determination

LTRG applications/proposals identified an estimate of the number of individuals impacted by the severe storms in their respective disaster county. PPC allocated funding to the LTRGs based on the estimated number of impacted individuals per submitted proposals. Since the LTRG proposals were an estimate, PPC limited any single individual award to a maximum of \$3,500.

Individual Traceability Requirement Evaluation Methodology

Each LTRG was required to perform case management of received applications validating that the applicant was eligible for funding in accordance with 800 KAR 1:020E and established program guidelines.

The Team Western Kentucky Tornado Relief Fund Long Term Recovery Group Pre-Funding applications were signed and certified by the LTRG attesting that the applicant met the eligibility requirements and the information within the application was complete and fairly stated.

The Team Western Kentucky Tornado Relief Fund Long Term Recovery Group Payment Processing applications were signed and certified by the LTRG indicating the LTRG undertook reasonable efforts to exhaust funds available from other sources and the payment of the award did not duplicate benefits already received.

PPC completed a high-level review validating that applications were complete and that nothing contradicted the necessity of the request. Additionally, PPC tracked applications ensuring certifications were completed prior to payment.

Testing Approach

PPC processed 1,393 transactions (including the corresponding cancelled checks) to eligible applicants totaling \$3,337,045 as administered by LTRGs. Of the 1,393 transactions, 25 (1.79% of the population) were selected by the APA for testing to ensure each individual was verified eligible based on supporting documentation. While each LTRG was responsible for conducting case management, PPC still reviewed and approved applications based on submitted documentation.

Additionally, auditors reviewed monitoring documentation maintained by PPC to track LTRG activity. This included LTRG applications and documentation supporting the allocation of funds to each LTRG.

Results of Testing

No exceptions were noted. PPC reviewed and approved LTRG applications and certifications provided were appropriately documented. Additionally, documentation provided supports PPC monitored LTRG activity and calculated the allocation of funds appropriately based on submitted proposals.

Payments to Non-Profits to Assist with Home Reconstruction

Due to the number of houses destroyed, and landlords choosing not to rebuild in the impacted areas, new housing construction became the greatest need according to PPC. PPC was approached by nonprofits in the area to assist with home building and reconstruction.

Public Notification

There was not a primary announcement, however, per the Team Western Kentucky Tornado Relief Fund website, \$21.6 million has been pledged to build and repair 300 homes with the help of Homes and Hope for Kentucky, Habitat for Humanity, the Fuller Center for Housing, the Fuller Center Disaster ReBuilders, and The Hope Initiative. PPC indicated The Office of the Governor

provided continual updates through announcements and press releases pertaining to home dedications and housing partnerships entered into with nonprofit entities.

Eligibility Requirements

In accordance with 800 KAR 1:020, each entity receiving funds was a Qualified Nonprofit Organization and therefore eligible to receive funding from the Team Western Kentucky Tornado Relief Funds. Each organization PPC contracted with was qualified as a 501(c)(3) non-profit entity per the Internal Revenue Service records. Any home construction/rebuilding was required to be in an identified FEMA impacted county including Caldwell County, Christian County, Fulton County, Graves County, Hart County, Hickman County, Hopkins County, Logan County, Marshall County, Muhlenberg County, Ohio County, Taylor County, and Warren County.

Application Requirements

Nonprofit entities were required to perform case management to ensure only qualified applicants received a financial award in accordance with the individual traceability requirements below. Contract language specified that no payment should be made on behalf of any individual unless both the nonprofit and PPC determined the individual to be a qualified applicant.

Funding Amount/Determination

PPC and each nonprofit entity discussed the total quantity of homes that each entity could construct based on donated labor and supplies already available in addition to any funding to be provided by the Tornado Relief Fund. Originally, PPC planned to supplement \$40,000 per home construction; however, this was increased to \$100,000 due to increased costs. The Habitat for Humanity contract additionally allowed for funds to be utilized for repairing damaged homes in an amount not to exceed \$50,000. These contracts were approved by the Government Contract Review Committee of the Legislative Research Commission.

Individual Traceability Requirement Evaluation Methodology

Nonprofits were required to verify the following criteria to ensure the individual receiving assistance was a qualified applicant:

- a. Whether the individual was impacted by the storm;
- b. Whether the individual resided in one of the FEMA Counties on the date of the storm;
- c. Whether the home being built or repaired was in one of the FEMA Counties.

The nonprofits were also required to submit to PPC sufficient evidence to verify the qualified applicant criteria was met. PPC would then notify the nonprofit of its determination of the applicant's eligibility.

