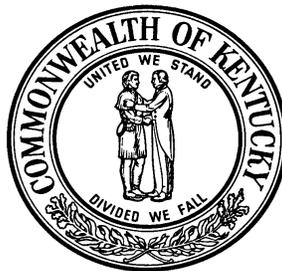


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME I

**For the Year Ended
June 30, 2025**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
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THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY
VOLUME I
FOR THE YEAR ENDED JUNE 30, 2025

Background

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

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

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

Annual Comprehensive Financial Report

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

The scope of the ACFR audit included:

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

**THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY VOLUME I
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

Schedule of Expenditures of Federal Awards

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

For the fiscal year (FY) ended June 30, 2025, the total federal dollars expended by the Commonwealth of Kentucky was \$21,442,678,710 in cash awards and \$1,393,149,146 in noncash awards. These totals represent an increase of \$684,201,484 in cash expenditures and a decrease of \$41,244,330 in noncash expenditures in comparison with the totals for FY 2024.

Component Units

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



ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

March 23, 2026

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 our report of the Statewide Single Audit of Kentucky - Volume I for the Fiscal Year ended June 30, 2025. Volume I contains financial statement findings identified during our audit of the Annual Comprehensive Financial Report (ACFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

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

On behalf of the staff of the Auditor of Public Accounts, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Shari Scott, Deputy State Auditor.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Allison Ball".

Allison Ball
Auditor of Public Accounts

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

Report on the Schedule of Expenditures of Federal Awards

Opinion

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated February 27, 2026, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) and is not a part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

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



Basis for Opinion

We conducted our audit 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 are further described in the Auditor's Responsibilities for the Audit of the Schedule section of our report.

We are required to be independent of the Commonwealth of Kentucky and to meet our other ethical responsibilities, in accordance with the 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 audit opinion.

Emphasis of Matter

As discussed in Note 1, the Schedule of Expenditures of Federal Awards is prepared on the cash basis of accounting as modified by the application of Kentucky Revised Statute 45.229 which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Schedule

Management is responsible for the preparation and fair presentation of the schedule in accordance with the cash basis of accounting as modified by the application of Kentucky Revised Statute 45.229, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedule.

In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the schedule, 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 amounts and disclosures in the schedule.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth of Kentucky's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

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

Respectfully Submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Kentucky

February 27, 2026

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 503,740	\$ —	\$ —	
10.028	Wildlife Services	55,603	—	—	7
10.072	Wetlands Reserve Program	24,939	—	—	
10.153	Market News	3,331	—	—	
10.162	Inspection Grading and Standardization	53,350	—	—	
10.163	Market Protection and Promotion	58,658	—	—	
10.170	Specialty Crop Block Grant Program - Farm Bill	391,391	—	372,946	
10.177	Regional Food System Partnerships	27,828	—	—	
10.182	Pandemic Relief Activities: Local Food Purchase Agreements with States, Tribes, and Local Governments	5,204,780	—	5,058,263	14
10.185	Local Food for Schools Cooperative Agreement Program	1,135,755	—	1,135,755	
10.187	The Emergency Food Assistance Program (TEFAP) Commodity Credit Corporation Eligible Recipient Funds	606,000	—	606,000	
10.190	Resilient Food System Infrastructure Program	118,482	—	118,322	
10.194	Commodity Credit Corporation (CCC) Funding to Alleviate Emergency Supply Chain Disruption in the Commodity Supplemental Food Program (CSFP)	1,245,320	—	1,245,320	
10.334	Enhancing Agricultural Opportunities for Military Veterans Competitive Grants Program	53,561	—	—	
10.535	SNAP Fraud Framework Implementation Grant	11,496	—	—	
10.537	Supplemental Nutrition Assistance Program (SNAP) Employment and Training (E&T) Data and Technical Assistance Grants	159,765	—	—	
SNAP Cluster:					
10.551	Supplemental Nutrition Assistance Program	—	1,267,078,095	—	2, 10
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	115,674,458	—	13,224,546	2
	Total SNAP Cluster:	115,674,458	1,267,078,095	13,224,546	
Child Nutrition Cluster:					
10.553	School Breakfast Program	123,815,637	—	123,815,637	2
10.555	National School Lunch Program	304,158,601	—	304,154,277	2
10.556	Special Milk Program for Children	16,230	—	16,230	2
10.559	Summer Food Service Program for Children	34,911,551	—	34,371,780	2
10.582	Fresh Fruit and Vegetable Program	3,598,129	—	3,598,129	2
	Total Child Nutrition Cluster:	466,500,148	—	465,956,053	
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	139,379,743	—	28,212,983	2
10.557	COVID-19 WIC Special Supplemental Nutrition Program for Women, Infants, and Children	14,077	—	—	2, 14
10.558	Child and Adult Care Food Program	59,282,622	—	58,445,581	2
10.560	State Administrative Expenses for Child Nutrition	6,371,863	—	938,808	
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program	3,083,296	12,431,666	2,996,172	2, 10
10.568	Emergency Food Assistance Program (Administrative Costs)	2,461,271	—	2,423,019	2
10.569	Emergency Food Assistance Program (Food Commodities)	85,466	27,538,295	27,538,295	2, 10
	Total Food Distribution Cluster:	5,630,033	39,969,961	32,957,486	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	262,092	—	40,000	
10.575	Farm to School Grant Program	832	—	—	
10.576	Senior Farmers Market Nutrition Program	448,695	—	—	
10.577	SNAP Partnership Grant	2,220,000	—	—	
10.578	WIC Grants To States (WGS)	245,889	—	245,889	
10.579	Child Nutrition Discretionary Grants Limited Availability	1,214,073	—	1,214,073	
10.646	Summer Electronic Benefit Transfer Program for Children	53,426,159	—	—	2
10.652	Forestry Research	467,667	—	—	
10.664	Cooperative Forestry Assistance	3,531,293	—	347,830	
10.676	Forest Legacy Program	4,478	—	—	
10.678	Forest Stewardship Program	10,628	—	—	
10.680	Forest Health Protection	192,015	—	—	
10.691	Good Neighbor Authority	10,006	—	—	
10.697	State & Private Forestry Hazardous Fuel Reduction Program	298,273	—	40,000	
10.698	State & Private Forestry Cooperative Fire Assistance	229,255	—	23,143	
10.717	Infrastructure Investment and Jobs Act Restoration/Revegetation	39,235	—	—	
10.720	Infrastructure Investment and Jobs Act Community Wildfire Defense Grants	306,816	—	74,286	
10.727	Inflation Reduction Act Urban & Community Forestry Program	235,227	—	171,641	
10.731	Inflation Reduction Act Landscape Scale Restoration	33,035	—	33,035	
10.902	Soil and Water Conservation	72,624	—	—	
10.913	Farm and Ranch Lands Protection Program	111,205	—	—	
	Total U.S. Department of Agriculture	\$ 865,866,440	\$ 1,307,048,056	\$ 610,461,960	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Commerce					
Direct Programs:					
11.032	State Digital Equity Planning and Capacity Grant	\$ 104,980	\$ —	\$ —	
11.035	Broadband Equity, Access, and Deployment Program	2,190,811	—	—	
11.302	Economic Development Support for Planning Organizations	1,238,604	—	1,182,586	
Total U.S. Department of Commerce		\$ 3,534,395	\$ —	\$ 1,182,586	
U.S. Department of Defense					
Direct Programs:					
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	\$ 106,887	\$ —	\$ —	
12.401	National Guard Military Operations and Maintenance (O&M) Projects	24,732,419	—	—	
12.404	National Guard ChalleNGe Program	8,440,702	—	—	
12.617	Economic Adjustment Assistance for State Governments	901,817	—	—	
12.U01	Chemical Demilitarization And Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	1,411,137	—	—	15
Total U.S. Department of Defense		\$ 35,592,962	\$ —	\$ —	
U.S. Department of Housing and Urban Development					
Direct Programs:					
Committee Development Block Grants -State-Administered Small Cities Program					
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$ 34,369,415	\$ —	\$ 26,211,652	2, 8
14.401	Fair Housing Assistance Program	139,384	—	—	
Total U.S. Department of Housing and Urban Development		\$ 34,508,799	\$ —	\$ 26,211,652	
U.S. Department of the Interior					
Direct Programs:					
15.018	Energy Community Revitalization Program (ECRP)	\$ 1,774,380	\$ —	\$ —	
15.069	Zoonotic Disease Initiative	180,317	—	—	
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	13,599,611	—	—	
15.252	Abandoned Mine Land Reclamation (AMLR)	62,810,476	—	4,766,288	2
Fish and Wildlife Cluster:					
15.605	Sport Fish Restoration	5,470,162	—	—	7
15.611	Wildlife Restoration and Basic Hunter Education and Safety	18,715,536	—	655,940	7, 9
Total Fish and Wildlife Cluster:		24,185,698	—	655,940	
15.608	Fish and Aquatic Conservation - Aquatic Invasive Species	2,607,792	—	—	7
15.615	Cooperative Endangered Species Conservation Fund	160,887	—	46,728	7
15.631	Partners for Fish and Wildlife	30,423	—	—	
15.634	State Wildlife Grants	950,829	—	—	7
15.657	Endangered Species Recovery Implementation	72,520	—	—	
15.664	Fish and Wildlife Coordination and Assistance	894	—	—	
15.684	White-nose Syndrome National Response Implementation	18,235	—	—	
15.904	Historic Preservation Fund Grants-In-Aid	682,256	—	132,147	
15.916	Outdoor Recreation Acquisition, Development and Planning	2,372,407	—	2,372,407	6
15.929	Save America's Treasures	17,987	—	—	
Total U.S. Department of the Interior		\$ 109,464,712	\$ —	\$ 7,973,510	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Justice					
Direct Programs:					
16.017	Sexual Assault Services Formula Program	\$ 838,534	\$ —	\$ 821,943	
16.036	COVID-19 Comprehensive Forensic DNA Analysis Grant Program	241,237	—	—	14
16.044	Forensics Training and Technical Assistance Program	29,209	—	—	
16.320	Services for Trafficking Victims	84,529	—	—	
16.540	Juvenile Justice and Delinquency Prevention	750,212	—	711,277	
16.543	Missing Children's Assistance	571,198	—	—	
16.554	National Criminal History Improvement Program (NCHIP)	1,924,950	—	—	
16.575	Crime Victim Assistance	14,414,105	—	14,085,124	
16.576	Crime Victim Compensation	216,448	—	—	
16.582	Crime Victim Assistance/Discretionary Grants	4,573	—	—	
16.585	Treatment Court Discretionary Grant Program	949,913	—	—	7
16.588	Violence Against Women Formula Grants	2,252,316	—	1,889,790	
16.593	Residential Substance Abuse Treatment for State Prisoners	474,585	—	—	
16.606	State Criminal Alien Assistance Program	79,728	—	—	
16.609	Project Safe Neighborhoods	509,042	—	467,856	
16.710	Public Safety Partnership and Community Policing Grants	916,892	—	—	
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,920,935	—	1,401,064	
16.741	DNA Backlog Reduction Program	1,223,152	—	—	
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	248,649	—	—	
16.746	Capital Case Litigation Initiative	85,479	—	—	
16.750	Support for Adam Walsh Act Implementation Grant Program	352,939	—	—	
16.754	Harold Rogers Prescription Drug Monitoring Program	1,740,993	—	—	
16.812	Second Chance Act Reentry Initiative	34,889	—	—	
16.820	Postconviction Testing of DNA Evidence	354,521	—	—	
16.833	National Sexual Assault Kit Initiative	1,130,410	—	—	
16.838	Comprehensive Opioid, Stimulant, and other Substances Use Program	299,374	—	20,826	
16.922	Equitable Sharing Program	2,312,167	—	—	
16.U01	Other Federal Assistance (DEA)	2,310,838	—	—	15
16.U02	Other Federal Assistance (FBI)	40,987	—	—	15
16.U03	Other Federal Assistance (ATF)	39,437	—	—	15
16.U04	Other Federal Assistance (USMS)	4,769	—	—	15
16.U06	United States Postal Inspection Service (USPIS) Task Force	18,052	—	—	15
Total U.S. Department of Justice		\$ 36,375,062	\$ —	\$ 19,397,880	
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	\$ 834,361	\$ —	\$ —	
17.005	Compensation and Working Conditions	166,190	—	—	
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	11,349,560	—	—	
17.801	Jobs for Veterans State Grants	2,532,846	—	—	
Total Employment Service Cluster:		13,882,406	—	—	
17.225	Unemployment Insurance	254,320,504	—	—	2, 4
17.225	COVID-19 Unemployment Insurance	15,023,767	—	—	2, 4, 14
17.235	Senior Community Service Employment Program	1,131,172	—	1,002,941	
17.245	Trade Adjustment Assistance	200,709	—	72,008	
WIOA Cluster:					
17.258	WIOA Adult Program	14,553,576	—	11,939,838	2
17.259	WIOA Youth Activities	13,081,182	—	10,864,502	2
17.278	WIOA Dislocated Worker Formula Grants	12,112,990	—	10,066,479	2
Total WIOA Cluster:		39,747,748	—	32,870,819	
17.271	Work Opportunity Tax Credit Program (WOTC)	298,218	—	—	
17.273	Temporary Labor Certification for Foreign Workers	699,674	—	—	
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	14,450,890	—	13,694,835	
17.285	Registered Apprenticeship	797,770	—	—	
17.503	Occupational Safety and Health State Program	4,648,061	—	—	
17.600	Mine Health and Safety Grants	352,144	—	—	
17.720	Disability Employment Policy Development	8,342,871	—	—	
Total U.S. Department of Labor		\$ 354,896,485	\$ —	\$ 47,640,603	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	\$ 1,434,098	\$ —	\$ —	14
20.205	Highway Planning and Construction	939,879,410	—	27,370,994	2, 5
20.205	COVID-19 Highway Planning and Construction	2,668,141	—	—	2, 5, 14
20.219	Recreational Trails Program	821,373	—	176,878	6
FMCSA Cluster:					
20.218	Motor Carrier Safety Assistance	4,287,087	—	104,006	
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	1,851,716	—	9,221	
Total FMCSA Cluster:		<u>6,138,803</u>	<u>—</u>	<u>113,227</u>	
20.231	Performance and Registration Information Systems Management	80,558	—	—	
20.232	Commercial Driver's License Program Implementation Grant	282,676	—	—	
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	251,801	—	—	
Federal Transit Cluster:					
20.526	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	9,962,760	—	9,435,234	
Total Federal Transit Cluster:		<u>9,962,760</u>	<u>—</u>	<u>9,435,234</u>	
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	823,061	—	823,061	
20.509	Formula Grants for Rural Areas and Tribal Transit Program	24,831,048	—	23,729,511	
20.509	COVID-19 Formula Grants for Rural Areas and Tribal Transit Program	773,023	—	773,023	14
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	4,267,177	—	4,267,177	
20.513	COVID-19 Enhanced Mobility of Seniors and Individuals with Disabilities	—	—	—	
Total Transit Services Programs Cluster:		<u>4,267,177</u>	<u>—</u>	<u>4,267,177</u>	
Highway Safety Cluster:					
20.600	State and Community Highway Safety	5,972,742	—	3,727,959	
20.616	National Priority Safety Programs	4,225,451	—	2,691,177	
Total Highway Safety Cluster:		<u>10,198,193</u>	<u>—</u>	<u>6,419,136</u>	
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	287,244	—	—	
20.700	Pipeline Safety Program State Base Grant	909,405	—	—	
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	149,337	—	—	
20.720	State Damage Prevention Program Grants	86,229	—	—	
20.721	PHMSA Pipeline Safety Program One Call Grant	43,323	—	—	
20.933	National Infrastructure Investments	2,417,539	—	2,060,038	
20.934	Nationally Significant Freight and Highway Projects	778,972	—	—	
Total U.S. Department of Transportation		<u>\$ 1,007,084,171</u>	<u>\$ —</u>	<u>\$ 75,168,279</u>	
U.S. Department of Treasury					
Direct Programs:					
21.023	COVID-19 Emergency Rental Assistance Program	\$ 124,207	\$ —	\$ 53,905	14
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds	222,280,099	—	172,104,964	2, 14
21.029	Coronavirus Capital Projects Fund	332,917	—	—	
21.031	COVID-19 State Small Business Credit Initiative Technical Assistance Grant Program	10,105	—	—	14
Total U.S. Department of Treasury		<u>\$ 222,747,328</u>	<u>\$ —</u>	<u>\$ 172,158,869</u>	
U.S. Appalachian Regional Commission					
Direct Programs:					
23.001	Appalachian Regional Development (See individual Appalachian Programs)	\$ 12,050	\$ —	\$ 4,711	
23.002	Appalachian Area Development	10,371,376	—	10,001,489	
Total U.S. Appalachian Regional Commission		<u>\$ 10,383,426</u>	<u>\$ —</u>	<u>\$ 10,006,200</u>	
U.S. Equal Employment Opportunity Commission					
Direct Programs:					
30.001	Employment Discrimination Title VII of the Civil Rights Act of 1964	\$ 11,368	\$ —	\$ —	
Total U.S. Equal Employment Opportunity Commission		<u>\$ 11,368</u>	<u>\$ —</u>	<u>\$ —</u>	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. General Services Commission					
Direct Programs:					
38.006	State Appraiser Agency Support Grants	\$ 63,201	\$ —	\$ —	
39.003	Donation of Federal Surplus Personal Property	—	3,250	—	10
Total U.S. General Services Commission		\$ 63,201	\$ 3,250	\$ —	
U.S. National Foundation for the Arts and the Humanities					
Direct Programs:					
45.025	Promotion of the Arts Partnership Agreements	\$ 968,800	\$ —	\$ 735,294	
45.310	Grants to States	2,970,444	—	—	
45.313	Laura Bush 21st Century Librarian Program	80,725	—	—	
Total U.S. National Foundation for the Arts and the Humanities		\$ 4,019,969	\$ —	\$ 735,294	
U. S. Small Business Administration					
Direct Programs:					
59.058	Federal and State Technology Partnership Program	\$ —	\$ —	\$ —	
59.061	State Trade Expansion	362,985	—	—	
Total U. S. Small Business Administration		\$ 362,985	\$ —	\$ —	
U.S. Department of Veteran Affairs					
Direct Programs:					
64.005	Grants to States for Construction of State Home Facilities	\$ 13,971,819	\$ —	\$ —	
64.015	Veterans State Nursing Home Care	35,243,302	—	—	2
64.057	Suicide Mortality Review Cooperative Agreements	4,979	—	—	
64.101	Burial Expenses Allowance for Veterans	962,442	—	—	
64.203	Veterans Cemetery Grants Program	35,800	—	—	
Total U.S. Department of Veteran Affairs		\$ 50,218,342	\$ —	\$ —	
U.S. Environmental Protection Agency					
Direct Programs:					
66.032	State and Tribal Indoor Radon Grants	\$ 47,824	\$ —	\$ 39,961	
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	785,061	129,342	—	10
66.040	Diesel Emissions Reduction Act (DERA) State Grants	293,398	—	287,835	
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	164,912	—	14,752	
66.442	Water Infrastructure Improvements for the Nation Small and Underserved Communities Emerging Contaminants Grant Program	5,842,335	—	142,568	
66.444	Voluntary School and Child Care Lead Testing and Reduction Grant Program (SDWA 1464(d))	83,780	—	—	
66.447	Sewer Overflow and Stormwater Reuse Municipal Grant Program	126,217	—	—	
66.454	Water Quality Management Planning	58,374	—	5,361	
66.458	Clean Water State Revolving Fund	807,825	—	—	
66.468	Drinking Water State Revolving Fund	12,390,009	—	—	
66.485	Support for the Gulf Hypoxia Action Plan	697,337	—	—	
66.605	Performance Partnership Grants	11,683,769	181,385	1,078,986	10
66.708	Pollution Prevention Grants Program	108,042	—	58,703	
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	205,825	—	—	
66.804	Underground Storage Tank (UST) Prevention, Detection, and Compliance Program	547,397	—	—	
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	1,043,772	—	—	
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	38,655	—	—	
66.817	State and Tribal Response Program Grants	762,513	—	—	
66.818	Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements	346,139	—	—	
66.920	Solid Waste Infrastructure for Recycling Infrastructure Grants	18,392	—	14,001	
66.959	Greenhouse Gas Reduction Fund: Solar for All	40,706	—	—	
Total U.S. Environmental Protection Agency		\$ 36,092,282	\$ 310,727	\$ 1,642,167	
U. S. Department of Energy					
Direct Programs:					
81.041	State Energy Program	\$ 2,470,610	\$ —	\$ 748,539	
81.045	Special Studies and Projects in Energy Education and Training	207,961	—	—	
81.089	Fossil Energy Research and Development	149,123	—	—	
81.104	Environmental Remediation and Waste Processing and Disposal	938,491	—	—	
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG)	10,698	—	—	
81.138	State Heating Oil and Propane Program	1,110	—	—	
81.254	Grid Infrastructure Deployment and Resilience	129,210	—	—	
Total U. S. Department of Energy		\$ 3,907,203	\$ —	\$ 748,539	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Department of Education					
Direct Programs:					
84.002	Adult Education - Basic Grants to States	\$ 10,917,541	\$ —	\$ 10,618,026	
84.010	Title I Grants to Local Educational Agencies	300,484,831	—	290,723,295	2
84.011	Migrant Education State Grant Program	8,957,778	—	8,081,534	
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	1,502,602	—	1,051,407	
Special Education Cluster (IDEA):					
84.027	COVID-19 Special Education Grants to States	38,962	—	38,962	2, 14
84.027	Special Education Grants to States	212,367,247	—	207,808,767	2
84.173	COVID-19 Special Education Preschool Grants	751	—	—	2, 14
84.173	Special Education Preschool Grants	12,480,521	—	11,861,215	2
Total Special Education Cluster (IDEA):		224,887,481	—	219,708,944	
84.048	Career and Technical Education -- Basic Grants to States	23,858,942	—	20,072,979	
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	105,068,163	—	—	2
84.144	Migrant Education Coordination Program	71,597	—	—	
84.161	Rehabilitation Services Client Assistance Program	161,175	—	—	
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	269,286	—	—	
84.181	Special Education-Grants for Infants and Families	6,489,231	—	—	
84.181	COVID-19 Special Education-Grants for Infants and Families	797,696	—	—	14
84.184	School Safely National Activities	421,660	—	202,362	
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	300,000	—	—	
84.196	Education for Homeless Children and Youth	1,366,503	—	1,175,127	
84.240	Program of Protection and Advocacy of Individual Rights	217,861	—	—	
84.287	Twenty-First Century Community Learning Centers	16,200,788	—	15,740,459	
84.323	Special Education - State Personnel Development	917,616	—	494,733	
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	218,613	—	215,268	
84.358	Rural Education	6,949,284	—	6,812,066	
84.365	English Language Acquisition State Grants	5,817,574	—	5,545,854	
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	37,000,444	—	34,981,805	2
84.368	Competitive Grants for State Assessments	847,760	—	458,577	
84.369	Grants for State Assessments and Related Activities	6,452,477	—	—	
84.371	Comprehensive Literacy Development	6,801,035	—	6,516,632	
84.372	COVID-19 Statewide Longitudinal Data Systems	836,448	—	—	14
84.421	Disability Innovation Fund (DIF)	957,514	—	234,704	
84.424	Student Support and Academic Enrichment Program	30,775,156	—	29,554,707	
84.425	COVID-19 Education Stabilization Fund	347,544,090	—	319,892,288	2, 14
84.U01	National Center for Education Statistics	158,385	—	—	15
Total U.S. Department of Education		\$ 1,147,249,531	\$ —	\$ 972,080,767	
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	\$ 61,540	\$ —	\$ —	
Total U.S. National Archives and Records Administration		\$ 61,540	\$ —	\$ —	
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments	\$ 397,638	\$ —	\$ —	
90.404	HAVA Election Security Grants	808,915	—	510,045	
Total U.S. Election Assistance Commission		\$ 1,206,553	\$ —	\$ 510,045	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U. S. Department of Health and Human Services					
Direct Programs:					
93.008	Medical Reserve Corps Small Grant Program	\$ 1,385,509	\$ —	\$ 95,693	
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	59,839	—	58,156	
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	202,140	—	201,753	
93.042	COVID-19 Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	23,079	—	23,079	14
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	512,491	—	304,011	
93.043	COVID-19 Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	243,229	—	243,229	14
Aging Cluster:					
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	6,265,998	—	5,826,225	
93.044	COVID-19 Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	3,060,237	—	2,406,372	14
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	12,888,433	—	12,775,610	
93.045	COVID-19 Special Programs for the Aging, Title III, Part C, Nutrition Services	3,598,462	—	3,583,104	14
93.053	Nutrition Services Incentive Program	1,270,786	—	1,264,440	
	Total Aging Cluster:	27,083,916	—	25,855,751	
93.048	Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	346,118	—	124,483	
93.048	COVID-19 Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	31,512	—	—	14
93.052	National Family Caregiver Support, Title III, Part E	2,459,078	—	2,320,184	
93.052	COVID-19 National Family Caregiver Support, Title III, Part E	914,507	—	914,507	14
93.069	Public Health Emergency Preparedness	10,686,140	—	3,973,691	
93.070	Environmental Public Health and Emergency Response	1,358,067	—	87,570	
93.070	COVID-19 Environmental Public Health and Emergency Response	4,318	—	—	14
93.071	Medicare Enrollment Assistance Program	1,111,498	—	603,379	
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	24,668	—	24,668	
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	704,870	—	361,035	
93.103	Food and Drug Administration Research	1,054,839	—	—	
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,678,292	—	318,538	
93.110	Maternal and Child Health Federal Consolidated Programs	675,741	—	161,657	
93.110	COVID-19 Maternal and Child Health Federal Consolidated Programs	543,587	—	—	14
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	867,188	3,735	443,901	10
93.127	Emergency Medical Services for Children	163,073	—	—	
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	131,071	—	—	
93.136	Injury Prevention and Control Research and State and Community Based Programs	769,581	—	609,790	
93.138	Protection and Advocacy for Individuals with Mental Illness	387,888	—	—	
93.150	Projects for Assistance in Transition from Homelessness (PATH)	468,440	—	450,130	
93.197	Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	419,797	—	150,553	
93.217	Family Planning Services	5,280,563	—	2,829,732	
93.234	Traumatic Brain Injury State Demonstration Grant Program	296,001	—	—	
93.235	Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	948,875	—	620,413	
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	5,113,673	—	2,826,526	7
93.243	COVID-19 Substance Abuse and Mental Health Services Projects of Regional and National Significance	6,363,116	—	4,942,184	14
93.251	Early Hearing Detection and Intervention	142,312	—	—	
93.268	Immunization Cooperative Agreements	21,462,940	85,452,287	8,366,485	2, 10
93.268	COVID-19 Immunization Cooperative Agreements	928,241	—	—	2, 10, 14
93.270	Viral Hepatitis Prevention and Control	638,671	—	66,964	
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	167,897	—	—	
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	3,252,386	—	361,111	2
93.323	COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	52,148,449	—	17,826,695	2, 14
93.324	State Health Insurance Assistance Program	913,915	—	662,375	
93.324	COVID-19 State Health Insurance Assistance Program	32,480	—	—	14

