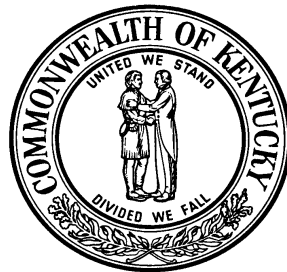


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME II

**For the Year Ended
June 30, 2024**



**ALLISON BALL
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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

March 24, 2025

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

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of the Commonwealth of Kentucky-Volume II for the year ended June 30, 2024. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Annual Comprehensive Financial Report, the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance* and federal award findings and questioned costs identified during our audit.

The Auditor of Public Accounts determines the federal programs to be audited for internal controls and compliance based on Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

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

Respectfully Submitted,

Allison Ball

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Auditor of Public Accounts

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INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2024**

Single Audit

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

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

Schedule of Findings and Questioned Costs

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

Corrective Action Plans and the Summary Schedule of Prior Audit Findings

Corrective Action Plans, prepared by management of the various agencies audited, related to audit findings reported in the Schedule of Findings and Questioned Costs for fiscal year (FY) 2024, as well as the Summary Schedule of Prior Audit Findings, are included in the data collection package submitted to the Federal Audit Clearinghouse and can be found at fac.gov.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2024**

Audit Approach

The scope of the FY 2024 SSWAK included:

Financial

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

Federal Awards

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

Component Units

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

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



ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Commonwealth of Kentucky's (Commonwealth) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2024. The Commonwealth's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Commonwealth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

The Commonwealth's basic financial statements include the operations of certain agencies and component units, which expended federal awards that are not included in the Commonwealth's Schedule of Expenditures of Federal Awards for the year ended June 30, 2024. Our audit, described below, did not include the operations of these agencies and component units since they were audited by other auditors.



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

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commonwealth and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Commonwealth's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Commonwealth's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commonwealth's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commonwealth's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Commonwealth's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

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

- Obtain an understanding of the Commonwealth's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

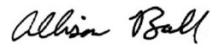
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-011 through 2024-016 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* require the auditor to perform limited procedures on the Commonwealth's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Commonwealth's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

March 5, 2025

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2024**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Financial Statements: We issued unmodified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2024.

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

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

Federal Awards

Our audit disclosed findings that the auditor is required to report under 2 C.F.R. § 200.516(a).

Compliance: An unmodified opinion was issued for the Commonwealth’s compliance for all major federal programs.

Internal Control Over Compliance: Our consideration of the Commonwealth’s internal control over compliance disclosed six significant deficiencies.

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

Type B Major Programs are highlighted in gray.

ALN	Cluster or Program Title
10.542	Pandemic EBT Food Benefits
10.551, 10.561	SNAP Cluster
10.646	Summer Electronic Benefit Transfer Program for Children
15.252	Abandoned Mine Land Reclamation (AMLR)
20.509	Formula Grants for Rural Areas and Tribal Transit Program
20.934	Nationally Significant Freight and Highway Projects
21.027	Coronavirus State and Local Fiscal Recovery Funds
84.027, 84.173	Special Education Cluster (IDEA)
84.048	Career and Technical Education - Basic Grants to States
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.424	Student Support and Academic Enrichment Program
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)
93.563	Child Support Services
93.575, 93.596	CCDF Cluster
93.659	Adoption Assistance
93.775, 93.777, 93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Disability Insurance/SSI Cluster

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

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

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$33,289,306.

Auditee Risk

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

SECTION 2 – FINANCIAL STATEMENT FINDINGS

See the Report of the Statewide Single Audit of the Commonwealth of Kentucky Volume I for Financial Statement Findings 2024-001 through 2024-010.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-011: The Cabinet For Health And Family Services Internal Controls Did Not Ensure The Accuracy Of Federally Claimed Payments**

Federal Award Information

State Agency: Cabinet for Health and Family Services

Federal Program: ALN 93.659 – Title IV-E Adoption Assistance
ALN 93.659 – COVID 19 Adoption Assistance

Federal Award Number and Year: 2401KYADPT, 2301KYADPT

Federal Agency: U.S. Department of Health and Human Services

Pass-Through: Not Applicable

Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Questioned Costs: \$11,701

Condition and Context

During the fiscal year (FY) 2024 audit of the Cabinet for Health and Family Services (CHFS) Adoption Assistance Title IV-E program (ALN 93.659), 43 cases were tested for activities allowed or unallowed and allowable costs. Adoption Assistance maintenance payments are payments made on behalf of eligible adopted children to adoptive parents. During testing, the following were noted:

- In one instance, CHFS determined a case to be fully state funded; however, the case was incorrectly claimed for federal payments. This means a percentage of the expenditures were reimbursed with federal funds. The issue caused the maintenance payments from July 2023 through June 2024 to be inappropriately claimed, totaling \$6,034 in federal funds that should have been state funded. With this error, a projected error amount of \$1,829,740 was calculated by taking the error amount divided by the total sampled federal share then multiplied by the federal share of the population.
- In another instance, the monthly rate paid to the adoptive parent on behalf of the adoptee did not match the amount determined in the adoption assistance agreement. The payments claimed for July 2023 through June 2024 were claimed for incorrect amounts, totaling \$5,667 in federal funds that should not have been reimbursed. With this error, a projected error amount of \$1,493,090 was calculated by taking the error amount divided by the total sampled federal share then multiplied by the federal share of the population.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-011: The Cabinet For Health And Family Services Internal Controls Did Not Ensure The Accuracy Of Federally Claimed Payments (Continued)**

Cause

Internal controls over compliance with program requirements did not ensure proper classification as state or federal Title IV-E funded and use of the correct maintenance rate in the system.

Effect

Incorrectly charging federal funds instead of state funds and using the incorrect federal reimbursement rate resulted in questioned costs of \$11,701 for FY 2024. Due to the nature of the payments, the issues noted are more likely than not to also be present in the prior years. In addition, these payments may also impact additional areas related to compliance for the federal report CB-496 which needs to be considered.

Criteria

42 U.S.C § 673(a)(1)(B)(ii) states:

[T]he State . . . in any case where the child meets the requirements of paragraph (2), may make adoption assistance payments to such parents, directly through the State agency or through another public or nonprofit private agency, in amounts so determined.

42 U.S.C. § 673(a)(3) states:

The amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances. However, in no case may the amount of the adoption assistance payment made under clause (ii) of paragraph (1)(B) exceed the foster care maintenance payment which would have been paid during the period if the child with respect to whom the adoption assistance payment is made had been in a foster family home.

2 C.F.R. § 200.303(a) Internal Controls, states the non-Federal entity must:

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 (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-011: The Cabinet For Health And Family Services Internal Controls Did Not Ensure The Accuracy Of Federally Claimed Payments (Continued)**

Recommendation

We recommend CHFS improve internal controls over compliance by ensuring information is entered into the system accurately. CHFS should work with the federal government regarding the questioned costs related to these cases.

Management's Response and Planned Corrective Action*First Instance noted:*

An incorrect Title IV-E Adoption determination was found and has been corrected. The Quality Assurance (QA) team will add more adoption reviews to their schedules. DCBS will adjust the CB-496 for repayment that will be submitted in April 2025

Second instance noted:

An incorrect payment was found and has since been corrected. A Quality Assurance (QA) team was developed in February 2024, for reviews related to billing and payments for children in Out of Home Care. The Division of Administration and Financial Management reviewed almost 2,000 payments in the last 9 months. DCBS is currently adding staff to the QA team to strengthen internal reviews. DCBS will adjust the CB-496 for repayment.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-012: The Cabinet For Health And Family Services Did Not Complete Provider Health And Safety Surveys Within Mandated Time Frames**

Federal Award Information

State Agency: Cabinet for Health and Family Services

Federal Program: ALN 93.775-State Medicaid Fraud Control Units

ALN 93.777-State-Survey and Certification of Health Care Providers and Suppliers
(Title XVIII) Medicare

ALN 93.778-Medical Assistance Program

ALN 93.778 – COVID-19 Medical Assistance Program

ALN 93.778 – ARRA Medical Assistance Program

Federal Award Number and Year: Various 2023; Various 2024

Federal Agency: U.S. Department of Health and Human Services

Pass-Through: Not Applicable

Compliance Area: Special Tests and Provisions

Questioned Costs: \$0

Condition and Context

This is a repeat finding of 2023-027 as reported in the 2023 Statewide Single Audit of Kentucky (SSWAK) Volume II.

During fiscal year (FY) 2024, auditors reviewed the Provider Health and Safety certification process related to the Medical Assistance Program (Medicaid), administered by the Cabinet for Health and Family Service (CHFS). As part of the Medicaid provider certification process, CHFS's Division of Health Care (DHC) conducts surveys so as to ascertain whether a provider/supplier meets applicable requirements for participation in the Medicaid program and evaluate performance and effectiveness in rendering a safe and acceptable quality of care. During the FY 2024 Medicaid audit, testing identified 15 instances out of the 37 reviewed in which facilities were not surveyed within the appropriate time frames mandated by the Centers for Medicare and Medicaid Services (CMS) and Kentucky State Plan to ensure compliance with requirements for participation in the State's Medicaid program.