Testing Approach

PPC processed 17 transactions to qualified non-profit entities totaling \$13,920,000. Auditors reviewed five payments (29.41% of the population) to ensure activity was supported and to verify if PPC was monitoring the non-profits' compliance with established contract terms. The sample tested accounted for 87.64% of the amount disbursed. Original contracts required PPC to provide funding upon home completion. To streamline the process, PPC decided to advance the funds to the nonprofits.

Results of Testing

No exceptions were noted. PPC was properly monitoring the non-profit entities ensuring compliance with contract provisions and eligibility requirements established. Payments to the nonprofit entities for home repair and reconstruction do not report total costs incurred as funds were advanced to nonprofits in most instances. PPC is tracking progress of each nonprofit entity and any funds not utilized can be recaptured by the Commonwealth if nonprofits are unable to complete the anticipated number of homes originally planned.

Tornado Relief Fund Data Analytics

Audit testing relies on sampling techniques to obtain coverage of account balances to substantiate the completeness and accuracy of reported information. When designed appropriately, sampling provides sufficient evidence necessary to form a conclusion for the results of testing.

During the examination, auditors utilized data analytics to further evaluate 100% of the accounting activity pertaining to the Team Western Kentucky Tornado Relief Fund. Utilizing data analytic software in conjunction with auditor evaluation and analysis, potential duplicate, invalid, and outlier payments were identified for further investigation.

Results

Data analytics flagged 307 total transactions for further investigation. Potential errors included possible duplicate payments and other outliers based on a combination of data from FEMA, the Department of Insurance, and transactions within the Commonwealth's accounting system. Further inquiry and analysis included the following:

- Data analytics identified 97 of the 307 flagged transactions pertained to individuals who potentially received multiple 2nd Assistance payments. PPC confirmed 38 of these payments, totaling \$43,500, were in fact duplicate payments that should not have been paid.

The remaining 59 transactions were explained as follows and were not considered exceptions:

- PPC indicated that some individuals were eligible for two 2nd Assistance Payments if they received a payment from both the insured homeowners and renters' program

and the uninsured homeowners and renters' program. PPC identified this explanation related to individuals that received two 2nd Assistance Payments as might occur for a single piece of property having both insured and uninsured losses to different property components.

- Information from FEMA and the Department of Insurance did not include a social security number or other personal identifier that could be tied to a single individual. As such, PPC identified they had to make some assumptions based on the data to conclude if a payment was allowable. For instance, multiple claims under the same name but different mailing addresses were assumed to be different people, and so each would have received a payment.
- Data analytics flagged an additional 24 of the 307 transactions due to other issues. PPC confirmed that 11 additional analytic outliers were also incorrectly paid totaling \$17,497. This included situations where individuals incorrectly received multiple 1st Assistance Payments or multiple 2nd Assistance Payments in error.
- Data analytics identified two out of the 307 transactions were payments to businesses, totaling \$4,500, which were not eligible recipients per PPC guidelines.
- Data analytics identified 184 out of 307 flagged transactions where payments were made to individuals with a disaster dwelling in a county outside of the Individual Assistance Counties eligible for Tornado Relief Fund Assistance as indicated in Figure 6. PPC was able to explain the allowability for 14 of the questioned transactions, as FEMA data listed an incorrect disaster county. The remaining 170 were ineligible and should not have been paid a 2nd Assistance Payment. These ineligible payments totaled \$170,000. PPC indicated they utilized the FEMA data as provided and did not complete any further evaluation under the assumption that all listed individuals were eligible.

PPC should consider the feasibility of recovering inappropriate payments.

Section 6 - Team Eastern Kentucky Flood Relief Fund

Between July 26, 2022 and July 30, 2022, thunderstorms developed bringing heavy rain, deadly flash flooding, and devastating river flooding to eastern Kentucky. The flooding killed 44 Kentuckians and resulted in catastrophic damage to impacted areas.

A State of Emergency was declared per Executive Order 2022-457 in response to the disaster. On July 28, 2022, the governor directed PPC to establish the Team Eastern Kentucky Flood Relief Fund to assist with recovery efforts related to the severe weather. The purpose of the fund was to aid recovery efforts by directly assisting individuals who were impacted by the devastating storms and flooding. As established under KRS 11.065(2) and KRS 12.270(2), PPC believed they could accept monies from any public or private source.