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U. S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.334	The Healthy Brain Initiative: Technical Assistance to Implement Public Health Actions related to Cognitive Health, Cognitive Impairment, and Caregiving at the State and Local Levels	173,484	—	—	
93.336	Behavioral Risk Factor Surveillance System	549,431	—	—	
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	5,219,299	—	239,773	
93.369	ACL Independent Living State Grants	373,748	—	314,851	
93.387	National and State Tobacco Control Program	1,478,293	—	195,253	
93.391	COVID-19 Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	8,969,155	—	5,738,373	14
93.426	The National Cardiovascular Health Program	1,144,808	—	772,195	
93.434	Every Student Succeeds Act/Preschool Development Grants	6,787,110	—	4,350,069	
93.439	State Physical Activity and Nutrition (SPAN)	461,782	—	71,044	
93.464	ACL Assistive Technology	540,116	—	—	
93.470	Alzheimer's Disease Program Initiative (ADPI)	369,373	—	196,179	
93.472	Title IV-E Prevention Program	28,497,707	—	12,384,475	
93.495	COVID-19 Community Health Workers for Public Health Response and Resilient	1,664,083	—	151,610	14
93.497	COVID-19 Family Violence Prevention and Services/ Sexual Assault/Rape Crisis Services and Supports	468,182	—	468,182	14
93.498	COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	1,014,592	—	—	14
93.504	Family to Family Health Information Centers	81,408	—	—	
93.556	MaryLee Allen Promoting Safe and Stable Families Program	10,428,092	—	5,263,098	
93.558	Temporary Assistance for Needy Families	256,683,833	—	26,318,093	2
93.563	Child Support Services	53,301,797	—	34,240,333	2
93.564	Child Support Services Research	4,649	—	—	7
93.568	Low-Income Home Energy Assistance	62,133,595	—	8,240,423	2
93.569	Community Services Block Grant	14,572,003	—	13,904,565	
93.570	Community Services Block Grant Discretionary Awards	283,180	—	—	
CCDF Cluster:					
93.575	Child Care and Development Block Grant	168,712,519	—	5,271,315	2
93.575	COVID-19 Child Care and Development Block Grant	81,370,114	—	136,393	2, 14
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	20,018,412	—	2,555,072	2
	Total CCDF Cluster:	270,101,045	—	7,962,780	
93.586	State Court Improvement Program	428,051	—	—	
93.590	Community-Based Child Abuse Prevention Grants	2,194,032	—	1,651,480	
93.590	COVID-19 Community-Based Child Abuse Prevention Grants	1,493,095	—	1,493,095	14
93.597	Grants to States for Access and Visitation Programs	211,791	—	—	
93.599	Chafee Education and Training Vouchers Program (ETV)	605,000	—	—	
Head Start Cluster:					
93.600	Head Start	190,575	—	—	
	Total Head Start Cluster:	190,575	—	—	
93.603	Adoption and Legal Guardianship Incentive Payments Program	673,816	—	567,549	
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	161,447	—	—	
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,541,571	—	1,035,473	
93.630	COVID-19 Developmental Disabilities Basic Support and Advocacy Grants	80,000	—	—	14
93.643	Children's Justice Grants to States	300,047	—	214,655	
93.645	Stephanie Tubbs Jones Child Welfare Services Program	4,381,657	—	—	
93.658	Foster Care Title IV-E	42,083,395	—	3,786,580	2
93.658	COVID-19 Foster Care Title IV-E	76,038	—	—	2, 14
93.659	Adoption Assistance	88,077,324	—	—	2
93.659	COVID-19 Adoption Assistance	24,290	—	—	2, 14
93.667	Social Services Block Grant	10,582,089	—	16,586	
93.669	Child Abuse and Neglect State Grants	2,120,634	—	1,107,639	
93.669	COVID-19 Child Abuse and Neglect State Grants	667,413	—	—	14
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	1,796,737	—	1,775,386	
93.671	COVID-19 Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	1,010,915	—	1,010,915	14
93.674	John H. Chafee Foster Care Program for Successful Transition to Adulthood	3,156,082	—	933,458	
93.686	Ending the HIV Epidemic: A Plan for America — Ryan White HIV/AIDS Program Parts A and B	2,593,076	—	1,395,963	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U. S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.698	COVID-19 Elder Justice Act – Adult Protective Services	183,102	—	183,102	14
93.747	COVID-19 Elder Abuse Prevention Interventions Program	1,251,447	—	693,393	14
93.767	Children's Health Insurance Program	434,918,365	—	—	2
93.771	State Grants for the Implementation, Enhancement, and Expansion of Medicaid and CHIP School-Based Services	346,004	—	—	
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units	3,507,296	—	—	2
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	9,690,271	—	—	2
93.778	Grants to States for Medicaid	15,496,216,869	—	—	2, 7
93.778	COVID-19 Grants to States for Medicaid	5,059,305	—	—	2, 14
Total Medicaid Cluster:		15,514,473,741	—	—	
93.788	Opioid STR	39,994,423	—	5,209,537	2
93.791	Money Follows the Person Rebalancing Demonstration	1,722,877	—	—	
93.800	Organized Approaches to Increase Colorectal Cancer Screening	653,183	—	—	
93.843	ACL Assistive Technology State Grants for Protection and Advocacy	42,278	—	—	
93.870	Maternal, Infant and Early Childhood Home Visiting Grant	5,543,299	—	4,402,678	
93.870	COVID-19 Maternal, Infant and Early Childhood Home Visiting Grant	391,646	—	340,785	14
93.873	State Grants for Protection and Advocacy Services	57,429	—	—	
93.889	National Bioterrorism Hospital Preparedness Program	3,014,531	—	101,457	
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	2,827,411	—	486,466	
93.940	HIV Prevention Activities Health Department Based	3,833,375	—	1,343,004	
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	818,106	—	34,500	
93.958	Block Grants for Community Mental Health Services	10,591,660	—	8,216,018	
93.958	COVID-19 Block Grants for Community Mental Health Services	10,645,945	—	8,957,012	14
93.959	Block Grants for Prevention and Treatment of Substance Abuse	21,968,479	—	17,672,737	
93.959	COVID-19 Block Grants for Prevention and Treatment of Substance Abuse	11,202,513	—	7,869,149	14
93.967	Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	2,657,878	—	165,167	
93.967	COVID-19 Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	7,137,160	—	1,041,323	14
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	523,049	331,091	3,260	10
93.977	COVID-19 Sexually Transmitted Diseases (STD) Prevention and Control Grants	1,887,144	—	4,141	14
93.981	Improving Student Health and Academic Achievement through Nutrition, Physical Activity and the Management of Chronic Conditions in Schools	319,507	—	101,282	
93.988	Cooperative Agreements for Diabetes Control Programs	958,385	—	177,686	
93.991	Preventive Health and Health Services Block Grant	2,088,376	—	1,053,195	
93.994	Maternal and Child Health Services Block Grant to the States	12,934,461	—	3,660,407	
93.997	Assisted Outpatient Treatment	124,757	—	105,111	
93.U01	Other Federal Assistance	22,363	—	—	15
93.U02	Veterans State Nursing home Care	861,143	—	—	15
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections	790,170	—	—	15
Total U. S. Department of Health and Human Services		\$ 17,136,534,042	\$ 85,787,113	\$ 273,449,728	
U.S. Corporation for National and Community Service					
Direct Programs:					
94.003	AmeriCorps State Commissions Support Grant	\$ 380,341	\$ —	\$ —	
94.006	AmeriCorps State and National 94.006	11,029,202	—	10,950,678	
94.006	COVID-19 AmeriCorps State and National 94.006	698,844	—	698,844	14
94.008	AmeriCorps Commission Investment Fund 94.008	108,038	—	—	
Total U.S. Corporation for National and Community Service		\$ 12,216,425	\$ —	\$ 11,649,522	
U.S. Office of National Drug Control Policy					
Direct Programs:					
95.001	High Intensity Drug Trafficking Areas Program	\$ 1,188,016	\$ —	\$ —	
Total U.S. Office of National Drug Control Policy		\$ 1,188,016	\$ —	\$ —	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