Cause

As part of its internal control process, DHC schedules and conducts surveys according to the federal priority tier structure. Lack of staffing and a backlog of Immediate Jeopardy (IJ) complaints, which are priority tier 1, have contributed to CHFS's failure to maintain appropriate survey intervals for standard survey and certification activities based upon federal and state guidance.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2024-012: The Cabinet For Health And Family Services Did Not Complete Provider Health And Safety Surveys Within Mandated Time Frames (Continued)

Effect

Without timely review of facilities, there is an increased risk of conditions going undetected that violate Medicaid requirements for participation. Fifteen facilities sampled were not surveyed in accordance with mandated survey schedules.

Criteria

The Kentucky State Plan mandates that all standard surveys are conducted within nine to 15 months and states:

Attachment 4.40-C

The State has in effect the following procedures for the scheduling and conduct of standard surveys to assure that it has taken all reasonable steps to avoid giving notice.... Kentucky uses a flexible survey schedule where some facilities are surveyed in ranges of 9 to 15 months. Survey schedules are also based on performance in previous surveys and the number of complaints made against a facility.

The survey is the documentation of the inspection results.

42 C.F.R. § 431.610(g)(3) states that the Kentucky State Plan must provide for surveys conducted by agencies that:

Have qualified personnel perform on-site inspections—

- (i) At least once during each certification period or more frequently if there is a compliance question; and
- (ii) For intermediate care facilities with deficiencies as described in §§ 442.112 and 442.113 of this subchapter, within 6 months after initial correction plan approval and every 6 months thereafter as required under those sections.

42 U.S.C. § 1396r(g)(2)(A)(iii)(I) states, “Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey conducted under this subparagraph. The statewide average interval between standard surveys of a nursing facility shall not exceed 12 months.”

CMS Guidance QSO-22-02-ALL

[State Agencies] conduct unannounced standard recertification surveys, which provide a comprehensive review of the quality of care furnished in a facility. For long-term care (LTC) facilities, these recertification surveys must be conducted no later than 15 months after the previous recertification survey, with a statewide average interval of 12 months or less. The recertification frequency for continuing and acute care providers must follow the CMS Mission and Priority Document. CMS had previously suspended certain

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2024-012: The Cabinet For Health And Family Services Did Not Complete Provider Health And Safety Surveys Within Mandated Time Frames (Continued)

Criteria (Continued)

routine inspections as part of its response to the COVID-19 PHE to prioritize infection control and immediate jeopardy situations (QSO-20-20-All). CMS later advised states to resume surveys based on the availability of PPE and surveyor staffing (QSO-20-31-All and QSO-20-35-All). At this time, we believe SAs should be able to resume recertification surveys on a regular basis, and should do so by establishing new intervals based on each facility's next survey, not based on the last survey that was conducted prior to the COVID-19 PHE.

2 C.F.R. § 200.303(a) Internal Controls, states the non-Federal entity must:

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 (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Recommendation

We recommend CHFS establish internal control procedures to ensure facilities are surveyed according to interval requirements mandated by federal requirements.

Management's Response and Planned Corrective Action

02/18/2025 – Corrective Action Plan

The Office of Inspector (OIG), Division of Healthcare (DHC) recognizes the need to conduct timely surveys and investigation of healthcare facilities in accordance with established regulatory requirements. At the direction of the Cabinet for Health and Family Services (CHFS), the OIG DHC conducted an internal audit in 2023 to identify systemic failures related to following the Kentucky State Plan, which mandates that all standard surveys are conducted within nine to 15 months. The DHC internal audit revealed a multifaceted number of system breakdowns, all of which had to be addressed and corrected to set the agency on a path toward progress and ultimately achieve compliance with meeting mandated timeframes for survey completion of long-term care facilities. There are currently 269 LTC facilities in Kentucky. The DHC has a 5-year deficit of annual surveys that had not been conducted, ranging from 2019 to 2025 (current). Corrective actions taken and currently ongoing include:

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2024-012: The Cabinet For Health And Family Services Did Not Complete Provider Health And Safety Surveys Within Mandated Time Frames (Continued)

Management’s Response and Planned Corrective Action (Continued)

The Office of Inspector General has taken action to correct this issue by implementing the following actions:

- a. *Implemented an increase in salary for nursing and other clinical/life safety code surveyor positions that includes a 20% locality premium added to salaries.*
- b. *Created Licensed Practical Nurse (LPN) Level 1 and Level 2, surveyor positions.*
- c. *Expedited Human Resource and personnel actions for posting, interviewing, and hiring new survey staff.*
- d. *Expanded the use of contractors to include recruitment of qualified personnel (I.e., Registered Nurses, Licensed Practical Nurses, Social Workers, Dieticians, and Human Services Surveyors) to work directly with the DHC as contract employees serving as members of survey teams. These contracted surveyors receive training and upon successful completion of six (6) month probation, are offered the opportunity to become full-time OIG DHC employees, with full benefit opportunities.*
- e. *Contracted an external survey agency to provide qualified survey teams to conduct surveys of health care facilities (including long-term care), to supplement the numbers of surveys completed.*
- f. *In calendar year 2024 there were 121 LTC relicensure survey visits completed and an additional 21 LTC facility relicensure survey visits completed as of 2/18/2025. This means 127 LTC facilities have not had a relicensure survey since before 2024. The last relicensure survey completed for these 127 facilities occurred in:*
 - a. *2019 = 13 LTC facilities*
 - b. *2020 = 34 LTC facilities*
 - c. *2021 = 34 LTC facilities*
 - d. *2022 = 20 LTC facilities*
 - e. *2023 = 26 LTC facilities*
- g. *As part of the DHC corrective actions, the agency plans to schedule 13 LTC relicensure survey visits, per month, of facilities having not received an onsite relicensure survey visit since 2019 through 2023. This would effectively ensure all LTC facilities have had an onsite survey visit in years 2024 and 2025.*
- h. *As staffing numbers increase an additional 3 to 5 surveys will be added to the survey schedule. The LTC facilities selected for these surveys will be facilities that received a relicensure survey in 2024, placing them on a 9-to-15-month average between survey dates. By establishing this rotation, it is possible the agency could obtain a 15-month average between surveys by the end of 2025.*
- i. *DHC regional and central office management staff, who are qualified surveyors, will be added to survey teams, when available, until the agency’s staffing pool has sufficiently grown to accommodate the completion of 20 surveys per month. These management staff will also serve as trainers on surveys where newly hired staff are being utilized.*

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-013: The Cabinet For Health And Family Services Failed To Discontinue Benefits When Immigration Status Could Not Be Verified**

Federal Award Information

State Agency: Cabinet for Health and Family Services

Federal Program: ALN 93.775-State Medicaid Fraud Control Units

ALN 93.777-State-Survey and Certification of Health Care Providers and Suppliers
(Title XVIII) Medicare

ALN 93.778-Medical Assistance Program

ALN 93.778 – ARPA – Medical Assistance Program

Federal Award Number and Year: Various 2023; Various 2024

Federal Agency: U.S. Department of Health and Human Services

Pass-Through: Not Applicable

Compliance Area: Eligibility

Questioned Costs: \$0

Condition and Context

This is a repeat finding of 2023-028 as reported in the 2023 Statewide Single Audit of Kentucky (SSWAK) Volume II.

During the fiscal year (FY) 2024 Medical Assistance Program (Medicaid) audit, auditors tested internal controls and compliance related to eligibility determinations of qualified noncitizens (immigrants). Medicaid eligibility determinations are made for different categories of individuals, including United States (US) citizens and qualified immigrants. Qualified immigrants entering the United States on or after August 22, 1996, are not eligible for Medicaid for a period of five years, unless they qualify under an exemption. To comply with the limitation, states maintain documentation verifying citizenship or immigration status.

A sample of 40 cases reviewed identified that one non-citizen individual did not have documentation in the case files related to citizenship or immigration status to verify meeting the five-year requirement and thus considered a qualified alien. Additionally, the case file did not indicate CHFS performed verification of immigration status by either reviewing documentation or checking the federal database.

Individuals are given 90 days to provide documentation of immigration status without a delay in benefits in accordance with 42 C.F.R. § 435.956(b). CHFS did not discontinue benefits for the individual even though documentation of immigration status was not provided and immigration status was not verified.

Cause

Internal controls did not detect the missing documentation and verification of immigration status resulting in CHFS being in noncompliance with federal regulations.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2024-013: The Cabinet For Health And Family Services Failed To Discontinue Benefits When Immigration Status Could Not Be Verified (Continued)

Effect

Failure to obtain documentation of immigration status, properly verify immigration status, and untimely discontinue Medicaid benefits increases the risk of CHFS making payments for ineligible individuals and being in noncompliance with federal regulations.