PPC established program guidelines for activity within the Flood Relief Fund that detailed the parameters under which monies donated to the Fund may be expended, the eligibility criteria for receipt of monies from the Fund, and the process for receiving, adjudicating, and paying requests for assistance from the Fund.

Eligibility requirements and allowable activities for receiving money as outlined in PPC's program guidelines included the following:

- “Under KRS 11.065(2) and KRS 12.270(2), the Cabinet shall expend monies from the Fund in order to assist and indemnify those persons, organizations, or entities that will assist Kentucky in response and rebuilding following the severe weather system that began on July 26, 2022 and may further provide awards directly to individuals detrimentally impacted by the above-referenced severe weather system...”
- “Payments shall be limited to citizens of the Commonwealth of Kentucky who reside in counties that are listed or are later added to the FEMA Disaster Declaration DR-4663-KY and where FEMA Individual Assistance is available, and/or Qualified Nonprofit Organizations (a nonprofit organization, entity, or institution, including but not limited to tax exempt organizations under Internal Revenue Code Section 501(c)(3) or 501(c)(4) and religious organizations) with a physical presence within the Commonwealth of Kentucky.”
- “A Qualified Nonprofit Organization shall be eligible to receive a financial award from the Fund if it agrees to use all awarded funds to serve Kentucky residents affected by the severe weather system that began on July 26, 2022, by assisting with the provision of food, clothing, shelter, utilities, medical expenses, household needs, or other necessities of life. Funds can also be used to provide long-term financial or other assistance and rebuilding to those impacted by the severe weather system that began on July 26, 2022.”
- PPC “may make distributions from the Fund directly to Kentucky citizens who were detrimentally impacted by the severe weather system that began on July 26, 2022, and who reside in counties that are listed or are later added to the FEMA Disaster Declaration DR-4663-KY and where FEMA Individual Assistance is available.”

- Direct payment for funeral expenses to individuals not to exceed \$10,000 for the purpose of assisting in the payment of those funeral expenses or other expenses associated with a person's death caused by the severe weather;
- No financial awards shall be expended for administrative purposes.

Flood Relief Fund Revenue

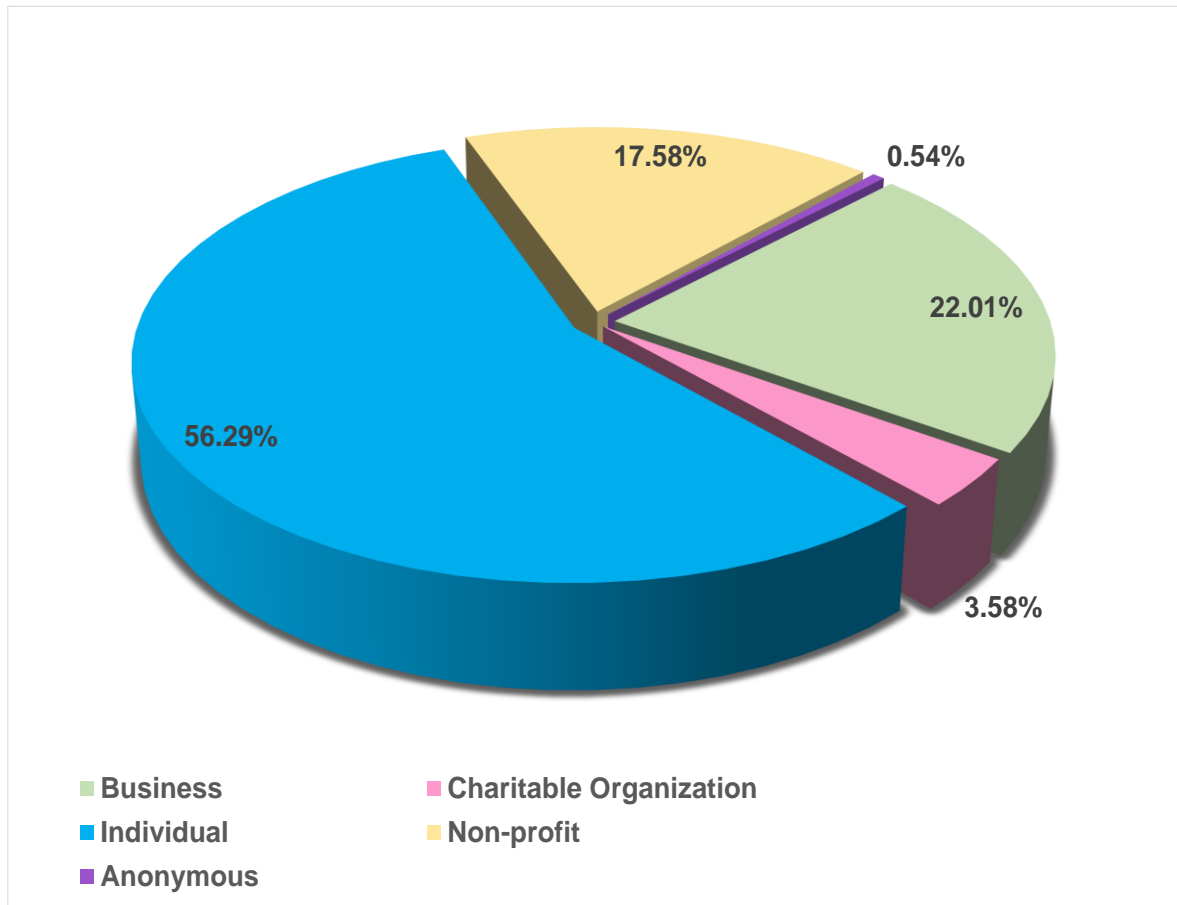
For the year ended June 30, 2023, the Flood Relief Fund collected \$13,375,185 from individuals and organizations throughout the world. Donations were collected through various mechanisms including PPC’s online donation portal, cash and checks received directly by PPC and the Finance and Administration Cabinet, and wire transfers.