ALN	Program Title	Expenditures		Provided to Subrecipient	Note(s)
		Cash	Noncash		
U.S. Social Security Administration					
Direct Programs:					
Disability Insurance /SSI Cluster:					
96.001	Social Security Disability Insurance	\$ 61,643,640	\$ —	\$ —	2
Total Disability Insurance /SSI Cluster:		61,643,640	—	—	
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	819,031	—	—	
Total U.S. Social Security Administration		\$ 62,462,671	\$ —	\$ —	
U.S. Department of Homeland Security					
Direct Programs:					
97.008	Non-Profit Security Program	\$ 1,518,729	\$ —	\$ 1,486,513	
97.012	Boating Safety Financial Assistance	1,493,262	—	—	
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	341,292	—	—	
97.029	Flood Mitigation Assistance	1,190,690	—	1,190,690	
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	252,164,839	—	149,984,065	2
97.039	Hazard Mitigation Grant	17,350,018	—	4,151,446	
97.040	Chemical Stockpile Emergency Preparedness Program	7,710,792	—	6,442,098	
97.041	National Dam Safety Program	385,943	—	—	
97.042	Emergency Management Performance Grants	5,920,270	—	2,958,406	
97.045	Cooperating Technical Partners	4,741,129	—	—	
97.047	BRIC: Building Resilient Infrastructure and Communities	772,657	—	772,657	
97.048	Federal Disaster Assistance to Individuals and Households in Presidential Declared Disaster Areas	4,962,145	—	4,876,984	
97.067	Homeland Security Grant Program	5,828,859	—	4,685,972	
97.082	Earthquake State Assistance	46,231	—	28,872	
97.088	Disaster Assistance Projects	117,860	—	—	
97.137	State and Local Cybersecurity Grant Program	2,067,361	—	899,966	
97.U01	Other Federal Assistance State Police	18,725	—	—	15
Total U.S. Department of Homeland Security		\$ 306,630,802	\$ —	\$ 177,477,669	
Total All State Agencies		\$ 21,442,678,710	\$ 1,393,149,146	\$ 2,408,495,270	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Note 1 - Basis of Presentation and Significant Accounting Policies

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Schedule includes the federal award activity of the Commonwealth, except those programs administered by state universities and other discretely presented component units, for the year ended June 30, 2025. Because the Schedule presents only a selected portion of the operations of the Commonwealth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commonwealth.

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

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

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

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

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2025. The noncash expenditures presented on the Schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

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

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

Programs that do not have an Assistance Listing Number (ALN) are identified using the two-digit federal identifier prefix, the letter "U" for Unknown, and a preassigned two-digit number. Additional identifying factors used by the Commonwealth are described in Note 15.

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

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

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

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

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$34,253,742 for FY 2025. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 2025, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

ALN	Program Title		Expenditures
Supplemental Nutrition Assistance Program Cluster			
10.551	Supplemental Nutrition Assistance Program	\$	1,267,078,095
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		115,674,458

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

Note 2 Type A Programs (Continued)

ALN	Program Title	Expenditures
Child Nutrition Cluster		
10.553	School Breakfast Program	123,815,637
10.555	National School Lunch Program	304,158,601
10.556	Special Milk Program for Children	16,230
10.559	Summer Food Service Program for Children	34,911,551
10.582	Fresh Fruit and Vegetable Program	3,598,129
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	139,379,743
10.557	COVID-19 WIC Special Supplemental Nutrition Program for Women, Infants, and Children	14,077
10.558	Child and Adult Care Food Program	59,282,622
Food Distribution Cluster		
10.565	Commodity Supplemental Food Program	15,514,962
10.568	Emergency Food Assistance Program (Administrative Costs)	2,461,271
10.569	Emergency Food Assistance Program (Food Commodities)	27,623,761
10.646	Summer Electronic Benefit Transfer Program for Children	53,426,159
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	34,369,415
15.252	Abandoned Mine Land Reclamation (AMLR)	62,810,476
17.225	Unemployment Insurance	254,320,504
17.225	COVID-19 Unemployment Insurance	15,023,767
WIOA Cluster		
17.258	WIOA Adult Program	14,553,576
17.259	WIOA Youth Activities	13,081,182
17.278	WIOA Dislocated Worker Formula Grants	12,112,990
20.205	Highway Planning and Construction	939,879,410
20.205	COVID-19 Highway Planning and Construction	2,668,141
21.027	COVID-19 Coronavirus State And Local Fiscal Recovery Funds	222,280,099
64.015	Veterans State Nursing Home Care	35,243,302
84.010	Title I Grants to Local Educational Agencies	300,484,831
Special Education Cluster (IDEA)		
84.027	Special Education Grants to States	212,367,247
84.027	COVID-19 Special Education Grants to States	38,962
84.173	Special Education Preschool Grants	12,480,521
84.173	COVID-19 Special Education Preschool Grants	751

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

Note 2 - Type A Programs (Continued)

ALN	Program Title	Expenditures
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	105,068,163
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	37,000,444
84.425	COVID-19 Education Stabilization Fund	347,544,090
93.268	Immunization Cooperative Agreements	106,915,227
93.268	COVID-19 Immunization Cooperative Agreements	928,241
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	3,252,386
93.323	COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	52,148,449
93.558	Temporary Assistance for Needy Families	256,683,833
93.563	Child Support Services	53,301,797
93.568	Low-Income Home Energy Assistance	62,133,595
CCDF Cluster		
93.575	Child Care and Development Block Grant	168,712,519
93.575	COVID-19 Child Care and Development Block Grant	81,370,114
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	20,018,412
93.658	Foster Care Title IV-E	42,083,395
93.658	COVID-19 Foster Care Title IV-E	76,038
93.659	Adoption Assistance	88,077,324
93.659	COVID-19 Adoption Assistance	24,290
93.767	Children's Health Insurance Program	434,918,365
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	3,507,296
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	9,690,271
93.778	Grants to States for Medicaid	15,496,216,869
93.778	COVID-19 Grants to States for Medicaid	5,059,305
93.788	Opioid STR	39,994,423
Disability Insurance/Supplemental Security Income Cluster		
96.001	Social Security Disability Insurance	61,643,640
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	252,164,839
Total Type A Programs \$		22,007,203,795

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

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

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

All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2025, outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY 2025.

Note 4 - Unemployment Insurance (ALN 17.225)

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

<u>ALN</u>	<u>Program Title</u>	<u>Benefits</u>	<u>Administrative Costs</u>	<u>Total Expenditures</u>
17.225	Unemployment Insurance	\$ 218,122,097	\$ 36,198,407	\$ 254,320,504
17.225	COVID-19 Unemployment Insurance	707,159	14,316,608	15,023,767
	Total	\$ 218,829,256	\$ 50,515,015	\$ 269,344,271

Note 5 - Highway Planning and Construction (ALN 20.205)

The information reported for the Highway Planning and Construction program represents the activity of all open projects during FY 2025. These projects were funded from several appropriations. Appropriations refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration. Expenditures for the Highway Planning and Construction Program were shown, net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$2,133,416 for FY 2025.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)

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

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

Note 7 - Research and Development Expenditures

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

The R&D portions of the expenditures for each program are listed below:

ALN	Program Title	State Agency	Expenditures
10.028	Wildlife Services	F&W	\$ 55,603
15.605	Sport Fish Restoration	F&W	623,910
15.608	Fish and Aquatic Conservation - Aquatic Invasive Species	F&W	2,598,787
15.611	Wildlife Restoration and Basic Hunter Education and Safety	F&W	1,701,373
15.615	Cooperative Endangered Species Conservation Fund	F&W	132,488
15.634	State Wildlife Grants	F&W	917,989
16.585	Treatment Court Discretionary Grant Program	AOC	77,847
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	AOC	179,098
93.564	Child Support Services Research	CHFS	4,649
93.778	Grants to States for Medicaid	CHFS	2,624,452
Total Research and Development Expenditures			\$ 8,916,196

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

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

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

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

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

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

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

Note 10 - Noncash Expenditure Programs

The Commonwealth's noncash programs and a description of the method/basis of valuation for FY 2025 are as follows:

<u>ALN</u>	<u>Program Title</u>	<u>Method/Basis of Valuation</u>	<u>Amount</u>
10.551	Supplemental Nutrition Assistance Program	EBT Issuance	\$ 1,267,078,095
10.565	Commodity Supplemental Food Program	Commodities Issued for 2023 per WBSCM Report	12,431,666
10.569	Emergency Food Assistance Program (Food Commodities)	Commodities Issued for 2023 per WBSCM Report	27,538,295
39.003	Donation of Federal Surplus Personal Property	Valued by Federal Government Donor	3,250

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

Note 10 - Noncash Expenditure Programs (Continued)

66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	EPA contracts with Eastern Research Group for sample analysis	129,342
66.605	Performance Partnership Grants	In-kind services valued by the donor, the U.S. Environmental Protection Agency	181,385
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	NGA	3,735
93.268	Immunization Cooperative Agreements	Program Staff	85,452,287
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	CDC Report	331,091
	Total Noncash Expenditure Programs		<u>\$ 1,393,149,146</u>

Note 11 - Activity Occurring in Programs with Inventoriable Items

In prior years, Kentucky Department of Agriculture operated a warehouse of inventoriable items for the Commodity Supplemental Food Program (ALN 10.565). The Commonwealth no longer maintains warehouse space or stores non-cash food commodity items as those items are shipped to food banks directly from food commodity distributors.

Note 12 - Election Reform Payments (ALN 39.011)

Interest earned must be used for additional program expenditures.

No expenditures occurred during the fiscal year.

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

Note 13 - Pertaining to American Recovery and Reinvestment Act (ARRA)

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

No expenditures occurred during the fiscal year.

Note 14 - Pertaining to Novel Coronavirus Pandemic Relief

To identify COVID-19 funds on the Schedule of Expenditures of Federal Awards, the prefix COVID-19 will precede the Program Title on the Grantor Schedule.

The following list identifies the various federal acts the Commonwealth received COVID-19 funding from:

ARPA: American Rescue Plan Act

CARES: Coronavirus Aid, Relief, and Economic Security Act

CPRSA: Coronavirus Preparedness and Response Supplemental Appropriations Act

CRRSA: Coronavirus Response Relief Supplemental Appropriations Act

FFCRA: Families First Coronavirus Response Act

PPP: Paycheck Protection Program and Health Care Enhancement Act

**COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

Note 15 - Unknown Assistance Listing Number (ALN)

When a Federal program has been awarded to the Commonwealth with an unknown ALN number, the items discussed in Note 1 - Significant Accounting Policies are used to prepare the Schedule. The Commonwealth also uses other identifiers such as the major program, program, and function codes as established through grant accounting. Expenditures made during FY 2025 that were associated with unknown ALN numbers are listed below:

<u>ALN</u>	<u>Program Title</u>	<u>Agency</u>	<u>Award Identifier</u>	<u>Expenditures</u>
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	EEC	ACWPRG-04-BBB0	\$ 1,411,137
16.U01	Other Federal Assistance (DEA)	KSP	MULTIPLE	2,310,838
16.U02	Other Federal Assistance (FBI)	KSP	MULTIPLE	40,987
16.U03	Other Federal Assistance (ATF)	KSP	MOA# 19-LOU-168-AFF MOA# 20-LOU-168-AFF	39,437
16.U04	Other Federal Assistance (USMS)	KSP	MOU	4,769
16.U06	United States Postal Inspection Service (USPIS) Task Force	KSP	MOU	18,052
84.U01	National Center for Education Statistics	EDU	91990020C0043	158,385
93.U01	Other Federal Assistance	KSP	2019-CIO-715-0457 2020-CIO-715-0457	22,363
93.U02	Veterans State Nursing Home Care	VA	KY-074-1324-DA00- R604	861,143
93.U03	Kentucky Compliance & Enforcement Tobacco Retail Inspections	PPC	FDAPRG-FDA00-19-BB00/BG00	790,170
97.U01	Other Federal Assistance State Police	KSP	Other Federal Assistance	18,725
			Total	<u>\$ 5,676,006</u>

**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***



ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the Fiscal Year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated February 27, 2026. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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



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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be material weaknesses: 2025-001 through 2025-008.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be significant deficiencies: 2025-009 through 2025-023.

Report on Compliance and Other Matters

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

Commonwealth's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Commonwealth's response to the findings identified in our audit and described in the accompanying schedule of financial statement findings. The Commonwealth's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Purpose of this Report

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

Respectfully Submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Kentucky

February 27, 2026

FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-001: The Cabinet For Health And Family Services Failed To Maintain Controls Over Submission Of The Annual Closing Package

Condition and Context

The Annual Comprehensive Financial Report (ACFR) for the Commonwealth of Kentucky is compiled using data from the statewide accounting system along with other accounting information submitted by agencies to the Finance and Administration Cabinet (FAC). Accounting information is submitted to FAC using detailed annual closing package forms.

Auditors compared the Cabinet for Health and Family Services (CHFS) Department for Medicaid Services Federal Fund and Agency Revenue Fund closing package submission to the related supporting documentation and identified an error. This error caused deferred inflows to be calculated with incorrect amounts, leading to an overstatement of deferred inflows. The Federal Fund total deferred inflows were overstated by \$155,855,816. Agency Revenue Fund total deferred inflows were overstated by \$62,185,337.

Cause

The calculation of the within and over 30-day amounts for accounts receivable were inadvertently reversed. Internal controls did not prevent, or detect and correct, the inaccurate reporting of the within and over 30-day accounts receivable leading to an error in the deferred inflows for the Federal and Agency Revenue Funds.

Effect

If the errors had not been detected during the audit, the deferred inflows would have been overstated by \$155,855,816 for the Federal Fund and \$62,185,337 for the Agency Revenue Fund. Inaccuracies in the measurement, recognition, presentation, and disclosure of reporting information could negatively impact users of the financial statements including management decisions.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-001: The Cabinet For Health And Family Services Failed To Maintain Controls Over Submission Of The Annual Closing Package (Continued)**

Recommendation

We recommend CHFS review internal control processes related to the compilation of annual closing package information to ensure all amounts submitted are accurate.

Management's Response and Planned Corrective Action

Management acknowledges the finding that the within-30-day and over-30-day accounts receivable amounts were inadvertently reversed during the preparation of the annual closing package. We agree with APA's recommendation. CHFS will strengthen its internal control processes related to the compilation and review of annual closing package information. Specifically, we will:

- *Enhance our secondary review procedure to verify the accuracy and proper classification of closing package forms.*
- *Provide refresher training to staff involved in year-end reporting to reinforce proper reconciliation and review practices.*
- *Ensure staff involved in preparing and/or reviewing the closing package attend the closing package training provided by Finance every year.*
- *Send imputed forms to department staff to review the information we intend to submit for the closing package before submission.*

These corrective actions will strengthen our internal controls to help ensure that all amounts submitted in the closing package are accurate and that similar errors are prevented in future reporting cycles.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-002: The Department Of Revenue Failed To Maintain Controls Over Submission Of The Annual Closing Package

Condition and Context

This is a repeat finding as reported in the fiscal year 2024 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2024-005.

The Annual Comprehensive Financial Report (ACFR) for the Commonwealth of Kentucky is compiled using data from the statewide accounting system along with other accounting information submitted by agencies to the Finance and Administration Cabinet (FAC). Accounting information is submitted to FAC using detailed annual closing package forms housed in a compilation application.

Auditors compared the Department of Revenue (DOR) closing package submission to the related supporting documentation and identified several calculation errors and items omitted from FAC's compilation application. The General Fund total receivable and uncollectible amounts were understated by \$12,835,201 and \$1,607,485, respectively. In addition, the Agency Revenue Fund total receivable and uncollectible amounts were understated by \$506,236 and \$275,977, respectively.