Criteria

8 U.S.C. § 1613 Five-year limited eligibility of qualified aliens for Federal means-tested public benefit, states in part:

- (a) Notwithstanding any other provision of law and except as provided in subsections (b), (c), and (d) of this section, an alien who is a qualified alien (as defined in section 1641 of this title) and who enters the United States on or after August 22, 1996, is not eligible for any Federal means-tested public benefit for a period of 5 years beginning on the date of the alien's entry into the United States with a status within the meaning of the term "qualified alien".

42 C.F.R. § 435.956(a) Verification of Other Non-Financial Information, states in part:

- (2) The agency must-
 - (i) Verify immigration status through the electronic service established in accordance with § 435.949, or alternative mechanism authorized in accordance with § 435.945(k);
 - (ii) Promptly attempt to resolve any inconsistencies, including typographical or other clerical errors, between information provided by the individual and information from an electronic data source, and resubmit corrected information through such electronic service or alternative mechanism.
- (4)
 - (i) The agency must maintain a record of having verified citizenship or immigration status for each individual, in a case record or electronic database in accordance with the State's record retention policies in accordance with § 431.17(c) of this chapter.

42 C.F.R. § 435.956(b) Reasonable opportunity period, further states in part:

- (2) The reasonable opportunity period-
 - (i) Begins on the date on which the notice described in paragraph (b)(1) of this section is received by the individual. The date on which the notice is received is considered to be 5 days after the date on the notice, unless the individual shows that he or she did not receive the notice within the 5-day period.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-013: The Cabinet For Health And Family Services Failed To Discontinue Benefits When Immigration Status Could Not Be Verified (Continued)**

Criteria (Continued)

(ii)

(A) Ends on the earlier of the date the agency verifies the individual's citizenship or satisfactory immigration status or determines that the individual did not verify his or her citizenship or satisfactory immigration status in accordance with paragraph (a)(2) of this section, or 90 days after the date described in paragraph (b)(2)(i) of this section, except that,

2 C.F.R. § 200.303(a) Internal Controls, states the non-Federal entity must:

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 (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Recommendation

We recommend CHFS review and strengthen internal controls over compliance with noncitizen individual eligibility to ensure documentation of immigration status or verification is included in the case file for compliance with applicable federal statutes.

Management’s Response and Planned Corrective Action

Our eligibility system has been updated to ensure that members still awaiting immigration information after the initial 90 days do not receive benefits if they are not eligible. This was corrected in May 2024.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-014: The Cabinet For Health And Family Services Failed To Identify Duplicate Social Security Numbers**

Federal Award Information

State Agency: Cabinet for Health and Family Services

Federal Program: ALN 93.775-State Medicaid Fraud Control Units

ALN 93.777-State-Survey and Certification of Health Care Providers and Suppliers
(Title XVIII) Medicare

ALN 93.778-Medical Assistance Program

ALN 93.778 – ARPA – Medical Assistance Program

Federal Award Number and Year: Various

Federal Agency: U.S. Department of Health and Human Services

Pass-Through: Not Applicable

Compliance Area: Eligibility

Questioned Costs: \$0

Condition and Context

During the fiscal year (FY) 2024 Medical Assistance Program (Medicaid) audit, auditors performed analytics on each of the eight independent sets of Medicaid participant data recorded in the Integrated Eligibility and Enrollment System (IEES). Auditors identified two separate instances in which the same Social Security Number (SSN) was recorded in IEES for two Medicaid participants, impacting four total Medicaid cases. Applications for Medicaid benefits, as well as other information, are documented in IEES. Federal regulations require states to use electronic verification of participant provided data, including verification of SSNs with the Social Security Administration. In each of the cases, applications for the four participants identified with the same SSNs, the SSN was noted as verified with the federal system in IEES. However, IEES should not permit the same SSN for multiple participants.

Cause

Internal controls did not correctly verify the SSN for multiple participants, allowing duplicate SSNs to be recorded in IEES. A specific cause has not been identified; however, the system should not allow multiple participants with the same SSN.

Effect

The duplication of SSNs resulted in noncompliance with federal regulation 42 C.F.R. § 435.910(g). Without controls to ensure system verifications are accurate, there is a risk of ineligible individuals receiving benefits and additional instances of noncompliance occurring and not being detected by CHFS.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-014: The Cabinet For Health And Family Services Failed To Identify Duplicate Social Security Numbers (Continued)**

Criteria

42 C.F.R. § 435.910(g) Use of Social Security Number, states in part:

- (g) The agency must verify the SSN furnished by an applicant or beneficiary with SSA to ensure the SSN was issued to that individual, and to determine whether any other SSNs were issued to that individual.