Figure 7- Team Eastern Kentucky Flood Relief Fund Donations By Amount

Entity Type	Amount
Business	\$ 2,943,566
Charitable Organization	478,620
Individual	7,529,071
Non-profit	2,351,734
Anonymous	72,194
	<u>\$ 13,375,185</u>

Source: Public Protection Cabinet and the Commonwealth’s Accounting System (eMARS)

Figure 8 - Team Eastern Kentucky Flood Relief Fund Donations By Source - Percentage



Source: Public Protection Cabinet and the Commonwealth’s Accounting System (eMARS).

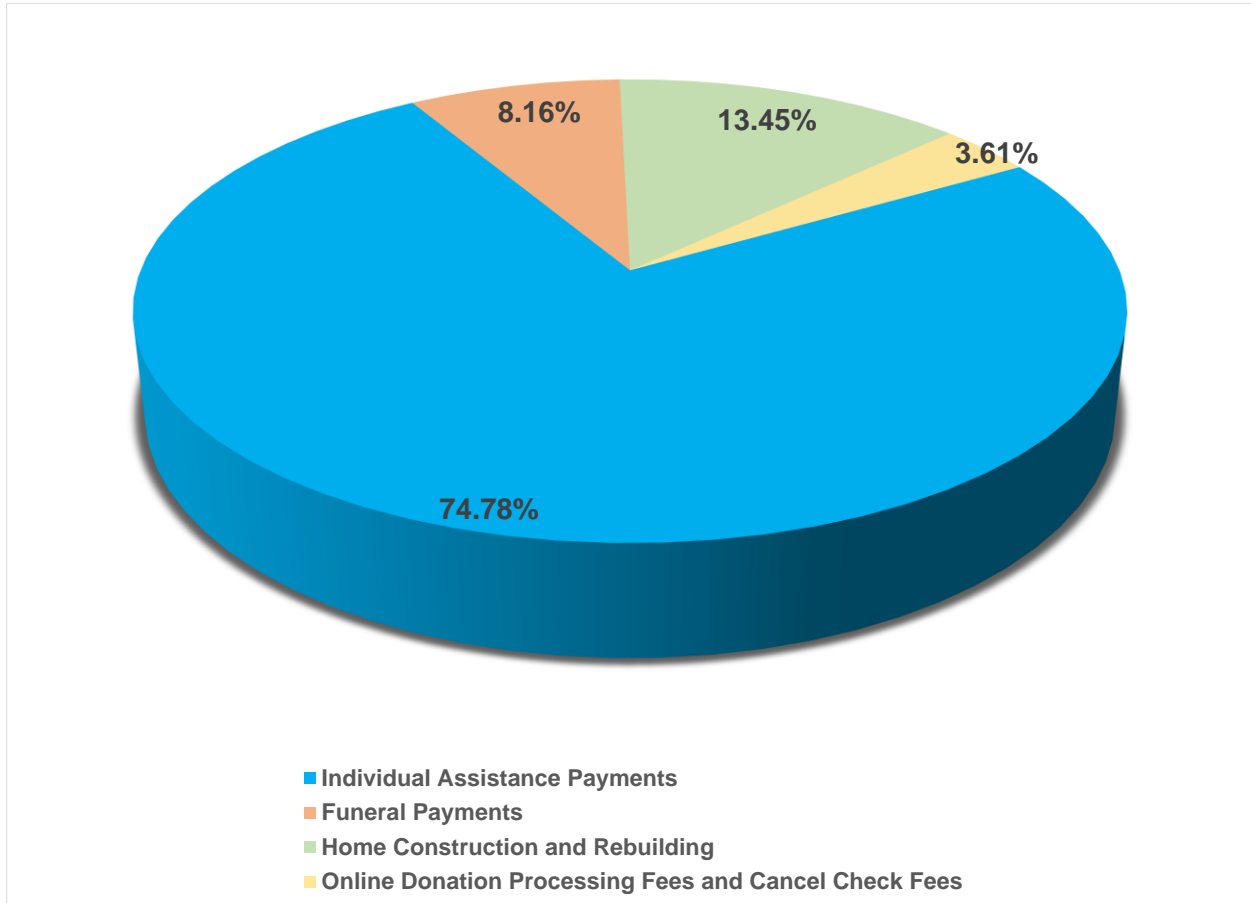
For the fiscal year ended June 30, 2023, the Flood Relief Fund reported expenses totaling \$5,390,286.