Cause

Internal controls did not prevent, or detect and correct, the inaccurate reporting of accounts receivable and uncollectible amounts for the General and Agency Revenue Funds into FAC's compilation application.

Effect

Without detection and subsequent correction, the Commonwealth's financial statements for the General Fund and the Agency Revenue Fund would have contained misstatements. Additionally, inadequate controls lead to the risk of other potential errors, including material misstatements. Inaccuracies in the measurement, recognition, presentation, and disclosure of reporting information could negatively impact users of the financial statements including management decisions.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Recommendation

We recommend DOR review internal control processes related to the internal consolidation of annual closing package information and entry into the FAC compilation application submission to ensure all amounts submitted are accurate.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-002: The Department Of Revenue Failed To Maintain Controls Over Submission Of The Annual Closing Package (Continued)

Management's Response and Planned Corrective Action

The Department of Revenue (DOR) acknowledges the finding. DOR recognizes that calculation discrepancies and omissions within the FY25 annual closing package resulted in understated receivable and uncollectible balances for both the General Fund and Agency Revenue Fund. Although internal review procedures are in place, those controls did not identify the errors prior to final submission through the Finance and Administration Cabinet's (FAC) compilation application.

In response, DOR has initiated a Corrective Action Plan focused on strengthening submission accuracy, review, rigor, and reconciliation controls.

The following remediation actions are underway:

- *Ensuring both preparer validation and independent approval.*
- *Development and deployment of a standardized reconciliation checklist to confirm alignment between DORIS reporting, subsidiary ledgers, and closing package balances.*
- *Updates to year-end ACFR documentation to clearly outline calculation steps, supporting evidence requirements, and sequencing of internal review.*
- *Targeted training for all personnel involved in annual closing package preparation and submission, emphasizing reconciliation standards, documentation expectations, and approval requirements.*
- *Revised internal timelines to provide adequate review, validation, and documentation time before final submission to FAC.*

These actions will be jointly overseen by the Division of Information Management Director and the Office of the Commissioner and will be fully implemented prior to the FY26 ACFR closing cycle.

DOR remains committed to maintaining accurate financial reporting, strengthening internal controls, and ensuring full compliance with statewide financial reporting requirements.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-003: The Department Of Revenue Failed To Ensure The Department Of Revenue Integrated System Was Processing Correctly Prior To Implementation

Condition and Context

The fiscal year (FY) 2025 audit of the Department of Revenue (DOR) found several processing issues associated with the Department of Revenue Integrated System (DORIS) implementation project. The first phase of DORIS was implemented in March 2025 and replaces several legacy tax systems, including Sales and Use Tax, Withholding Tax, and Corporate Income Tax. It includes the Taxpayer Portal and primarily handles tax collection, assessment, filing, and payment.

DOR is not reconciling payment transactions processed in the legacy Compliance and Receivables System (CARS) to what is uploaded into DORIS. CARS is used for processing non-DORIS tax payments, which includes Individual Income Tax, Motor Fuels Tax, Fiduciary Tax, Insurance Tax, and numerous miscellaneous taxes. These payments are processed in CARS and then manually reported to DORIS via DM110 (Daily Tray Control Totals) documents. DORIS converts these into Revenue Accounting (RA) documents, which are interfaced and reported to the enhanced Management Administrative and Reporting System (eMARS) as Cost Allocation (CA) documents. eMARS is the Commonwealth of Kentucky's accounting system. DORIS does not know the underlying activity that make up the CARS CA totals; it simply receives a file of aggregated numbers representing debits and credits.

In addition, on May 9, 2025, DOR discovered Viking payments totaling \$11,157 had been inadvertently applied twice to certain CARS bills. Viking captures tax payments that are mailed into DOR, which are then entered into DORIS and CARS. All identified duplicate credits, which involved 39 taxpayers, were corrected on May 29, 2025.

On April 22, 2025, DOR was informed by taxpayers that DORIS portal payments were being withdrawn from their bank accounts twice. DOR is working with the DORIS vendor to issue refunds. DOR determined refunds totaling \$33,703,086 were due to 4,121 taxpayers as a result of the duplicate withdrawals.

Furthermore, upon implementation of DORIS, the vendor mistakenly converted former accounts receivable from CARS which had been written off due to being past the 10-year statute of collection per KRS 131.500 to current accounts receivable. As such, DORIS reports there are \$568,804,836 bills of accounts receivable involving Corporate Income Limited Liability Entity Tax, Employers Withholding Tax, Sales and Use Miscellaneous Tax, and Sales and Use Tax which are uncollectible. These transactions date between 1962 and 2014.

DOR relies on the DORIS vendor for processing system data, which is handled via a job scheduler, also known as JAMS. DOR is not currently processing JAMS jobs. As such, no formal policies or procedures have been documented. DOR provides direction to the DORIS vendor for ad hoc jobs as they arise. In addition, during fieldwork, auditors requested a report of tax transactions processed in DORIS during FY 2025. This request had to be completed with assistance from the vendor. While DOR is heavily reliant on the vendor for daily processing, they do not validate vendor-processed data.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-003: The Department Of Revenue Failed To Ensure The Department Of Revenue Integrated System Was Processing Correctly Prior To Implementation (Continued)

Condition and Context (Continued)

Due to unstable operations, DOR management makes daily decisions as to what business functionality is 'turned on' or 'turned off' in DORIS. Functionality is disabled as needed to optimize performance while the vendor works to address system issues.

The DORIS vendor is also primarily responsible for maintaining operational knowledge of the system. Training manuals have been developed which provide users with a basic understanding of the key components and pages in DORIS; however, the manuals are currently in draft form and have not been finalized. Also, they do not explain reporting or technical functionality associated with specific tax processes.

Cause

DOR relies on the DORIS vendor for daily processing but has not independently validated vendor-processed data or retained sufficient system knowledge to oversee system functionality and controls. The agency has not developed sufficient capability to manage and review vendor system processes and relies primarily on the vendor for system functionality and data integrity assurance.

In addition, DOR has not developed procedures or performed a reconciliation between DORIS and CARS. Furthermore, DOR is manually uploading aggregated CARS data into DORIS. This does not allow auditors to complete testing to verify individual tax payments are processed accurately.

In relation to CARS duplicates, DOR confirmed the original Viking design documentation included a rule specifying that payments received in that system should not be sent to CARS; however, this requirement was missed during development and throughout all levels of testing. Regarding DORIS duplicates, DOR determined two instances of the same job were running concurrently due to an operational restart before the original job had fully terminated. This led to duplicate Cart IDs being sent for the same payment.

Old receivables data was improperly converted to DORIS before implementation. Also, DOR has not developed a policy or procedure explaining how to handle the receivables that can no longer be collected and when they are to be written off.

Effect

Failure to reconcile CARS and DORIS data led to the errors noted above and increases the risk of:

- Financial or program reporting errors.
- Additional duplicate payments or processing errors being undetected.
- Misstatement of financial or operational information.
- Delayed detection and correction of system errors.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

Finding 2025-003: The Department Of Revenue Failed To Ensure The Department Of Revenue Integrated System Was Processing Correctly Prior To Implementation (Continued)

Effect (Continued)

These deficiencies may result in operational inefficiencies, inaccurate financial information, and potential noncompliance with state financial control requirements.

The absence of formalized policies and procedures can have significant operational, financial, compliance, and security impacts. It can lead to employees performing tasks inconsistently, which can result in inefficiencies, errors, and varied interpretations of responsibilities. Clear policies and procedures establish internal controls. Without them, organizations are vulnerable to mistakes and intentional misconduct, including unauthorized transactions or fraud.

Excessive reliance on the DORIS vendor increases the risk that system issues or irregularities may go undetected. Lack of internal knowledge and monitoring may result in data integrity risks, improper processing, system downtime exposure, and reduced ability to respond to system issues or perform independent oversight.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Section BP.05 of the Federal Information System Controls Audit Manual states, "Management designs and implements general controls to reasonably assure that system interfaces are properly managed to achieve information processing objectives." To achieve this, reconciliations of interfaced data from source and target systems should be performed to verify the integrity of interfaced data.

The National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 5, section SA-5 System Documentation, states that the organization:

- a. Obtain or develop administrator documentation for the system, system component, or system service that describes:
 1. Secure configuration, installation, and operation of the system, component, or service;
 2. Effective use and maintenance of security and privacy functions/mechanisms; and
 3. Known vulnerabilities regarding configuration and use of administrative (i.e., privileged) functions;
- b. Obtain or develop user documentation for the system, system component, or system service that describes:
 1. User-accessible security and privacy functions and mechanisms and how to effectively use those functions and mechanisms;

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-003: The Department Of Revenue Failed To Ensure The Department Of Revenue Integrated System Was Processing Correctly Prior To Implementation (Continued)

Criteria (Continued)

2. Methods for user interaction, which enables individuals to use the system, component, or service in a more secure manner and protect individual privacy; and
3. User responsibilities in maintaining the security of the system, component, or service and privacy of individuals;
- c. Document attempts to obtain system, system component, or system service documentation when such documentation is either unavailable or nonexistent and takes [Assignment: organization-defined actions] in response; and
- d. Distributes documentation to [Assignment: organization-defined personnel or roles].

According to NIST SP 800-53 Rev. 5, organizations must maintain independent oversight and validation of third-party services and system operations. Specifically noted, section SA-9, External System Services:

- b. Define and document organizational oversight and user roles and responsibilities with regard to external system services; and
- c. Employ the following processes, methods, and techniques to monitor control compliance by external service providers on an ongoing basis: [Assignment: organization-defined processes, methods, and techniques].

Recommendation

We recommend DOR take the following actions to improve processing controls over DORIS:

- Develop formal written procedures to ensure DORIS is properly reconciled to CARS. Detailed documentation supporting the reconciliations performed should be retained for audit purposes. DOR should be able to show what transactions make up the aggregated CARS data being manually entered into DORIS.
- Take steps to ensure all duplicate credits to accounts involving CARS and Viking are properly corrected and refunded to taxpayers, if applicable.
- Continue working with the DORIS vendor to develop and finalize all operational policies.
- Establish internal controls to independently verify vendor-processed data, document system knowledge, and maintain internal capability to oversee daily system operations. This includes processing via JAMS.

Even though a vendor is currently processing DORIS data on behalf of the Commonwealth, the responsibility for managing risks associated with DORIS remains with DOR. DOR should retain a certain level of confidence in the information and services provided by the vendor.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-003: The Department Of Revenue Failed To Ensure The Department Of Revenue Integrated System Was Processing Correctly Prior To Implementation (Continued)

Management's Response and Planned Corrective Action

The Department of Revenue (DOR) acknowledges that internal controls, reconciliation documentation, and operational ownership must continue to mature as DORIS progresses through subsequent modernization phases.

Although several issues occurred during Release 1 stabilization, corrective controls have been applied, and improvements continue through structured governance, documentation, and knowledge-transfer planning.

1. CARS → DORIS Revenue Accounting Clarification

During phased modernization, CARS continues managing non-DORIS tax programs while DORIS performs consolidated revenue accounting. DM110 summary files provide the totals needed for DORIS to generate RA/CA postings to eMARS.

DOR agrees documentation must be strengthened and retained to support reconciliation workpapers and DM110-to-RA validation.

2. Duplicate Transactions (Viking and Portal)

- Viking duplicate entries impacting 39 taxpayers were corrected in May 2025.*
- DORIS portal duplicate withdrawals for 4,121 taxpayers were corrected, refunds issued, and job execution controls enhanced.*

DOR maintains ongoing monitoring and enhanced exception detection to prevent recurrence.

3. Legacy Receivable Conversion Clarification

During the post-conversion review, DOR found that some old receivable balances were included in the data that moved into the new system. Even though these balances are not being actively collected, they are still valid and eligible for voluntary payment, and the state can still apply them to refunds or other offsets when appropriate.

The total accounts receivable balance includes both newer debts and much older ones that have been carried forward for years. Some of these older balances go back decades and remain on the books because they have never been officially written off or reclassified under current policy. Therefore, they continue to add to the overall size of the accounts receivable balance.

DOR will conduct an internal policy and procedural review with Finance & Administration Cabinet Office of General Counsel (OGC), DOR Legal Services, and Finance & Administration Cabinet Budget and oversight stakeholders to determine long-term classification and administrative handling that supports clear reporting while maintaining appropriate control treatment.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-003: The Department Of Revenue Failed To Ensure The Department Of Revenue Integrated System Was Processing Correctly Prior To Implementation (Continued)

Management's Response and Planned Corrective Action (Continued)

4. Vendor Reliance, JAMS Processing, and Oversight Maturation (Revised)

Vendor support for JAMS job execution continues during stabilization under the managed services model. DOR recognizes the importance of transitioning long-term ownership of operational processes.

Daily financial transactions — including deposit validation, RA/CR review, and reconciliation — are performed by DOR staff.

Operational documentation, run books, and processing control references are being developed to support full transfer of operational ownership. A structured knowledge-transfer plan will be devised in accordance with the CCR-011 agreement with the vendor to ensure complete transition of JAMS scheduling, restart logic, job dependency mapping, exception control, and reporting responsibilities to DOR.

5. Training Documentation and Operational Manuals

Existing training materials support Release 1 business use. DOR agrees that expanded documentation is needed to formally address:

- reconciliation procedures;*
- JAMS job controls and sequencing;*
- interface reporting and exception handling; and*
- conversion governance and classification workflows.*

This documentation will be matured in parallel with knowledge-transfer milestones.

Management Assertion

DOR acknowledges the findings and agrees that reconciliation documentation, operational manuals, and oversight structures will continue to strengthen throughout remaining modernization work. Practical improvements — including enhanced documentation, structured knowledge transfer, exception controls, and coordinated review of aged receivable handling — are underway and will be executed in partnership with OGC, DOR Legal Services, and Cabinet budget stakeholders as modernization proceeds.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-004: The Department Of Revenue Did Not Ensure Risk Assessments Associated With The Department Of Revenue Integrated System Were Fully Addressed Prior To Implementation

Condition and Context

The fiscal year (FY) 2025 audit of the Department of Revenue (DOR) found the agency did not properly mitigate risks associated with the Department of Revenue Integrated System (DORIS). The first phase of DORIS was implemented in March 2025 and replaces several legacy tax systems. DORIS is the Commonwealth's tax administration system and handles tax collection, assessment, filing, and payment.

The Commonwealth Office of Technology (COT) conducted a penetration test for DORIS in February 2025. While DOR has developed a central level plan of action and milestones (POA&M), the results of this assessment were not captured in a central or system level POA&M. In addition, review of the penetration test results showed numerous recommendations were made by COT to remediate the critical security weaknesses identified. Discussions with DOR revealed that all weaknesses identified by COT were not remediated prior to DORIS being moved to production. DOR submitted a request for COT to accept the risks associated with this scan prior to DORIS implementation.

In addition, the Internal Revenue Service (IRS) conducted a Safeguard Review involving DORIS, which resulted in the Preliminary Findings Report, dated April 17, 2025. The report provided findings with risk categories of critical, significant, moderate, and limited and gave targeted timeframes for resolution. The results of this assessment were also not recorded or addressed in a central or system level POA&M.

Cause

DOR did not ensure all security control weaknesses identified by internal and external security assessments associated with DORIS were remediated prior to being placed in production. They are also not compliant with enterprise policies CIO-093 and CIO-120.

Effect

Information systems are subject to serious threats that can have adverse effects on organizational operations and assets, individuals, and other organizations by exploiting both known and unknown vulnerabilities to compromise the confidentiality, integrity, or availability of the information being processed, stored, or transmitted by those systems. Management must understand their responsibilities and should be held accountable for managing information security risk; that is, the risk associated with the operation and use of information systems that support the missions and business functions of their organizations. By not adhering to enterprise risk assessment policies, the risk of unauthorized access, use, disclosure, disruption, modification or destruction of the information stored in DORIS is increased.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-004: The Department Of Revenue Did Not Ensure Risk Assessments Associated With The Department Of Revenue Integrated System Were Fully Addressed Prior To Implementation (Continued)**

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Enterprise policies must be followed by all enterprise agencies to manage risks and protect the privacy of individuals. POA&Ms are useful for organizations to track planned remedial actions associated with risk and control assessments. These documents should be complete so the agency will not overlook critical issues that could negatively impact system processing or functionality.

CIO-093: Risk Assessment Policy, states:

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

Agencies shall request a vulnerability scan against their information systems and hosted applications on a schedule...Agencies shall analyze the vulnerability scan reports and results from the security control assessments and remediate legitimate vulnerabilities in accordance with an organizational assessment of risk.