2 C.F.R. § 200.303(a) (a) Internal Controls, states the non-Federal entity must:

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 (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Recommendation

We recommend CHFS ensure the SSA federal verification system is being used and documented appropriately and review internal controls over compliance to prevent duplicate SSNs from being recorded in IEES in the future.

Management’s Response and Planned Corrective Action

The Department for Community Based Services is working with the CHFS technology team and vendor for assistance. This is actively researched and currently, the anticipated timeline for correction is by August 31, 2025, if not sooner.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-015: The Cabinet For Health And Family Services Did Not Document Monitoring Of Drug Rebates Invoicing Requirements**

Federal Award Information

State Agency: Cabinet for Health and Family Services

Federal Program: ALN 93.775-State Medicaid Fraud Control Units

ALN 93.777-State-Survey and Certification of Health Care Providers and Suppliers
(Title XVIII) Medicare

ALN 93.778-Medical Assistance Program

ALN 93.778 – ARPA – Medical Assistance Program

ALN 93.778 – FFCRA – Medical Assistance Program

Federal Award Number and Year: Various 2023; Various 2024

Federal Agency: U.S Department of Health and Human Services

Pass-Through: Not Applicable

Compliance Area: Allowable Cost/Cost Principles

Questioned Costs: \$0

Condition and Context

During the fiscal year (FY) 2024 audit of the Medical Assistance Program (Medicaid), administered by the Cabinet for Health and Family Services (CHFS), auditors reviewed the internal controls for manufacturer drug rebate invoicing. CHFS contracts with a Pharmacy Benefit Manager (PBM) to distribute the quarterly drug rebate invoices, collect payments, and communicate with the manufacturers for any delinquent balances. In addition, CHFS and the PBM meet weekly to discuss contract objectives and CHFS requires the PBM to submit various quarterly reports related to the drug rebates invoicing.

While CHFS receives the drug rebate invoicing reports quarterly, there is no documentation on file of CHFS's review and evaluation of the quarterly reports to confirm the PBM is in compliance with the applicable federal regulations. Federal regulations specify certain timeframe requirements related to rebate invoicing.

Cause

CHFS did not have a formal policy and procedure in place to ensure adequate documentation was maintained supporting the monitoring of the PBM regarding drug rebate invoicing.

Effect

Failure to complete and document the monitoring of the PBM could lead to undetected noncompliance with federal requirements. With no formal policies or documentation of review, CHFS cannot ensure compliance with 2 C.F.R. § 200.329.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-015: The Cabinet For Health And Family Services Did Not Document Monitoring Of Drug Rebates Invoicing Requirements (Continued)**

Criteria

42 U.S.C. § 1396r-8(b)(1)(A), states:

A rebate agreement under this subsection shall require the manufacturer to provide, to each State plan approved under this subchapter, a rebate for a rebate period in an amount specified in subsection (c) for covered outpatient drugs of the manufacturer dispensed after December 31, 1990, for which payment was made under the State plan for such period, including such drugs dispensed to individuals enrolled with a Medicaid managed care organization if the organization is responsible for coverage of such drugs. Such rebate shall be paid by the manufacturer not later than 30 days after the date of receipt of the information described in paragraph (2) for the period involved.

42 U.S.C. § 1396r-8(b)(2), states in part:

(A) State responsibilities

Each State agency under this subchapter shall report to each manufacturer not later than 60 days after the end of each rebate period and in a form consistent with a standard reporting format established by the Secretary, information on the total number of units of each dosage form and strength and package size of each covered outpatient drug dispensed after December 31, 1990, for which payment was made under the plan during the period, including such information reported by each Medicaid managed care organization, and shall promptly transmit a copy of such report to the Secretary.

45 C.F.R. § 75.342(a) Monitoring and reporting program performance, states:

Monitoring by the non-Federal entity. The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the non-Federal entity must cover each program, function, or activity.

2 C.F.R. § 200.303(a) Internal Controls, states the non-Federal entity must:

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 (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-015: The Cabinet For Health And Family Services Did Not Document Monitoring Of Drug Rebates Invoicing Requirements (Continued)**

Recommendation

We recommend CHFS adopt formal policies and procedures to document the monitoring of the PBM to ensure compliance with federal regulations relating to drug rebates invoicing.