Figure 9 - Team Eastern Kentucky Flood Relief Fund Expenses By Amount

Description	Amount
Individual Assistance Payments	\$ 4,030,500
Non-Profits- Home Construction	725,000
Funeral Payments	440,000
Online Donation Processing Fee	194,751
Check Cancellation Fee	35
	<u>\$ 5,390,286</u>

Source: Public Protection Cabinet and the Commonwealth’s Accounting System (eMARS)

Figure 10 - Team Eastern Kentucky Flood Relief Fund Expenses - Percentage



Source: Public Protection Cabinet and the Commonwealth's Accounting System (eMARS)

Expenditure Breakdown

Expenditures of the Flood Relief Fund consisted of three primary categories including:

- Funeral payments for those who died because of the flooding.
- Individual assistance payments.
- Housing assistance - payments to nonprofits to assist with home reconstruction.

All payments were required to meet the Individual Traceable Requirement to ensure payments were only contributed to those directly impacted by the July 2022 flooding. The Individual Traceability Requirement refers to PPC implementing controls to ensure each payment could be traced through a verified data source to ensure funds were only paid to those individuals impacted by the severe flooding in Eastern Kentucky.

Additionally, except for funeral payments, assistance awards were only provided to Kentuckians in the FEMA Designated Individual Assistance Counties.

Figure 11 - Counties Eligible To Receive Individual Flood Assistance

Breathitt County	Magoffin County
Clay County	Martin County
Floyd County	Owsley County
Knott County	Perry County
Lee County	Pike County
Leslie County	Whitley County
Letcher County	

Source: <https://www.fema.gov/disaster/4663/designated-areas#individual-assistance>

Flood Relief Fund Funeral Payments

Public Notification

In a press release and news conference on July 30, 2022, Governor Beshear announced that the contributions to the Flood Relief Fund would pay for the funerals of individuals whose deaths were a result of the flooding.

Eligibility Requirements

Per the Flood Relief Fund Program Guidelines, “the person who is responsible, or would be responsible absent donations, for the payment of funeral expenses for an individual whose death was related to the severe weather system that began on July 26, 2022, may receive direct financial assistance from the Fund in an amount not to exceed \$10,000 for the purpose of assisting in the payment of those funeral expenses or other expenses associated with the person’s death.”

Application Requirements

An application was not required to receive funeral benefits.

Funding Amount/Determination

The same criteria and amounts as utilized for the Tornado victims were used for the identified Flood victims. Through collaboration with the Funeral Directors Association of Kentucky, the average cost of a funeral was determined to be \$10,000. Funeral homes were requested to offer a service that would be fully paid with the provided funds.

Individual Traceability Requirement Evaluation Methodology

Information was corroborated with the assistance of Coroners, Medical Examiners, and the Kentucky Office of Vital Statistics (OVS). OVS acted as the liaison between PPC and victims' families and was responsible for confirming deaths were the result of the severe flooding in Eastern Kentucky from July 26 through July 30, 2022. Additionally, in most instances, checks were made payable to the responsible party for the funeral and delivered to funeral homes to ensure payments were utilized for funeral services. The flooding claimed the lives of 44 Kentuckians, with \$440,000 expensed from the fund. There is one Kentuckian still classified as missing.