CIO-120: Security Assessment and Authorization Policy, states:

The Commonwealth Office of Technology (COT) and other enterprise agencies with Information Technology (IT) systems in the Commonwealth's infrastructure shall protect sensitive information and information systems by establishing security assessment and authorization procedures.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-004: The Department Of Revenue Did Not Ensure Risk Assessments Associated With The Department Of Revenue Integrated System Were Fully Addressed Prior To Implementation (Continued)

Criteria (Continued)

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

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

Recommendation

We recommend DOR ensure all security weaknesses surrounding DORIS, whether identified by DOR, COT, or IRS, are identified and tracked in their central level or system specific POA&M. Documentation of the actions taken to remediate each weakness identified during such reviews should be maintained for audit purposes.

Management's Response and Planned Corrective Action

The Department of Revenue (DOR) acknowledges the finding. DOR recognizes that three security findings identified through penetration testing and external security reviews were not fully remediated prior to DORIS Release 1 (R1) go-live. These findings reflected technical security-hardening gaps common in large-scale modernization efforts and did not indicate a breach or compromise of taxpayer data. At the time of deployment, the Security & Disclosure Office (SDO) formally assessed the risks, confirmed that taxpayer information was not at risk, and approved documented risk acceptance for production go-live.

Given the extended project timeline and operational risks associated with further delay to critical tax administration services, DOR proceeded with R1 deployment with full awareness of the remaining remediation items and with the concurrence of SDO and the Commissioner's Office. The primary risk at that time was the potential impact of missing the scheduled R1 go-live date, as the long-term mitigations for all three findings were dependent on the vendor's Solution Center product roadmap. In the interim, the vendor implemented necessary technical controls and testing to reduce risk to an acceptable level for R1.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-004: The Department Of Revenue Did Not Ensure Risk Assessments Associated With The Department Of Revenue Integrated System Were Fully Addressed Prior To Implementation (Continued)**

Management's Response and Planned Corrective Action (Continued)***Nature of the Risk***

The three findings identified during late-stage penetration testing involved:

- *Exposure of certain internal service metadata.*
- *A legacy file-upload capability that presented a potential privilege-escalation path.*
- *Instances of internal authentication traffic that were not initially encrypted.*

These issues represented opportunities to strengthen defense-in-depth controls rather than evidence of compromise. No unauthorized access to taxpayer data occurred, and no breach was identified.

Remediation Strategy

Remediation has been and will continue to be implemented in two deliberate phases:

Phase 1 – Immediate (Pre-R1 Go-Live) Actions

- *All high-risk attack paths were closed or restricted.*
- *Strong authentication, authorization, encryption, and whitelisting controls were implemented.*
- *Vulnerable components were removed or constrained.*
- *Mitigations were validated through configuration reviews, code reviews, and targeted security testing.*

These actions reduced risk to an acceptable and compliant level while allowing DOR to meet critical operational timelines.

Phase 2 – Long-Term Remediation

Long-term mitigation of all three findings will be achieved through architectural and infrastructure enhancements, including:

- *Implementation of Zero Trust security principles across the DORIS environment.*
- *Network micro-segmentation using Guardicore to limit lateral movement and isolate workloads.*
- *Expanded least-privilege enforcement and identity-based access controls.*
- *Two rounds of penetration testing prior to Release 2a (R2a) go-live to validate that production (including PP environments) and MO environments meet compliance and security standards.*

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-004: The Department Of Revenue Did Not Ensure Risk Assessments Associated With The Department Of Revenue Integrated System Were Fully Addressed Prior To Implementation (Continued)

Management's Response and Planned Corrective Action (Continued)

These enhancements are being delivered through the vendor's Solution Center and tracked through formal governance, change-management, and security-review processes, consistent with NIST 800-53 and IRS 1075 frameworks, which emphasize continuous risk management and improvement.

Taxpayer Data Protection

DOR affirms that taxpayer information was not at risk at the time of RI deployment.

- *SDO formally assessed and accepted the residual risk.*
- *Short-term mitigations were implemented prior to go-live.*
- *No taxpayer data was compromised or accessed.*
- *Ongoing improvements further strengthen protections without disrupting system stability or delivery timelines.*

To address the audit recommendation and strengthen security governance going forward, DOR is implementing the following measures:

Centralized POA&M Security Tracking

The POA&M will be maintained by SDO, with oversight by the Division of Information Management (DIM), the Commissioner's Office, and DORIS Project Management to ensure full, cross-organizational visibility, prioritization, and accountability of all remediation actions.

Evidence-Based Remediation Documentation

Closure validation—including COT confirmation, ticket resolution history, retest documentation, patch verification, and configuration screenshots—will be retained in a centralized audit repository to demonstrate remediation completion and readiness for verification.

Policy Alignment Integration

Requirements under CIO-093 and CIO-120 will be explicitly mapped to each POA&M entry to ensure traceability between control categorization, remediation action, and evidence retention, and reinforce alignment with enterprise standards.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-004: The Department Of Revenue Did Not Ensure Risk Assessments Associated With The Department Of Revenue Integrated System Were Fully Addressed Prior To Implementation (Continued)**

Management's Response and Planned Corrective Action (Continued)**Ongoing Remediation Governance**

Monthly reviews will continue with SDO, DIM leadership, DORIS Project Management, and COT Security Operations to monitor remediation progress, validate closure effectiveness, and adjust prioritization based on severity and risk ratings.

DOR remains committed to resolving all remaining DORIS remediation items, strengthening centralized control tracking, and maintaining comprehensive documentation for audit verification. Although deployment required informed risk acceptance, the decision was reviewed, documented, and supported by SDO and the Commissioner's Office. Post-implementation remediation remains an active priority, and governance will continue to ensure full completion, verification, and documentation.

Auditor's Reply

Penetration testing is defined as an authorized, simulated cyberattack conducted by ethical hackers to evaluate the security of IT infrastructure, applications, and networks. Even though DOR states penetration testing conducted did not indicate a breach or compromise of taxpayer data, it did allow COT unauthorized access to Doris, which houses taxpayer data.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-005: The Department Of Revenue Failed To Secure The Department Of Revenue Integrated System And The Compliance And Receivables System

Condition and Context

Our fiscal year (FY) 2025 audit of access controls revealed the Department of Revenue (DOR) did not properly secure the Department of Revenue Integrated System (DORIS) and the Compliance and Receivables System (CARS). In addition, DOR is not compliant with the Commonwealth Office of Technology's (COT) enterprise policy, CIO-072 IT Access Control and User Access Management Policy. DORIS is the Commonwealth's tax administration system and handles tax collection, assessment, filing, and payment. CARS is used by DOR to manage the processing of payments and the collection of outstanding tax debts owed to the Commonwealth.

DORIS was implemented in March 2025. DOR has yet to develop and implement a formal access control policy for DORIS. Access to DORIS is role-based and governed by security groups. A request for access is initiated by a Supervisor or someone in the Security Disclosure Office (SDO). Auditors were told that SDO staff is responsible for reviewing and approving access requests; however, the actual provisioning of access, which includes granting, changing, and revoking access, within the production environment is performed by the DORIS vendor.

To determine what documentation was being maintained, auditors reviewed 15 users with access to DORIS. This review revealed no documentation was on file to support the access granted to any of these users. In addition, productivity and usage reports, while available for legacy systems, have not been developed for DORIS. These reports are used to help monitor activity and can be used to ensure compliance, optimize operational efficiency, and measure employee performance by detailing how users interact with the system and resources.

Furthermore, testing of user access within CARS revealed that the original access request form was not maintained for 1 out of 15 users, or approximately 7% of the population of CARS users. As a result, even though the user's access was revoked, auditors could not verify if this user required CARS access or if appropriate access was granted to this user.

Cause

DOR has not developed or finalized the policies and procedures for granting access to DORIS.

Effect

The lack of policy and procedures and the lack of documentation increases the risk of unauthorized access to DOR systems, potentially compromising data security and accountability within DOR. Not developing productivity and usage reports within DORIS limits DOR's ability to monitor users for security, compliance, efficiency and performance.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-005: The Department Of Revenue Failed To Secure The Department Of Revenue Integrated System And The Compliance And Receivables System (Continued)**

Effect (Continued)

Allowing a vendor to provision system access can create an overreliance on the vendor, lack of internal oversight, and an increased risk of inappropriate access.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

The CIO-072 IT Access Control and User Access Management Policy states, “Agencies shall define and design IT access control and user access management standards and procedures in accordance with policies, procedures, and standards established by COT.”

Per ENT-201 Enterprise Security Controls and Best Practices AC-2 – Account Management, agencies and service providers shall:

5. Require approvals by authorized agency contacts for requests to create accounts.
6. Create, enable, modify, disable, and delete system accounts in accordance with AC2 controls.
7. Monitor the use of accounts.
8. Notify account managers and COT within 24 hours when: (a) Accounts are no longer required; (b) Users are terminated or transferred; and (c) Individual system usage or need-to-know changes.
10. Authorize access to system based on: (a) A valid access authorization; (b) Intended system usage; and (c) Agency-defined attributes (as required).

Recommendation

We recommend DOR finalize access control policies and procedures related to DORIS and resume access provisioning tasks for DORIS. These policies and procedures should align with DOR’s practices for granting, modifying, and revoking system access. They should clearly define the documentation requirements for granting, changing and revoking access in DORIS. Documentation supporting access to all DOR systems should be maintained and available for review.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-005: The Department Of Revenue Failed To Secure The Department Of Revenue Integrated System And The Compliance And Receivables System (Continued)**

Management's Response and Planned Corrective Action

The Department of Revenue (DOR) acknowledges the finding and agrees that formalized access control policies and procedures for DORIS are essential to ensuring strong internal controls and compliance with applicable requirements. DORIS is currently in its implementation phase, with the full project scheduled for completion in 2031. During this multi-year transition, DOR staff will be trained to serve as DORIS developers and administrators. As part of the planned knowledge transfer (KT) process, DOR will assume responsibility for all access provisioning tasks associated with DORIS.

Currently, the DORIS vendor maintains responsibility for provisioning access within the production environment in accordance with the existing contract, which remains in effect through 2031. DOR recognizes the need to strengthen internal oversight during this period and will work with the vendor to ensure that access requests, approvals, and provisioning actions are properly documented and retained.

As the knowledge-transfer process progresses, DOR Information Technology and the Security Disclosure Office (SDO) will develop and finalize comprehensive access control policies and procedures specific to DORIS. These policies will align with DOR's existing standards for granting, modifying, and revoking system access and will incorporate all documentation requirements. Additionally, DOR will develop DORIS productivity and usage reporting capabilities to support monitoring of user activity, compliance, and operational efficiency.

DOR is committed to meeting the expectations outlined in 200 KAR 38:070, CIO-072, and ENT-201, and will continue working toward full internal ownership and oversight of DORIS access controls prior to the conclusion of the project.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-006: The Department Of Revenue Did Not Ensure A Disaster Recovery Plan Was In Place For The Department Of Revenue Integrated System Prior To Implementation

Condition and Context

The fiscal year (FY) 2025 audit of the Department of Revenue's (DOR) system controls identified noncompliance with enterprise policy CIO-113 Contingency Planning Policy. Specifically noted, a Disaster Recovery Plan (DRP) has not been formalized for the Department of Revenue Integrated System (DORIS). The first phase of DORIS was implemented in March 2025 and replaces several legacy tax systems, including Sales and Use Tax, Withholding Tax, and Corporate Income Tax. It includes the Taxpayer Portal and primarily handles tax collection, assessment, filing, and payment.

In addition, as of the end of fieldwork, DORIS had not been tested from a disaster recovery standpoint. We are aware that DOR hopes to align the DORIS disaster recovery testing with COT's all-agency disaster recovery exercise, which is tentatively scheduled for May 2026.

Cause

DOR stated that operational stabilization is required before disaster recovery testing can be conducted for DORIS.

Effect

Failure to develop and implement a formalized disaster recovery plan increases the possibility of both data and monetary loss due to excessive recovery time, costs, and disruption of processing capabilities in the case of a disaster or extended system outage.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Per CIO-113 Contingency Planning Policy:

The Commonwealth Office of Technology (COT) and other participating agencies with IT systems in the Commonwealth's infrastructure shall establish adequate security controls for contingency planning to identify and establish communication systems, create recovery and/or restoration thresholds, and define roles and responsibilities for key personnel. COT requires that IT systems and services acquisition adhere to, at a minimum, the moderate level control standards outlined in the NIST 800-53 Revision 5 Contingency Planning (CP) control family, in accordance with CIO-091 Enterprise Information Security Program.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-006: The Department Of Revenue Did Not Ensure A Disaster Recovery Plan Was In Place For The Department Of Revenue Integrated System Prior To Implementation (Continued)

Recommendation

We recommend DOR formalize and implement a DRP that appropriately addresses DORIS and associated resources. The plan, once created, should be reviewed and updated annually as necessary to reflect emergency contacts, potential alternative processing sites, system descriptions and process requirements, backup procedures, and planned testing procedures. The DRP should be properly distributed to key personnel and training should be provided to those personnel as needed.

We also recommend DOR continue working with COT to ensure DORIS is included within the COT disaster recovery test as soon as possible.

Management's Response and Planned Corrective Action

The Department of Revenue (DOR) acknowledges the finding. DOR confirms that disaster recovery planning for DORIS is underway, and that system stabilization was required prior to initiating full disaster recovery (DR) testing.

DOR also confirms that DORIS backup operations are currently active and in full production.

Current Backup Posture: (Fully Operational)

Full database backup: performed nightly with 15-day retention

Transactional backups: performed every 15 minutes with 7-day retention

Storage location: backups are stored on COT's network storage, not exclusively in the Alternate Data Center (ADC)

Accessibility: COT-maintained backups with 7/15-day retention are always fully accessible to DOR for restoration purposes.

Clarification Regarding DR vs. Backup Location

COT's enterprise disaster recovery model often includes simultaneous streaming to the Alternate Data Center. Access to ADC-held data streams is limited to enterprise-declared statewide disaster events. However, backup copies maintained on COT network storage remain directly available to DOR at any time, independent of statewide DR activation. This structure ensures business-level restorations can occur without requiring enterprise DR invocation.

Disaster Recovery Architecture

DORIS RPE and Portal databases run in clustered availability groups. Synchronous commitment ensures near real-time replication, with automatic continuation if a node fails.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-006: The Department Of Revenue Did Not Ensure A Disaster Recovery Plan Was In Place For The Department Of Revenue Integrated System Prior To Implementation (Continued)

Management's Response and Planned Corrective Action (Continued)

DR Testing and Timeline

Disaster Recovery business and technical leads have been designated, Initial session held with COT DR officials, Alignment determined with the COT statewide DR exercise scheduled for May 11–15, 2026.

*DR business scenario playbook and test procedures are in progress.
DR Plan Ownership and Governance.*

The DORIS DRP and POA&M will be maintained by SDO, with oversight by:

- *Division of Information Management (DIM)*
- *Office of the Commissioner*
- *DORIS Project Management*
- *Formal DRP Requirements Compliance*

The DRP will:

1. *reflect emergency contacts and communication paths;*
2. *define failover triggers, replication expectations, and sequence recovery;*
3. *include COT coordination requirements and enterprise dependencies;*
4. *establish annual review and update requirements; and*
5. *be distributed to responsible personnel with necessary training.*

Commitment

DOR remains committed to completing DR scenario testing once full operational maturity is achieved, participating in the 2026 enterprise DR exercise, maintaining immediate access to operational backups despite enterprise-level ADC access restrictions, documenting all restoration evidence and test outcomes for audit verification.

Operational stabilization required a phased approach to DR testing; however, all backup operations have been active from production launch forward and remain fully accessible for restoration needs at any time through COT network storage.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-007: The Finance And Administration Cabinet Failed To Ensure Year End Accounting Entries Were Complete And Accurate

Condition and Context

During the preparation of the fiscal year 2025 Annual Comprehensive Financial Report (ACFR), the Finance and Administration Cabinet (FAC) failed to ensure year-end manual accounting entries and the compilation of the financial statements were complete and accurate. The following exceptions were noted in the compilation of the financial statements:

- An incorrect accounting entry was recorded that overstated operating sales and services revenue for the Kentucky State Parks Fund by \$2,159,500.
- An incorrect accounting entry was recorded that overstated operating admissions and sales revenues for the Kentucky Horse Park Fund by \$519,591.
- An accounting entry incorrectly categorized revenue as operating instead of non-operating which overstated other operating revenue and understated intergovernmental non-operating revenue for the Kentucky Horse Park Fund by \$4,387,116.
- An incorrect accounting entry was recorded that understated commodities and supplies expense and overstated utilities expense in the Capital Projects Fund by \$370,205.
- An incorrect accounting entry was recorded that understated reported compensated absences in the Kentucky Horse Park fund by \$40,823.
- An incorrect accounting entry was recorded within the Agency Revenue Fund that understated the reported allowance for uncollectable accounts receivable by \$12,887,735.
- A compilation error led to the Kentucky Horse Park Fund's utilities, rental, and other services expense being overstated and commodities and supplies expense being understated by \$2,497,942.

While FAC prepares over 200 manual year end accounting entries, which consists of roughly 5,000 individual posting lines, the identified exceptions above included items which were material to the Kentucky Horse Park fund. Adjusting journal entries were accepted and prepared by FAC to correct these misstatements on the financial statements.