Management's Response and Planned Corrective Action

The Department for Medicaid Services (DMS) monitors the PBM through regular meetings and reviews. In addition, DMS has never had a federal or state finding of noncompliance with federal regulations relating to drug rebates invoicing. However, DMS will adopt formal written policies and procedures.

Auditor's Reply

We appreciate CHFS's efforts to monitor the PBM and adopt formal written policies and procedures. We would like to stress the importance of documenting the PBM monitoring to ensure all federal compliance requirements are met.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-016: The Cabinet For Health And Family Services Did Not Accurately Allocate Indirect Costs**

Federal Award Information

State Agency: Cabinet for Health and Family Services
Federal Program: ALN 10.551 Supplemental Nutrition Assistance Program (SNAP)
ALN 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
ALN 96.001 Social Security—Disability Insurance
ALN 96.006 Supplemental Security Income
Federal Award Number and Year: Various 2023, Various 2024
Federal Agency: U.S. Department of Health and Human Services; U.S. Department of Agriculture
Pass-Through: Not Applicable
Compliance Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Condition and Context

During the fiscal year (FY) 2024 audit of the Supplemental Nutrition Assistance Program and Social Security Disability Insurance Program, administered by the Cabinet for Health and Family Services (CHFS), auditors reviewed the indirect cost allocation (CA) process. Based on the review, indirect costs were not properly allocated.

On April 16, 2024, an update to the Enhanced Management Administrative Reporting System (eMARS), the Commonwealth's accounting system maintained by the Finance and Administration Cabinet (FAC), went into production. When the eMARS update occurred, a new cost distribution table and cost allocation job were implemented. The cost allocation job is a joint effort between FAC and the participating agencies. Specifically, FAC's responsibility is to run the cost allocation job and communicate with the agencies. The agency's responsibility is to maintain the cost allocation set up tables within eMARS. The updated table led to duplication of records, which resulted in indirect costs being improperly distributed between approximately 90 federal programs.

The duplication of salary records from using the table impacted the indirect cost percentages allocated to each federal program administered by CHFS beginning in April 2024. The amount of indirect costs improperly allocated for each federal program cannot be determined due to the unknown impact of the duplications on the individual indirect cost percentage calculated for each program. Thus, the accuracy of the cost allocation amounts for April-June 2024 cannot be verified due to the automated allocations and the inability to manually correct all amounts.

Cause

The cost allocation job in eMARS is a joint effort between FAC and the participating agencies. FAC and CHFS reviewed this job prior to the eMARS update going into production; however, the issue was not detected at that time.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-016: The Cabinet For Health And Family Services Did Not Accurately Allocate Indirect Costs (Continued)**

Effect

The errors in the calculation of the base used to automatically allocate costs to federal programs have caused incorrect allocation amounts for April, May, and June of FY 24. CHFS has not determined a dollar value for each of the numerous federal programs impacted by the processing issues. However, they have confirmed that issues with improper allocation of costs and duplications have occurred since April 2024. The federal programs at CHFS are being improperly charged for indirect costs.

Criteria

2 C.F.R. § 200.303(a) Internal Controls, states the non-Federal entity must:

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 (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 C.F.R. § 200.405 Allocable costs, describes the conditions which must be present before costs can be allocated to a federal program:

(a) ***Allocable costs in general.*** A cost is allocable to a Federal award or other cost objective if the cost is assignable to that Federal award or other cost objective in accordance with the relative benefits received. This standard is met if the cost satisfies any of the following criteria:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the recipient or subrecipient and can be distributed in proportions that may be approximated using reasonable methods; or
- (3) Is necessary to the overall operation of the recipient or subrecipient and is assignable in part to the Federal award in accordance with these cost principles.

(b) ***Allocation of indirect costs.*** All activities which benefit from the recipient's or subrecipient's indirect cost, including unallowable activities and donated services by the recipient or subrecipient or third parties, will receive an appropriate allocation of indirect costs.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-016: The Cabinet For Health And Family Services Did Not Accurately Allocate Indirect Costs (Continued)**

Recommendation

We recommend CHFS and FAC continue to work together to resolve the processing issues and ensure the cost allocation job is working properly. We further recommend the agencies ensure the cost allocation set up tables are accurate and properly maintained, including correcting the error identified in the FY 2024 cost allocations.

Management's Response and Planned Corrective Action**Response from Finance and Administration Cabinet**

The Finance and Administration Cabinet, Office of the Controller, agrees with and accepts audit finding 2024-CHFS-009.