Testing Approach

Of the 44 funeral disbursements, five transactions (11.36% of the population) were selected to ensure payments were supported and paid in accordance with the Flood Relief Fund Program Guidelines. Auditors reviewed information maintained by PPC confirming all funeral payments were appropriate. Additionally, auditors confirmed this information with OVS.

Results of Testing

The Funeral Assistance payments had established guidelines and internal controls were designed effectively to ensure payments were only made to the eligible families for individuals who tragically lost their lives during the severe flooding beginning July 26, 2022.

Individual Assistance Payments (Flood Assistance Payments)

Public Notification

In a press release dated August 25, 2022, the Governor announced financial assistance in the amount of \$500 would be provided to uninsured homeowners and renters who received assistance from FEMA.

Eligibility Requirements

In accordance with the Flood Relief Fund Program Guidelines, PPC may “make distributions from the Fund directly to Kentucky citizens who were detrimentally impacted by the severe weather system that began on July 26, 2022, and who reside in counties that are listed or are later added to the FEMA Disaster Declaration DR-4663-KY and where FEMA Individual Assistance is available.” Refer to Figure 11 for the listing of eligible counties.

Application Requirements

No Application was required.

Funding Amount/Determination

PPC elected to provide supplemental payments in the amount of \$500 to eligible individuals. This amount was determined based on available donations and the estimation of the number of impacted Kentuckians.

Individual Traceability Requirement Evaluation Methodology

Any individuals who were deemed eligible and received assistance from FEMA were provided \$500 supplemental payments to provide further aid and support. All individuals were verified via data obtained from FEMA to ensure funds were only distributed to those impacted by the Eastern Kentucky flooding.

Testing Approach

PPC records indicated 8,061 individuals received a Flood Assistance payment totaling \$4,030,500. Twenty-five (25) transactions (.31% of the population) were sampled to determine if the \$500 Flood Assistance payments were made to eligible individuals as identified on provided FEMA reports.

Results of Testing

No exceptions were noted. All sampled individuals were verified on FEMA obtained reports and were eligible per PPC requirements.

Housing Assistance - Payments to Non-Profits to Assist with Home Reconstruction

Summary

The greatest need in the wake of the disaster was home rehabilitation and new housing based on the amount of destruction in the impacted areas. Additionally, most impacted individuals did not have flood insurance.

Public Notification

Per the Team Eastern Kentucky Flood Relief Fund website \$1.175 million has been pledged to build and repair with nonprofit partners including Foundation for Appalachian Kentucky, Housing Development Alliance, and Homes, Inc.

Eligibility Requirements

In accordance with the Flood Relief Fund Program Guidelines, a Qualified Nonprofit Organization shall be eligible to receive a financial award if it agrees to use all awarded funds to serve Kentucky residents affected by the severe weather system that began on July 26, 2022, by assisting with the provision of food, clothing, shelter, utilities, medical expenses, household needs, or other necessities of life. Funds can also be used to provide long-term financial or other assistance and rebuilding to those impacted by the severe weather system that began on July 26, 2022. All organizations PPC contracted with qualified as a 501(c)(3) nonprofit entity per the Internal Revenue Service records. Any home construction/rebuilding was required to be in a storm-impacted county.

Funding Amount/Determination

PPC and each nonprofit entity discussed the total amount of homes that each entity could rehabilitate, or construct based on donated labor and supplies available in addition to any funding to be provided by the Flood Relief Fund. PPC entered into a matching grant for \$200,000 with the Foundation for Appalachian Kentucky, Inc. to provide up to \$25,000 for material and labor for a qualified applicant for rehabilitation of homes outside the regulatory flood plain. PPC entered into an agreement with Housing Development Alliance, Inc. in the amount of \$450,000 to provide up to \$75,000 per house for material and labor in order to construct new houses. PPC entered into an agreement with Homes, Inc. in the amount of \$525,000 to provide up to \$75,000 per house for material and labor to construct new homes for eligible applicants. No administration costs were allowable.

Individual Traceability Requirement Evaluation Methodology

Non-profits were required to verify the following criteria to ensure the individual receiving assistance was a qualified applicant:

- a. Whether the individual was impacted by the storm;
- b. Whether the individual resided in one of the FEMA Counties on the date of the storm; and
- c. Whether the home being built or repaired was in one of the FEMA Counties.