Cause

Internal controls failed to ensure year-end accounting entries were complete and accurate. The ACFR compilation is a complex process, requiring numerous entries to ensure the accuracy of the financial statements. Lack of oversight when preparing a journal entry could lead to significant misstatements on the financial statements.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-007: The Finance And Administration Cabinet Failed To Ensure Year End Accounting Entries Were Complete And Accurate (Continued)**

Effect

Failure to ensure the financial statements are accurately prepared in accordance with the applicable financial reporting framework could lead to undetected misstatements. Inaccuracies in the measurement, recognition, presentation, and disclosure of reporting information could negatively impact users of the financial statements, including management when making operational decisions.

Criteria

Concepts Statement No.1 of the Accounting Standards Board, Objectives of Financial Reporting (GASBCS 1, paragraph 64, states, "Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive."

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Recommendation

We recommend FAC implement additional internal controls to ensure year-end accounting entries are complete and accurate. A comprehensive review process should be implemented to prevent errors on the financial statements.

Management's Response and Planned Corrective Action

Management agrees. As identified by the auditor, adjusting entries were prepared correcting these errors on the draft financial statements.

We acknowledge the importance of accurate reporting and will implement measures to address these issues.

The Financial Reporting Branch remains committed to maintaining the accuracy and reliability of financial reporting for the Commonwealth of Kentucky.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-008: The Kentucky Horse Park Fund's Capital Assets Were Not Accurately Reported

Condition and Context

This is a repeat finding as reported in the fiscal year 2024 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2024-004.

Capital Assets reported within the Kentucky Horse Park (KHP) fund were not accurately accounted for in accordance with financial reporting requirements established by the Governmental Accounting Standards Board (GASB) and the Commonwealth's capital asset policy. The Financial Reporting Branch within the Finance and Administration Cabinet (FAC), KHP management, and the Division of Engineering and Contract Administration (DECA) all have responsibilities to ensure the completeness and accuracy of capital assets reported in the financial statements. The following exceptions were noted:

- Two new barns were added to KHP's capital assets at a cost of \$3,250,000 each, for a total cost of \$6,500,000. Further evaluation revealed the combined construction cost of both barns should have been \$8,992,900. Additionally, the building costs were being tracked as construction in progress; however, at the completion of each barn, the construction in progress account was not adjusted to recognize a completed depreciable asset. As a result, Capital Assets Being Depreciated was understated by \$2,492,900, Capital Assets Not Being Depreciated was overstated by \$8,834,582, and Commodities and Supplies expense was understated by \$6,341,682 on the KHP fund financial statements.
- Review of the prepared capital asset accounting entry identified a difficult audit trail pertaining to the re-evaluation of a prior year capital asset historical value. Several capital asset components were duplicated within the tracking database totaling \$339,996. Additionally, adjustments to prior year reported capital assets were accounted for by adjusting current year activity. This resulted in the overstatement of the reported loss on the disposal of a capital asset by \$625,060.
- Seventy-nine depreciable capital assets with a historical value of \$1,959,290 were assigned useful lives of "zero" years and therefore were not properly depreciated. These items should have been assigned useful lives ranging from six to thirty-five years at the time of acquisition with depreciation expense being recognized annually. Proposed adjusting journal entries included a restatement of beginning fund balance totaling \$187,528, and recognition of current year depreciation expense of \$148,650.
- An account payable, which included \$227,512 of construction in progress, was not recognized or recorded within the KHP fund.
- A capitalizable expenditure related to paving new parking lots was incorrectly recorded under a non-capitalizable project code in the amount of \$148,798. This resulted in the overstatement of current year expenditures and understatement of reported construction in progress.

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 2025-008: The Kentucky Horse Park Fund's Capital Assets Were Not Accurately Reported (Continued)

Condition and Context (Continued)

- In two out of 27 additions tested, \$3,629 of shipping and freight charges were not capitalized in accordance with the Commonwealth's capital asset policy.

Cause

Accounting for capital assets is a complex and manual process involving multiple parties to verify the completeness and accuracy of reported financial activity. The Financial Reporting Branch compiles the financial statements based on posted transactions in the accounting system and information provided by KHP and DECA as reflected in a fixed asset database. Internal controls failed to detect errors and omissions within the fixed asset database, ensure capitalizable expenses were properly identified, confirm capital asset useful lives were properly recorded, and that prepared journal entries were complete and accurate as posted to the Commonwealth's accounting system.

Effect

Failure to accurately report and account for all capital asset activity would have led to substantial misstatements on KHP's financial statements if undetected. Inaccuracies in the measurement, recognition, and presentation of financial activity could negatively impact users of the financial statements or management decisions.

Criteria

Concepts Statement No.1 of the Accounting Standards Board, Objectives of Financial Reporting (GASBCS 1, paragraph 64, states, "Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive." The review and analysis to identify potential errors or omissions when identifying activity to be capitalized and recorded in accordance with GASB pronouncements and the Commonwealth's policy is a basic control necessary to ensure the accuracy and reliability of financial reports.

GASB codification section 1400.102 states, "Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees."

GASB codification section 1400.103 states, "the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period."

FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

Finding 2025-008: The Kentucky Horse Park Fund's Capital Assets Were Not Accurately Reported (Continued)

Criteria (Continued)

GASB Codification section 1400.104 further identifies, “Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives as described in paragraph .141, or are infrastructure assets reported using the modified approach in paragraphs .105-.107.” Activity pertaining to repairs and maintenance retain value rather than provide additional value, and as a result, should be expensed in the period incurred.

The Commonwealth’s Fixed Assets Manual provides guidance to assist agencies in determining the useful life of acquired capital assets. Additionally, the Commonwealth’s Fixed Assets Manual, Appendix H states, in part:

Capitalization:

Fixed assets valued at \$5000 or more are capitalized and reported each year in the Annual Comprehensive Financial Report (ACFR). The ACFR is prepared by the Financial Reporting Branch SAS.

Specifically, the following are the capitalization thresholds:

- Equipment, vehicles, artwork & historical treasures \$5,000
- Software \$500,000
- Other intangibles \$100,000
- Buildings \$5,000

Acquisition Date and Method:

When choosing the acquisition method, the department needs to look at ownership, nature of the expenditure, capital vs. maintenance, and method of acquisition (e.g., donated, confiscation, purchased with state funds). Use the following criteria when selecting the acquisition method:

- Repairs & Maintenance (R): All asset types when the expenditure is made for state owned assets and the repair and maintenance expenditure does not prolong the useful life of the asset.

Recommendation

We recommend KHP management, DECA, and the Financial Reporting Branch within FAC collaborate to ensure the proper accounting of KHP capital assets. Implemented controls should ensure activity is properly capitalized, fixed asset useful lives are complete, accounts payable activity is adequately evaluated for potential capitalization, and that posted accounting journal entries are complete, accurate, and supported.

FINANCIAL STATEMENT FINDINGS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2025-008: The Kentucky Horse Park Fund's Capital Assets Were Not Accurately Reported (Continued)**

Management's Response and Planned Corrective Action

Finance Administration Cabinet:

Agree with APA assessment and findings. We have identified the errors in the Fixed Assets Report for Kentucky Horse Parks and made the appropriate adjustment recommended.

We acknowledge the importance in accurate reporting and will implement measures to address these issues:

- *An eMARS update has been implemented (12/04/2025) prevents agencies to enter 0 in the useful life section when Fixed Asset Type value is either B,E,F,G,I,K,N,S,V or Z.*
- *Provided training on properly entering newly acquired assets and the requirements listed under GASB34.*
- *Enhance collaborations between agencies and DECA to ensure proper valuation on completed capital projects.*

The Financial Reporting Branch remains committed to maintaining the accuracy and reliability of financial reporting for the Commonwealth of Kentucky.

Kentucky Horse Park:

The Kentucky Horse Park concurs with this finding. The Park makes every effort to comply with the policies and procedures established by the Finance Cabinet. Moving forward, the Park will work closely with DECA and the Finance Cabinet to ensure that, upon completion of budget bill projects, all relevant information is timely communicated so that construction-in-progress accounts are properly adjusted to recognize completed depreciable assets.

In addition, the Park will strengthen internal processes to ensure fixed assets are accurately established in the system, including capturing all associated costs and assigning appropriate useful lives to each asset in accordance with applicable guidance.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-009: The Cabinet For Health And Family Services Did Not Properly Secure Personally Identifiable Information Within The Enhanced Management Administrative And Reporting System

Condition and Context

During the fiscal year (FY) 2025 audit of the Cabinet for Health and Family Services (CHFS), auditors selected 40 payments to test and determine if Personally Identifiable Information (PII) was properly protected. Two of these payments contained Personally Identifiable Information (PII) that was associated with six individuals. The PII was not redacted from documentation uploaded to the enhanced Management Administrative and Reporting System (eMARS), which is the Commonwealth of Kentucky's accounting system.

PII may include combinations of information such as name, social security numbers (SSNs), mailing addresses, email addresses, phone numbers, and dates of birth. The two exceptions constitute 5% of the sample tested and both payments contained PII information in the supporting documentation maintained within eMARS.

Cause

CHFS attached unsecured and unredacted documentation within eMARS that circumvented the Finance Cabinet's policy to mask SSNs within eMARS. According to CHFS personnel, attaching PII to payments in eMARS has been a long-standing process used by CHFS.

Effect

Unprotected PII directly affects an individual's privacy and can lead to identity theft, financial fraud, and reputational damage, if it is exposed or misused. Unauthorized use of PII can also lead to legal liability, hefty fines, loss of public trust, and significant financial costs.

Criteria

In accordance with CIO-106 Enterprise Privacy Policy, section III (d)(i), CHFS must:

“...(1) [i]dentify the minimum Personal Information (PI) elements that are relevant and necessary to accomplish the legally authorized purpose of collection; (2) [l]imit the collection and retention of PI to the minimum elements identified for the purposes for which the individual has provided consent, if consent is required...”

Also, the CHFS Personally Identifiable Information (PII) Inventory, Minimum Necessary, and Limited Use Policy Section 4.2 states: “...CHFS must implement appropriate safeguards at all stages of the PII lifecycle and in proportion to the sensitivity of PII.”

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-009: The Cabinet For Health And Family Services Did Not Properly Secure Personally Identifiable Information Within The Enhanced Management Administrative And Reporting System (Continued)

Criteria (Continued)

According to ENT-101 Enterprise Data Classification Standard, social security numbers are considered confidential and "...must be kept private under federal, local, or state laws, or contractual agreements, or to protect its proprietary value..."

Further noted in ENT-302 Enterprise Digitization Guidelines and Best Practices "...documents that contain confidential information, such as PII ... should be protected accordingly."

Recommendation

While we are aware that CHFS management requested the use of PII be reduced and redacted beginning in May 2025, we recommend CHFS ensure safeguards are in place to keep unnecessary PII from being uploaded in eMARS. Although PII may be necessary for the processing of payments, PII associated with the payment should be redacted if stored within eMARS or be retained outside of eMARS, on a properly secured agency network drive or folder. CHFS should also consider replacing the SSN with another identifier or only entering the last four digits of the number on documents in eMARS.

Management's Response and Planned Corrective Action

In May 2025, the Division of General Accounting (DGA) management identified a training gap related to the proper handling of PII/PHI in supporting documentation. In response, DGA provided additional PII/PHI awareness training to all staff, emphasizing confidentiality requirements and documentation review procedures.

A standardized email template was developed and implemented to instruct agencies to remove or redact PII/PHI before submitting invoices or journal voucher backup to DGA. PII/PHI awareness materials were also presented at the monthly DGA Cabinet-wide meeting to reinforce compliance expectations and department-level accountability.

DGA now reviews all payment and journal voucher documentation for PII/PHI before processing in eMARS. Ongoing monitoring will continue to ensure that no unredacted PII/PHI is uploaded. Annual refresher training will be provided to maintain continued awareness and uphold data security standards.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-010: The Department Of Corrections Failed To Ensure Complete And Accurate Interfacing Between Kronos And The Kentucky Human Resource Information System

Condition and Context

The fiscal year 2025 audit of the Department of Corrections (DOC) revealed the Kronos interface with the Kentucky Human Resource Information System (KHRIS) was not working properly. Kronos is used to perform the time keeping function for institutional staff at the correctional facilities. KHRIS is the Commonwealth's personnel and payroll system.

Administrative staff at DOC self-enter time directly into KHRIS. All other staff, including part-time and security staff at the local institutions, enter time into Kronos, which is interfaced to KHRIS each pay period.

To ensure time data recorded in Kronos was being interfaced accurately and completely to KHRIS, the auditor selected the August 1 – 15, 2024, December 1 – 15, 2024, and May 16 – 31, 2025 pay periods in which to perform a reconciliation. In addition, the auditor selected a sample of 21 DOC employees that entered time during these three pay periods. As a result, the following exceptions were noted:

- August 1 – 15, 2024 – For one employee, Kronos showed 8 hours of weekend work on August 3, 2024, and 6 hours of second shift work on August 8, 2024; however, these hours were not reported in KHRIS. As such, the employee did not receive pay for these hours.
- December 1 – 15, 2024 and May 16 – 31, 2025 – Seven employees had manual changes made to regular and additional hours worked on several days throughout the pay period without supporting documentation.
- May 16 – 31, 2025 –
 - For one employee, Kronos showed five hours of sick leave used on May 30, 2025; however, KHRIS only showed two hours of sick leave being used indicating that DOC incorrectly manipulated the employee's sick time.
 - For one employee, KHRIS showed one hour of compensatory time leave used on May 22, 2025; however, Kronos did not reflect this leave being taken.

Cause

DOC has not documented formal written payroll processing procedures to ensure time data entered into Kronos is complete and accurate. According to DOC staff, beginning December 1, 2024, the Personnel Cabinet mandated that a workday ends at midnight each day. However, the Kronos vendor indicated system changes cannot be made to allow for other work schedules, such as second shift, to be reported as requested by Personnel. Thus, manual changes to KHRIS are required to ensure employees have 40-hour work weeks reported; with anything over 40 hours being manually changed by HRG to additional hours. Finally, DOC HRG staff do not review changes made to time data once interfaced to KHRIS and missed manual recording hours for employees.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-010: The Department Of Corrections Failed To Ensure Complete And Accurate Interfacing Between Kronos And The Kentucky Human Resource Information System (Continued)****Effect**

Without adequate controls and effective policies and procedures in place, time data may not be recorded accurately or handled consistently. The lack of policies and controls also increases the risk that unauthorized changes can be made to employee's time data in KHRIS. This could ultimately lead to financial loss. Finally, the lack of adequate review increases the likelihood that errors are missed, and employees time worked or leave time used is not presented accurately between systems.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Section BP.05.02.01 of the Federal Information System Controls Audit Manual (FISCAM) require policies and procedures for managing system interfaces be developed, documented, approved, and periodically reviewed and updated. Such policies and procedures:

- consider risk;
- address the tools and techniques for system interface processing, including the use of job scheduling software, the timing of the system interface, and any dependences on upstream jobs or processes;
- address purpose, scope, roles, responsibilities, coordination among business or organizational units as well as with external parties, and compliance;
- identify and describe the relevant processes;
- consider general and application controls;
- consider segregation of duties controls; and
- help ensure that users can be held accountable for their actions through appropriate logging and monitoring activities.

Also, section BP.05.04.04 states that reconciliations of interfaced data from the source and target systems should be performed to verify the integrity of interfaced data.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-010: The Department Of Corrections Failed To Ensure Complete And Accurate Interfacing Between Kronos And The Kentucky Human Resource Information System (Continued)

Recommendation

We recommend DOC develop and implement formal written procedures to ensure time data is properly captured in Kronos at the local institutions. These procedures should explain how to handle various time reporting instances experienced at these locations.

In addition, recommend DOC ensure adequate documentation, including justification, be obtained to support any changes made to employees' time data in KHRIS.

Finally, we recommend DOC document and implement a formal review process to ensure time data entered at the local institutions is complete and accurate. Documentation should be maintained to support the reviews performed.

Management's Response and Planned Corrective Action

DOC agrees with the finding.

The Executive Director of the Office of Human Resource Management will develop and implement a formal payroll manual for standard operating procedures for institutional HR staff, outlining payroll and timekeeping processes to ensure data is properly captured in Kronos and interfaced into KHRIS.

The manual will detail guidance for:

- *Recording, verifying, and approving time entries*
- *Handling unique time-reporting situations such as shift changes and interface errors*
- *Documenting and approving manual changes in KHRIS*

All DOC Kronos users are currently required to sign timesheets verifying the accuracy of their hours worked. Any changes made in KHRIS must be supported by a signed timesheet approved by the employee's supervisor (whether a Kronos user or self-time entry user).

The Corrections HR Branch Manager will reinforce this requirement across all institutions and monitor compliance to ensure this practice is consistently followed.