Following the upgrade to the cost allocation module in the eMARS application, system defects were identified, and the Finance team promptly logged multiple defect tickets with the application vendor. As of February 2025, all defects affecting the base load job have been patched, tested, and applied to the eMARS production environment. We believe the system is now accurately generating base records as expected.

To enhance verification, Finance has implemented additional checks within the base load job and subsequent cost allocation chain jobs. After running the initial base load job, Finance sends an email notification to CHFS staff requesting review and verification of the newly created base records. CHFS verification is required before proceeding with the cost allocation chain jobs.

Additionally, Finance sends an email to CHFS staff after the compute allocation job but before the generate transaction job, allowing CHFS to review and verify allocation data before transactions are created in eMARS. A verification response from CHFS is required before Finance proceeds with the generate transactions job. A final email is sent to CHFS staff upon completion of the cost allocation chain job.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2024-016: The Cabinet For Health And Family Services Did Not Accurately Allocate Indirect Costs (Continued)**

Management’s Response and Planned Corrective Action (Continued)**Response from Cabinet for Health and Family Services**

The Cost Allocation & Special Projects (CASP) Branch in the Division of General Accounting (DGA) identified discrepancies in the April 2024 cost allocation reports but could not determine the root cause at that time. After additional reviews and troubleshooting, between the CASP Branch and the Finance & Administration Cabinet (FAC), it was determined the issues stemmed from the following software errors that were a result of eMARS 4.0 implementation:

- 1.) In SFY 2024 AP 10, 11, 12, & 13, any new sequence numbers added to the cost allocation tables were missing the 110 in the Object Revenue field on the ACCM lines. These new sequences are generated automatically and not entered by CHFS.*
- 2.) eMARS 4.0 is creating new sequence numbers for existing sequence numbers. This was causing some sub-functions to have double or triple the statistical unit amounts. Resulting in duplications and triplications of some salary base amounts.*

Since the software issues were identified, FAC has worked with the vendor, CGI, to resolve the underlying software issues and continues to enhance system functionality.

To prevent future issues the CASP Branch has implemented the following:

- 1.) The CASP Branch is in the process of reviewing and correcting all cost allocations from April to current. Once the corrections are identified, the CASP Branch will complete journal vouchers in eMARS to correct any errors. After all the amounts have been reviewed and adjustments entered, the CASP Branch will work with the Public Assistance & Supportive Services Branch to review every impacted program and determine if additional action is required to update federal reporting.*
- 2.) Going forward the CASP Branch will continue to generate and analyze the reports each month to ensure that the cost allocation is posted correctly. Additional notification of these reviews will go to DGA management to check that all were completed accurately and escalate any further issues timely to FAC and CGI.*
- 3.) Going forward, the CASP Branch is working with FAC to develop additional reports for proactively reviewing cost allocation tables before execution to ensure accuracy.*

APPENDIX

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2024**

This report is available on the Auditor of Public Accounts' website, auditor.ky.gov. The Commonwealth's FY 2024 Annual Comprehensive Financial Report is available on the Finance and Administration Cabinet's website, finance.ky.gov.

The following is a list of individuals by state agency to contact regarding major programs audited for FY 2024.

Agency	Contact
Cabinet for Health and Family Services	Leesa Harrison, Director Division of General Accounting 275 East Main Street 4E-A Frankfort, KY 40601 Phone: (502) 545-8416
Department of Education	Karen Wirth, Director Division of Budget and Finance 300 Sower Blvd. Suite 524 Frankfort, KY 40601 Phone: (502) 564-1979
Energy and Environment Cabinet	Cori Troutman, Director Division of Financial Management Office of Administrative Services 300 Sower Blvd. Frankfort, KY 40601 Phone: (502) 782-7014
Finance and Administration Cabinet	Joe McDaniel, Controller Finance & Administration Cabinet Office of Controller 200 Mero Street, 5 th Floor Frankfort, KY 40622 Phone: (502) 564-5120
Kentucky Education and Labor Cabinet	Rebecca Rodgers Johnson, Executive Director Kentucky Department of Labor 500 Mero Street, 3 rd Floor Frankfort, KY 40601 Phone: (502) 564-3070

Agency**Contact**

Kentucky Transportation Cabinet

Teri Harmon, Assistant Director
Division of Audit Services
200 Mero Street – 4th Floor East
Frankfort, KY 40601
Phone: (502) 782-4073

Office of the State Budget Director

John Hicks, State Budget Director
702 Capitol Avenue
Room 284, Capitol Annex
Frankfort, KY 40601
Phone: (502) 564-7300