The nonprofits were also required to submit to PPC sufficient evidence to verify the qualified applicant criteria were met. PPC would then notify the nonprofit of its determination of the applicant's eligibility.

Testing Approach

PPC processed eight transactions to qualified nonprofit entities totaling \$725,000. Auditors reviewed one payment (12.5% of the population) to ensure activity was supported and to verify if PPC was monitoring the nonprofits' compliance with established contract terms.

Results of Testing

No exceptions were noted. PPC was properly monitoring the nonprofit entities ensuring compliance with contract provisions and eligibility requirements established.

Flood Relief Fund Data Analytics

Audit testing relies on sampling techniques to obtain coverage of account balances to substantiate the completeness and accuracy of reported information. When designed appropriately, sampling a seemingly small percentage of a population provides sufficient evidence on which to base a conclusion for the results of testing.

During the examination, auditors utilized data analytics to further evaluate 100% of the accounting activity pertaining to the Team Eastern Kentucky Flood Relief Fund. Utilizing data analytic software in conjunction with auditor evaluation and analysis, potential duplicate, invalid, and outlier payments were identified for further investigation.

Results

Data analytics only identified one transaction for further investigation which PPC cleared by providing additional explanation. The significant reduction in transactions identified for further investigation, when compared to the Tornado Relief Fund data analysis, was due to several factors, including:

- The Flood Relief Fund activity had fewer transactions and was limited to funeral benefits, \$500 assistance payments, and home repair and reconstruction.
- Program requirements were simplified, and FEMA obtained data was limited to basic necessary information.
- There were no required calculations or multiple payments issued, minimizing the potential for error.

PPC applied lessons learned from administering the Tornado Relief Fund which lessened the likelihood of inappropriate payments from the Flood Relief Fund.

Section 7 – Legislative Changes

2023 Regular Session Senate Bill 99

During the 2023 Regular Session, Senate Bill 99, which created the Kentucky Contribution Trust Fund as outlined in KRS 45.255, was passed by the Kentucky legislature and signed into law by the Governor effective March 24, 2023. Prior to this date, donations associated with the Team Western Kentucky Tornado Relief Fund and Team Eastern Kentucky Flood Relief Fund were deposited into a Special Benefits Fund, which accounts for fiduciary funds that are to be expended for designated operations or purposes. The Kentucky Contribution Trust Fund was established as a Trust and Agency account to consist of all moneys donated to or held by the Commonwealth, including the Team Western Kentucky Tornado Relief Fund and Team Eastern Kentucky Flood Relief Fund. KRS 45.255 further required funds to be accounted for separately based on the purpose for which the moneys were solicited, established PPC’s responsibilities for developing a process to review and accept or deny applications for grants of the moneys, and codified the allowable uses of donations for each fund. As a result of Senate Bill 99, all remaining funds within the Team Western Kentucky Tornado Relief Fund (\$23,558,449) and Team Eastern Kentucky Flood Relief Funds (\$8,528,015) were transferred to the Kentucky Contribution Trust Fund by April 20, 2023.

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Kentucky Public Protection Cabinet's Response



PUBLIC PROTECTION CABINET

Andy Beshear
GOVERNOR

Ray A. Perry
SECRETARY

Office of Legal Services
500 Mero Street
Frankfort, Kentucky 40601
Phone: (502) 782-2736
Fax: (502) 564-3969

Jacob C. Walbourn
GENERAL COUNSEL

T. Chad Thompson
DEPUTY GENERAL COUNSEL

December 1, 2023

Via Electronic Mail

Farrah Petter, CPA
Assistant Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

Re: Examination of Disaster Relief Funds

Dear Ms. Petter:

On behalf of the Public Protection Cabinet ("PPC"), thank you for the opportunity provide comments for inclusion in the final report titled "Examination of Certain Financial Operations and Internal Policies and Controls of the Team Western Kentucky Tornado Relief Fund and Team Eastern Kentucky Flood Relief Fund." As you note in your report, the overriding goal of these funds was to provide direly needed financial assistance to survivors of two of the most significant natural disasters in Kentucky history. PPC is immensely proud of the work its staff has done and continues to do on behalf of these Kentuckians and their families. These funds have been crucial in aiding the recovery of Kentucky communities impacted by these disasters.

As your report shows, the relief funds consist of different programs and rules for each program that vary in complexity and goals. PPC has taken and continues to take great efforts through its internal controls to ensure money that generously donated from across the world is appropriately spent, and your report recognizes those efforts.