Institutions will maintain copies of signed timesheets and any related supporting documentation for the required records retention.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-010: The Department Of Corrections Failed To Ensure Complete And Accurate Interfacing Between Kronos And The Kentucky Human Resource Information System (Continued)****Management's Response and Planned Corrective Action (Continued)**

The JPSC/OHRM Personnel Division Assistant Director will conduct monthly reviews of time and leave data to ensure that information entered in KHRIS accurately reflects time recorded in Kronos. Documentation of each review, including corrective actions taken, will be maintained for audit purposes. Findings from these reviews will be summarized and reported quarterly to DOC leadership for oversight and accountability.

Additionally, the DOC Training Curriculum Branch will develop an online refresher training for Institutional Payroll staff on proper time entry, approval requirements, and reconciliation procedures on an annual basis.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-011: The Department Of Corrections Did Not Ensure Kronos Was Properly Secured

Condition and Context

During the fiscal year 2025 audit of the Department of Corrections (DOC), testing of user access within the payroll software Kronos revealed weaknesses in the assignment and documentation of elevated privileges. Specifically, DOC could not provide access request forms, emails, or other documentation supporting the assignment of Super User privileges for three out of three users reviewed, or 100 percent of the sampling population. Central Office Human Resource staff hold Super User privileges, which allows full access and the ability to perform edits within Kronos. DOC staff confirmed during fieldwork that this application is only being used for timekeeping purposes.

No formal documentation is required by HR staff to grant access. Access is determined by the employee's job title.

In addition, one of the three users was identified with an incorrect level of access. This individual was listed with "Super User" privileges; however, the employee's position did not require elevated access. DOC confirmed the assignment was incorrect and subsequently corrected the user's access.

Cause

DOC has not established adequate procedures to ensure access requests are documented, reviewed, and retained for users granted elevated privileges. Additionally, monitoring controls to detect inappropriate access assignments are not consistently applied.

Effect

Without sufficient documentation and review of access requests, DOC cannot demonstrate that Kronos users are granted privileges commensurate with their roles. These weaknesses increase the risk of excessive or unauthorized access to sensitive system functions, potentially compromising separation of duties.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-011: The Department Of Corrections Did Not Ensure Kronos Was Properly Secured (Continued)

Criteria (Continued)

Access controls in the National Institute of Standards and Technology (NIST) Special Publication 800-53 Revision 5 are a set of security and privacy controls that ensure only authorized users, processes, or devices can access systems and data and only in authorized ways. The following controls are fundamental to an organization's security posture:

- **AC-1 (Access Control Policy and Procedures)** requires organizations to develop, document, and disseminate access control policies and procedures that address purpose, scope, roles, responsibilities, and compliance, and to review and update them periodically.
- **AC-3 (Access Enforcement)** requires organizations to enforce approved authorizations for logical access to information systems in accordance with applicable policy.
- **AC-5 (Separation of Duties)** requires organizations to separate duties of individuals to reduce the risk of malevolent activity without collusion and to enforce separation of duties through access authorizations.

Recommendation

We recommend DOC develop and implement formal written procedures to ensure all access requests, particularly those involving elevated privileges, are properly documented, reviewed, approved, and retained. Documentation should clearly demonstrate that access assignments are authorized, appropriate, and commensurate with users' roles and responsibilities. In addition, DOC should establish and enforce monitoring controls to periodically review system access reports to detect and correct inappropriate access assignments in a timely manner.

Management's Response and Planned Corrective Action

DOC agrees with the finding.

The DOC HR Branch Manager has created an end-user agreement for all Kronos users (super-users/view only). The user must request access to the system prior to being granted access to the system. We have additionally asked that all current users complete one.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-012: The Department Of Revenue Failed To Maintain Supporting Documentation And Technical Procedures Related To Jeopardy Assessments**

Condition and Context

During the fiscal year (FY) 2025 audit of the Department of Revenue (DOR), auditors tested reported accounts receivable through verification of individual tax accounts. A sample of ten sales and use tax receivables were reviewed, and for one of the items selected, DOR was unable to provide sufficient supporting documentation.

Further inquiry indicated this item was a jeopardy tax assessment automatically generated by the legacy tax system. A jeopardy tax assessment is an estimated tax receivable calculated upon failure to remit taxes or file a tax return. DOR stated that correspondence is issued to tax payers notifying them of the delinquent sales tax returns prior to the estimated assessment being issued; however, they were unable to provide this correspondence for the sampled user.

Additionally, technical documentation was requested which detailed the calculation of jeopardy assessments. The Division of Collections did not have any technical documentation to show how the legacy system creates the estimate for jeopardy assessments.

Cause

Documentation related to the sampled taxpayer account as well as technical documentation related to jeopardy assessment calculation was not maintained within the legacy tax system.

Effect

Without maintaining supporting documentation for the jeopardy tax assessments or technical documentation for jeopardy assessment calculation in the system, there is an increased risk of inaccurately reporting the accounts receivable in the annual closing package to the Finance and Administration Cabinet.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-012: The Department of Revenue Failed To Maintain Supporting Documentation And Technical Procedures Related To Jeopardy Assessments (Continued)**

Criteria (Continued)

Per Kentucky Revised Statute 131.150 Jeopardy Assessments:

(2) Under any of the circumstances set out in subsection (1) of this section, the department may make a tentative assessment or determination of the taxes due, and may proceed immediately to bring garnishment, attachment or any other legal proceedings to collect the taxes so assessed or determined to be due. Notwithstanding the provisions of KRS 131.180(1), if the tax so assessed is due to the failure of the taxpayer to file a required tax return a minimum penalty of one hundred dollars (\$100) shall be assessed unless the taxpayer demonstrates that the failure to file was due to reasonable cause as defined in KRS 131.010(9). This penalty shall be applicable whether or not any tax is determined to be due on a subsequently filed return or if the subsequently filed return results in a refund. No bond shall be required of the department in such proceedings.

The National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 5, section SA-5 System Documentation, states that the organization:

- a. Obtain or develop administrator documentation for the system, system component, or system service that describes:
 1. Secure configuration, installation, and operation of the system, component, or service;
 2. Effective use and maintenance of security and privacy functions/mechanisms; and
 3. Known vulnerabilities regarding configuration and use of administrative (i.e., privileged) functions;
- b. Obtain or develop user documentation for the system, system component, or system service that describes:
 1. User-accessible security and privacy functions and mechanisms and how to effectively use those functions and mechanisms;
 2. Methods for user interaction, which enables individuals to use the system, component, or service in a more secure manner and protect individual privacy; and
 3. User responsibilities in maintaining the security of the system, component, or service and privacy of individuals;
- c. Document attempts to obtain system, system component, or system service documentation when such documentation is either unavailable or nonexistent and takes [Assignment: organization-defined actions] in response; and
- d. Distributes documentation to [Assignment: organization-defined personnel or roles].

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-012: The Department Of Revenue Failed To Maintain Supporting Documentation And Technical Procedures Related To Jeopardy Assessments (Continued)**

Recommendation

We recommend DOR develop technical documentation to show how the automated jeopardy assessment is calculated and processed by the Division of Collections and maintain supporting documentation for the accounts receivable.

Management's Response and Planned Corrective Action

The Department of Revenue (DOR) acknowledges the audit finding related to supporting documentation for automated jeopardy tax assessments generated by the legacy tax system.

*Jeopardy assessments are authorized under KRS 131.150 and are system-generated estimates that occur when required **tax returns** are not filed. These assessments are calculated automatically by the legacy system based on predefined system logic and historical taxpayer data. Due to the age and design of the legacy system, formal technical documentation describing the underlying calculation logic is limited, and the Division of Collections does not maintain standalone system-level documentation for this functionality.*

DOR further notes that correspondence notifying taxpayers of delinquent returns is generated as part of the collections process; however, historical correspondence associated with the sampled account was not retrievable at the time of audit testing.

DOR agrees that maintaining sufficient documentation to support accounts receivable balances is important to ensure accurate financial reporting and effective internal controls.

Planned Corrective Action

DOR will take the following actions to address the audit recommendation:

1. Process Documentation

DOR will develop written process documentation describing:

- o The business purpose of jeopardy assessments.*
- o The circumstances under which jeopardy assessments are generated.*
- o The general methodology used by the legacy system to estimate tax liability; and*
- o How these receivables are monitored, adjusted, or resolved.*

While detailed system-level technical specifications are not fully available for the legacy system, this documentation will provide sufficient context to support financial reporting and audit review.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-012: The Department Of Revenue Failed To Maintain Supporting Documentation And Technical Procedures Related To Jeopardy Assessments (Continued)**

Management's Response and Planned Corrective Action (Continued)**2. *Supporting Documentation Retention***

DOR will review and formalize procedures for retaining available supporting documentation related to jeopardy assessments, including delinquency notices or other relevant account history, when accessible.

3. *System Modernization and Future-State Documentation*

*As part of the Department's system modernization efforts, DOR is implementing the integrated tax system (DORIS), which includes enhanced documentation, audit trails, and reporting capabilities. **DOR is attaching the functional design documentation that describes how the jeopardy assessment process will be calculated, generated, and managed within DORIS going forward.** This functional design will serve as authoritative documentation for the jeopardy assessment process in the future system.*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-013: The Kentucky Department Of Veteran's Affairs Failed To Conduct Fixed Asset Inventory Observations In Accordance With Established Policy

Condition and Context

Fixed asset inventory procedures were reviewed as part of the audit of the fiscal year 2025 Annual Comprehensive Financial Report. Locations within the Kentucky Department of Veteran Affairs (KDVA) were selected for observation by auditors to ensure adherence to inventory procedures promulgated by the Finance and Administration Cabinet (FAC).

Auditor observation found that inventory procedures performed did not follow FAC guidance. The following issues were noted during auditor recounts:

- Inventory taker did not confirm fixed asset (FA) or serial numbers, relying solely on item descriptions during the inventory.
- Ten of the 11 items selected did not have FA tags. The remaining item had an FA tag number that did not match the eMARS listing.
- Six of the 11 items had inaccurate serial numbers listed in the eMARS inventory listing.
- Discrepancies related to missing fixed asset identification tags and errors with the equipment data such as serial numbers in the eMARS inventory listing were not being documented for correction.

Cause

KDVA staff performing the fixed asset inventory had not received sufficient training on FAC's inventory procedure guidance and did not follow that guidance during their annual inventory process.

Effect

The inventory process failed to ensure all fixed assets had a current fixed asset identification tag and accurate information was contained in eMARS. Additionally, the system in place to correct these errors was not followed.

These issues raise the risk of loss or theft and could lead to an inaccurate reporting of the inventory amounts in the financial statements.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-013: The Kentucky Department Of Veteran's Affairs Failed To Conduct Fixed Asset Inventory Observations In Accordance With Established Policy (Continued)

Criteria (Continued)

fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

KRS 45A.045 (6) states, in part, “The cabinet shall promulgate administrative regulations to require agencies to take and maintain inventories of plant property, buildings, structures, other fixed assets, and equipment.”

Finance and Administration Policy (FAP) 120-20-01, Personal Property and Vehicle Inventories, outlines inventory requirements and pertains to all equipment above \$500. FAP 120-20-01 states “A state agency shall maintain current records of physical properties and equipment and make appropriate additions and deletions to fixed asset records as property is acquired or disposed” and “[i]f the review process reveals incorrect or inadequate information, the agency shall take the necessary steps to correct the discrepancies.”

Recommendation

KDVA should strengthen internal controls to ensure all applicable activities under its purview are following FAC’s inventory procedures and fixed asset records are complete and accurate.

Management’s Response and Planned Corrective Action

<i>Action</i>	<i>Responsible Party</i>	<i>Completion Date</i>
<i>Create a mandatory training module on fixed asset policies for all employees who handle or manage capital assets.</i>	<i>HR</i>	<i>Sept 8, 2025</i>
<i>Document and submit the request for modifications of within eMARS of items that did not have matching serial numbers. Replacement FA tags that were not placed on the items have been requested.</i>	<i>Purchasing Agent II</i>	<i>Sept 17, 2025</i>
<i>Perform an audit of fixed assets. Conduct a full physical inventory and reconcile discrepancies. These audits will be conducted within a weekly schedule the agency has deemed feasible.</i>	<i>Dept Managers</i>	<i>Jan 5, 2025</i>

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-014: The Kentucky Department Of Military Affairs Failed To Properly Account For Fixed Assets In Accordance With Established Policy

Condition and Context

Fixed asset inventory procedures were reviewed as part of the audit of the fiscal year 2025 Annual Comprehensive Financial Report. Locations within the Kentucky Department of Military Affairs (DMA) were selected for observation by auditors to ensure adherence to inventory procedures promulgated by the Finance and Administration Cabinet (FAC).

Auditor observation found that inventory procedures performed did not follow FAC guidance. The following issues were noted:

- Fixed assets were missing or assumed to be in use by other programs with no method in place to track such inter-departmental usage.
- The ownership of assets on site was sometimes unclear as DMA inherited a plethora of formerly federal assets in addition to their stewardship responsibilities for current federal assets.
- Many fixed assets on site were obsolete and were no longer in service. Assets known to be federal in origin, including military vehicles, emergency response trailers, and manufacturing equipment, have been deteriorating on site to the point of obsolescence as DMA does not possess policies or procedures to handle abandoned federal property.
- Currently, no departmental policies exist to account for and properly dispose of abandoned federal property.

Cause

Internal controls including policies and procedures were insufficient to properly account for fixed assets including assets transferred from or abandoned by the federal government. The distinction between formerly federal (now state) assets and current federal assets was not always clearly defined, which led to confusion about how to account for these assets in eMARS.

Effect

Without adequate policies and procedures, DMA personnel cannot address fixed asset issues and perform a complete and accurate inventory of fixed assets. This can lead to inaccurate financial reporting and operational inefficiency as well as increased risk of undetected asset loss or misappropriation.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-014: The Kentucky Department Of Military Affairs Failed To Properly Account For Fixed Assets In Accordance With Established Policy (Continued)

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

KRS 45A.045 (6) states, in part, “The cabinet shall promulgate administrative regulations to require agencies to take and maintain inventories of plant property, buildings, structures, other fixed assets, and equipment.”

Finance and Administration Policy (FAP) 120-20-01, Personal Property and Vehicle Inventories, states, “A state agency shall maintain current records of physical properties and equipment and make appropriate additions and deletions to fixed asset records as property is acquired or disposed,” and “[e]ach budget unit shall review its fixed asset records as of June 30 each year to ensure completeness and accuracy.”

Recommendation

We recommend DMA develop policies for dealing with federally abandoned property or state assets that have a federal funding source. Additional training and guidance may be necessary to further ensure the accuracy, completeness, and integrity of the inventory process. FAC should make agencies aware of the importance of the continual maintenance of capital asset records throughout the year. At year end, internal control procedures should ensure capital asset records are complete and properly updated to promote accuracy in financial reporting.

Management’s Response and Planned Corrective Action

Issue or Finding:

Fixed assets were missing or assumed to be in use by other programs with no method in place to track such inter-departmental usage.

The ownership of assets on site was sometimes unclear as DMA inherited a plethora of formerly federal assets in addition to their stewardship responsibilities for current federal assets. The distinction between the two was not always clearly defined, which led to confusion about how to account for these assets in eMARS.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-014: The Kentucky Department Of Military Affairs Failed To Properly Account For Fixed Assets In Accordance With Established Policy (Continued)**

Management's Response and Planned Corrective Action (Continued)

Many fixed assets on site were obsolete and were no longer in service. Assets known to be federal in origin, including military vehicles, emergency response trailers, and manufacturing equipment, have been languishing on site to the point of obsolescence as DMA does not possess policies or procedures to handle abandoned federal property. Currently, no departmental policies exist to account for and properly dispose of abandoned federal property.

Root Cause:

Inadequate communication between Bluegrass Station Division, Facilities Division, and United States Property and Fiscal Office for disposition instructions in accordance with PROP Article V Section B. Disposition. DMA lacks internal policies and procedures for acquisition and disposal of formerly federally owned equipment. DMA depends on a single position to process fixed asset documents in eMARS and does not utilize the appropriate amount of sub locations to clearly identify property locations within programs. DMA does not have policies and procedures in place to ensure asset inspections and maintenance are tracked to establish obsolescence and unserviceability.

Corrective Action:

DMA to develop internal controls and standard operating procedures/policies addressing federally abandoned or surplus property or state assets that have a federal funding source. In addition, DMA must create training criteria for Directors and Property personnel to ensure that accuracy, compliance, and integrity of the inventory process. The Division of Facilities should ensure all DMA divisions are aware of the importance of the continual maintenance and accountability of capital assets records throughout the year. At year end, the DMA property manager must ensure capital assets records are complete and properly updated to promote accuracy in financial reporting.

Communication lines have been reestablished. Facilities and Bluegrass Station Division Personal are jointly working with [Name Withheld] with DLA DISPOSITION SERVICES. Our timeline has been disrupted by the Federal Government shutdown. We have guidance to work with United States Property (USPFO) and Fiscal Office to Inventory and complete a DA 1348 to get the equipment back on the Federal Property book for disposal.