After reviewing the report, PPC offers the following comments in response to your report. Should you wish to discuss any of these comments, please do not hesitate to contact us.

1. PPC's position is that clear authority existed for the expenditure of the funds in the Team Western Kentucky Tornado Relief Fund and the Team Eastern Kentucky Flood Relief Fund, as each of the funds consist entirely of money privately donated. None of these funds were public funds received through any appropriation of the General Assembly, but, again, were received entirely from private donations. Further evidencing our position is the fact that all requested checks have been issued by the Kentucky State Treasurer. However, as your report notes, the passage of Senate Bill 99 during the 2023 Regular Session has conclusively resolved any perceived ambiguity on this.
2. Concerning the exploration of any mechanism to reclaim escheated funds, it is PPC's understanding that this process is mandated by statutes, regulations, and polices related to the

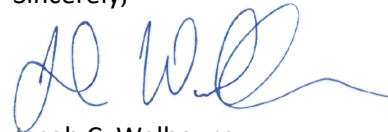
Kentucky State Treasury. PPC concurs in the spirit of this recommendation but is not aware of anything within the Cabinet's control to achieve these goals.

3. Concerning the finding in your report that payments to individuals residing outside the federally declared disaster counties, specifically the two (2) payments identified in your sampling and the 170 payments identified in your data analytics, were made in error, as your report recognizes PPC requested, received, and relied on verified data from the Federal Emergency Management Administration (FEMA) for survivors in the declared disaster counties. All payments from the relief fund were based on FEMA data and were issued to individuals that FEMA indicated had applied for and received payments from FEMA. PPC entered into a confidential data sharing agreement with FEMA to gain access to this FEMA data it received. PPC was unaware of errors in this data at the time of the issuance of the payments by PPC. PPC cannot conclusively determine why FEMA's data apparently included data outside the parameters of PPC's request. There are many reasons why this may have happened - because much of this data is collected in the field from traumatized survivors; by accidentally recording a mailing address as the disaster dwelling address; by mistyping a zip code or address; or FEMA might have simply included additional addresses errantly. However, PPC relied on this verified source of FEMA data to make these 172 payments. Therefore, PPC does not consider these 172 payments to have been made by PPC in error and believes these payments did go to individuals impacted by the tornadoes.
4. Concerning the one (1) payment from the Grain Assistance Program your report labeled as an error because of insufficient documentation, the applicant did supply evidence of delivery when requested. PPC believed this to be a good faith effort by the applicant to comply with the program guidelines and accepted his submission in good faith. Therefore, PPC asserts this payment was not made in error.
5. Concerning the exploration of whether payments made in error can or should be recouped, PPC appreciates the spirit of this recommendation. However, as your report ultimately concludes, no payment was received by an individual that did not appear within the verified sets of data obtained from FEMA or insurance companies. Thus, it is extremely likely, and perhaps certain, that all individuals who received a payment in error did indeed have physical or financial damage caused by the storms. Further, PPC is aware of the significant recovery gap that remains in our western Kentucky communities. As such, PPC did not feel it was appropriate to demand repayment from these survivors, who have already suffered tremendously, and may well have already spent these funds in aiding their recovery.
6. Concerning the two (2) payments to businesses identified in your data analytics, PPC notes that it requested insurance claim information for individuals from the insurance company and relied on the verified data received from the insurer. The data received included those businesses, but listed them as individuals.
7. For clarification purposes, PPC notes that the Governor has extended the state of emergency related to the December 2021 tornadoes in western Kentucky multiple times for counties that requested an extension, and the state of emergency is currently extended through January 15, 2024 for the counties listed in Executive Order 2023-408. Likewise, the Governor has extended the state of emergency related to the July 2022 floods in eastern Kentucky multiple times for the counties that requested an extension, and the state of emergency is currently extended through January 15, 2024 for the counties listed in Executive Order 2023-453.

In summary, PPC appreciates your work to understand the programs it has implemented to aid survivors and our communities, and the professionalism of your field staff. As your report illustrates, PPC has attempted to constantly improve the programs and processes for the funds, and your report's acknowledgement of no errors in payments from the Team Eastern Kentucky Flood Relief Fund underlines the success of those efforts. These funds continue to support Kentucky's recovering communities, and PPC is honored to have a part in helping survivors with their recovery.

Please advise if we may be of any additional assistance.

Sincerely,



Jacob C. Walbourn
General Counsel
Public Protection Cabinet

cc: Secretary Ray Perry
DJ Wasson, Chief of Staff