DMA will follow USPFO and DLA DISPOSITION SERVICES guidance and develop Policy in accordance with procedures in accordance with processes, "Cooperative Agreement General Terms and Conditions October 2023" and 2 CFR 200.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-014: The Kentucky Department Of Military Affairs Failed To Properly Account For Fixed Assets In Accordance With Established Policy (Continued)****Management's Response and Planned Corrective Action (Continued)**

DMA conducted fixed asset Emars training to Bluegrass Branch Manager and Property Officer on 15 October 2025. Annual training requirements for Division Property Officers will be included in development of policies and procedures.

Facilities and Bluegrass Station Divisions will work with DMA Administrative Services to establish Sub Location Codes for each building at Bluegrass Station.

DMA has established a Fleet and Equipment Manager to assist in appropriate tracking of vehicle and equipment maintenance. Policies and procedures will be developed and trained in order to assist with guidance in determination of obsolescence and unserviceability along with when and how to declare and remove surplus.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-015: The Kentucky State Police Failed To Properly Account For Fixed Assets In Accordance With Established Policy

Condition and Context

Fixed asset inventory procedures were reviewed as part of the audit of the fiscal year 2025 Annual Comprehensive Financial Report (ACFR). Locations within the Kentucky State Police (KSP) were selected for observation by auditors to ensure adherence to inventory procedures promulgated by the Finance and Administration Cabinet (FAC).

The Communications Branch within KSP manages communications equipment at various sites throughout the Commonwealth, including equipment in department vehicles, posts, central office locations, radio tower sites, and various other locations. eMARS fixed asset records indicated approximately 2,393 assets listed under this branch. The finalized copy of the inventory for all Communications locations indicated that all items were found and accounted for. However, upon further inquiry with agency personnel to determine procedures used to complete such an expansive and substantial inventory, it was determined that standard inventory procedures, including verification of assets and their related information within eMARS, were not performed per FAC guidelines.

Agency personnel indicated alternate procedures and safeguards were in place during the fiscal year, including quarterly inspections and routine maintenance performed on certain equipment performed, online availability of systems indicating the presence of working assets placed into service, and physical controls at asset locations including fenced compounds. However, documentation from these procedures and safeguards was not used as a method to support the fixed asset inventory or to reconcile against the eMARS fixed asset records.

Additionally, auditor inquiry surrounding one high-value item, an emergency warning system with a historical value of \$12,685,740, indicated the system was comprised of various components located throughout the state. The responsibility for the system was transferred between agencies, and a complete list of system components is not currently available, making it difficult to properly track and record the entire system. Without clear documentation, the accuracy and completeness of the fixed asset records cannot be confirmed given the fact that many components may have been replaced over the years and it is unclear whether they were tracked individually or as part of the whole system.

Cause

KSP did not complete a comprehensive fixed asset inventory per FAC guidelines due to various logistical and process challenges present in agency operations.

Effect

The lack of a complete and verified inventory increases the risk of undetected asset loss, misappropriation, or reporting inaccuracies. Failure to accurately reflect asset conditions and locations may impact financial reporting and operational efficiency and decision making.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-015: The Kentucky State Police Failed To Properly Account For Fixed Assets In Accordance With Established Policy (Continued)

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

KRS 45A.045 (6) states, in part, “The cabinet shall promulgate administrative regulations to require agencies to take and maintain inventories of plant property, buildings, structures, other fixed assets, and equipment.”

Finance and Administration Policy (FAP) 120-20-01, Personal Property and Vehicle Inventories, states, “A state agency shall maintain current records of physical properties and equipment and make appropriate additions and deletions to fixed asset records as property is acquired or disposed,” and “[e]ach budget unit shall review its fixed asset records as of June 30 each year to ensure completeness and accuracy.”

Recommendation

We recommend KSP establish procedures to ensure annual inventories are properly conducted and documented, discrepancies are investigated and recorded, and records are kept current and accurate. These procedures should be in accordance with FAC guidelines. This will improve asset accountability and support compliance with state inventory requirements.

Management’s Response and Planned Corrective Action

Problems:

- 1. Communications-Communications (Comm-Comm), this refers to the custodian in eMARS that houses inventory assigned to the communications branch in general. This is where all our radio system infrastructure equipment is assigned. This has created a huge issue by giving the impression that all this equipment is stored in the Frankfort Radio Shop, when in fact most of it is not.*
- 2. The Communications FAA Inventory is too much for an individual to complete on their own, especially when our equipment is spread throughout the entire state.*
- 3. A 12-million-dollar KEWS microwave system that KSP inherited from COT that is tracked by a single property number. The system is comprised of hundreds of individual components that should have been individually asset tagged. It is impossible to track this equipment.*

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-015: The Kentucky State Police Failed To Properly Account For Fixed Assets In Accordance With Established Policy (Continued)**

Management's Response and Planned Corrective Action (Continued)*Solutions:*

1. *Create additional custodians for the Communications Branch that will accurately reflect the physical location of where the equipment is located. These locations will be:*
 - *Tower sites*
 - *Technician Offices at Post*
 - *Supervisor Offices*
2. *By adding additional custodians, it will allow us to share the burden of verification with communications staff assigned to the areas where the equipment is physically located. We plan to divide out the FAA inventory into smaller reports, one for each custodian. Those reports will be verified, signed, and returned to Frankfort by local technicians.*
3. *Communications is currently in the process of replacing this old KEWS system with new equipment. As the old system is being removed, the equipment is being sent to Powerhouse Recycling for e-scrap. This process is being documented and once the entire system has been e-scraped, we will submit the e-scrap paperwork as justification to remove the single 12-million-dollar asset from Communications inventory.*

Responsibility and Deadline:

- *[Name Withheld] will be in charge of Communications FAA moving forward and will oversee the changes that we are implementing to improve our inventory process.*
- *Our goal is to have both inventory systems (WASP and eMARS) updated with the additional custodians that will accurately represent all the equipment listed at each location by the end of this year, December 31, 2025.*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-016: The Finance And Administration Cabinet Did Not Ensure The Enhanced Management Administrative And Reporting System Was Properly Secured

Condition and Context

The fiscal year 2025 audit of the Finance Administration Cabinet (FAC) revealed a formal written procedure had not been developed or implemented to monitor users with statewide access within the enhanced Management Administrative and Reporting System (eMARS). Employees who have been assigned statewide security roles are granted elevated access within eMARS and can see all transactions and attachments within the Commonwealth's accounting system.

Two payments that were uploaded to eMARS by Cabinet for Health and Family Services (CHFS) staff were found to have Personally Identifiable Information (PII) attached. PII includes information such as Name, Social Security Numbers (SSNs), Mailing Addresses, Email Addresses, Phone Numbers, and Dates of Birth. Access to transactions and their attachments in eMARS is controlled at the agency level by assigned Security Leads. However, 12 users within a different state agency were found to have access to this data through a security role allowing statewide access. A process to ensure justification was obtained for statewide access in eMARS was implemented once this situation was identified by auditors and communicated to agency management.

Cause

Due to a lack of formal processes, FAC failed to gather proper documentation and justification from agencies to support the granting of statewide access.

Effect

Due to lack of proper control of statewide access within eMARS, FAC exposed sensitive personal information to unauthorized individuals. Insufficient access controls can lead to significant security risks including unauthorized access to documents, the compromising of sensitive information, privilege escalation leading to potential vulnerabilities, and increased risk of compromise due to not being able to adequately protect critical data.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

According to the NIST 800-53 Revision 5 Control AC-6: Least Privilege, agencies should “[e]mploy the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) that are necessary to accomplish assigned organizational tasks.”

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-016: The Finance And Administration Cabinet Did Not Ensure The Enhanced Management Administrative And Reporting System Was Properly Secured (Continued)

Recommendation

We recommend FAC ensure all eMARS Security Leads are aware of the new process recently implemented requiring justification from state agencies for statewide access in eMARS. FAC should work with all Security Leads to ensure statewide access is only granted to users that require it based on their job duties.

Management's Response and Planned Corrective Action

Upon notification from the Auditor of Public Accounts (APA), the Office of the Controller (OOC) immediately initiated a comprehensive review of statewide security assignments within eMARS. On July 17, 2025, OOC issued a formal security memorandum to all Designated Security Leads across state government. This memo reiterated the expectations and responsibilities when assigning statewide security roles, emphasizing that these roles permit access to sensitive personal and financial information—including Social Security numbers, bank account details, and other PII—across all Cabinets and Departments.

On the same date, OOC contacted the department security lead to request clarification and justification for the elevated statewide access granted to the 12 employees identified by the APA. A follow-up request was sent on November 10, 2025, instructing the agency to complete the newly implemented statewide access acknowledgement statement for each individual.

Subsequent discussions with agency's Executive Director of Audits confirmed that the statewide access assigned to these users is necessary to fulfill required audit functions.

To date, acknowledgement statements have been received for 11 of the 12 employees, with the final statement pending. Going forward, OOC will track and monitor all statewide security assignments and will require each agency to submit an annual acknowledgement statement for any employee assigned the statewide roles. This annual review process will be incorporated into the statewide security governance procedure to ensure consistent compliance, justification, and documentation for all statewide access. One employees' access was inactivated

OOC will continue strengthening controls to ensure statewide access is granted strictly on a least-privilege basis and only when supported by a documented business need in alignment with 200 KAR 38:070 and NIST 800-53r5 access control standards.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-017: The Finance And Administration Cabinet Did Not Adhere To Established Change Management Procedures When Implementing Changes To The Enhanced Management Administrative And Reporting System

Condition and Context

The fiscal year (FY) 2025 audit of the Finance and Administration Cabinet (FAC) identified weaknesses in configuration management practices related to the enhanced Management Administrative and Reporting System (eMARS). FAC's Change Management Procedures were developed to ensure all application updates, patches, and configurations, collectively known as 'builds', are properly logged, reviewed, tested, and approved prior to deployment. When a defect or enhancement is identified, it is logged in the vendor's tracking system. Issues are reviewed and approved weekly by the CORE Team, consisting of vendor directors and staff within FAC's Office of the Controller. Once a patch is developed, it undergoes two levels of testing. After successful testing and approval, the CORE Team schedules the production build.

Of the 22 builds that moved to production during FY 2025, four were selected for testing. All four builds, or 100 percent of the changes tested, lacked formal build instructions, which are required by FAC's Change Management Procedures. One of these changes had a build date of July 1, 2024 and was found to be part of the initial eMARS 4 upgrade, which was officially moved to production on April 16, 2024. Even though this build fell outside of the fiscal year under audit, FAC acknowledged there were too many tasks associated with this change to document all of the necessary notes and instructions.

Two of the four builds tested, or 50 percent of the population, were developed, reviewed, approved, and moved into production by the eMARS System Administrator. This process does not align with enterprise policies requiring separation of duties and independent validation of system changes.

Cause

According to FAC, the eMARS vendor captured the wrong date on the build log used to track builds and patches. As a result of the eMARS upgrade, FAC's updated Changed Management Procedures state that configuration changes are now made by the System Administrator during scheduled builds. The auditor could not confirm that an independent review of the changes made by the System Administrator was obtained. Furthermore, documentation was not provided for all builds selected, such as build instructions.

Effect

Failure to document build instructions and involve independent reviewers increases the risk of unauthorized or incomplete changes being implemented in the production environment. The absence of this documentation limits the ability to verify the completeness, authorization, and integrity of the changes made. The lack of separation of duties could compromise the integrity of the system and lead to misconfigurations, undetected errors, or potential security vulnerabilities.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-017: The Finance And Administration Cabinet Did Not Adhere To Established Change Management Procedures When Implementing Changes To The Enhanced Management Administrative And Reporting System (Continued)

Criteria

In accordance with 200 KAR 38:070, each agency is responsible for developing and documenting internal controls to prevent and detect abuse, unintentional errors, and fraudulent disbursement of funds or use of state assets. Agencies must implement these controls and monitor their effectiveness to ensure operational integrity and accountability.

The section titled 'KY Build Process for Production Deployment' found in FAC's Change Management Procedures states:

3. Draft detailed Build Instructions for deployment.
4. Have instructions peer-reviewed by a second team member.
5. Email finalized Build Instructions to the Office of the Controller.

In addition to internal control requirements, there are enterprise policies and procedures that govern configuration management and change control, as outlined below:

- ENT-201: Enterprise Security Controls and Best Practices, issued by the Commonwealth Office of Technology (COT), requires that individuals responsible for programming a function, application, or system component must not be the same individuals who review and approve the programming code for implementation. This separation of duties is critical to maintaining objectivity, reducing risk, and ensuring proper oversight of system changes.
- CIO-101: Enterprise IT Change Management Policy mandates that agencies establish formal change management processes aligned with industry best practices. It emphasizes the need for moderate controls over configuration management and requires that all changes be properly recorded, assessed, authorized, and scheduled prior to implementation. The policy references NIST standards to ensure consistency and accountability across agencies.
- NIST Special Publication 800-53 Revision 5, Control AC-5: Separation of Duties – This federal standard reinforces the principle that critical functions must be divided among different individuals to prevent conflicts of interest and reduce the risk of fraud or error. It supports the need for independent review and approval of system changes to maintain system integrity.
- FISCAM SD.01.01.02 – The Federal Information System Controls Audit Manual (FISCAM) specifies that security administrators who manage access controls should not also administer changes to system components such as applications, databases, or operating systems. This control is designed to prevent privilege escalation and maintain a secure operating environment.

Recommendation

We recommend FAC ensure formal build instructions are documented and retained for all system builds moved to production. For proper separation of duties, someone other than the System Administration should move eMARS changes to production. FAC should also ensure independent reviews and approvals are obtained prior to production deployment.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-017: The Finance And Administration Cabinet Did Not Adhere To Established Change Management Procedures When Implementing Changes To The Enhanced Management Administrative And Reporting System (Continued)

Management's Response and Planned Corrective Action

The Finance and Administration Cabinet (FAC) concurs with the finding.

Following the upgrade to eMARS 4, FAC recognized the need to better distinguish between configuration-based changes and code-based changes within the Change Management Procedures. To strengthen internal controls, maintain appropriate separation of duties, and ensure that all changes are validated and authorized prior to production deployment, FAC has taken the following corrective actions:

1. Separation of Duties for Configuration Changes

Configuration changes made within the application (e.g., Designer changes, configurable formulas, configurable validations, and other non-code modifications) will continue to be executed in production exclusively by the System Administrator to ensure changes are deployed correctly and only by authorized personnel.

To address separation-of-duties concerns, all configuration changes will now undergo:

- Independent review and approval by a member of the CORE Team prior to production deployment; and*
- Mandatory documentation, including screenshots, test results, and detail of the configuration made, which will be retained with the formal build package.*
- The System Administrator will not independently approve or authorize any configuration for production.*

2. Strengthened Documentation Requirements

FAC has enhanced its procedures to require:

- Formal Build Instructions for every system build, whether code-based or configuration-based.*
- Peer review of all Build Instructions by a second team member prior to submission to the Office of the Controller.*
- Retention of all documentation—including peer reviews, approvals, test results, and deployment steps—within the standardized build folder.*
- These changes ensure full traceability and validate the completeness and authorization of all production changes.*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-017: The Finance And Administration Cabinet Did Not Adhere To Established Change Management Procedures When Implementing Changes To The Enhanced Management Administrative And Reporting System (Continued)

Management's Response and Planned Corrective Action (Continued)

3. Updated Standard Operating Procedures

FAC has revised its Standard Operating Procedures to separate and clearly define:

- *Code-based changes developed by the vendor and deployed by COT and vendor staff, and*
- *Configuration/design changes made by the System Administrator within the application.*

Each category now includes distinct approval, validation, documentation, and deployment requirements. The updated SOPs align with 200 KAR 38:070, CIO-101, ENT-201, and NIST SP 800-53r5 standards, as referenced in the audit finding.

3. Multi-Environment Testing

All configuration changes will continue to be:

- *Tested in multiple non-production environments (Prototype and UAT),*
- *Fully documented, and*
- *Independently validated prior to being scheduled for production.*

This ensures the accuracy of business processes and reduces the risk of misconfiguration.

4. Monitoring and Compliance

The Office of Statewide Accounting Services (SAS) will conduct quarterly internal reviews to confirm compliance with the updated SOPs, ensure proper documentation is maintained, and verify that separation-of-duties requirements continue to be followed.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-018: The Kentucky Transportation Cabinet Overstated Inventory On The Closing Package**

Condition and Context

As part of the audit of the Commonwealth's Annual Comprehensive Financial Report (ACFR), the Kentucky Transportation Cabinet's (KYTC) Operations Management System (OMS) End of Year Inventory report was reviewed. OMS tracks the value of inventory held by the Commonwealth and OMS data is used to report the inventory balance to the Finance and Administration Cabinet (FAC) for inclusion in the ACFR.

One inventory record contained a unit pricing error resulting in the inventory balance being overstated by \$9,261,979. While KYTC's internal controls over inventory entry into OMS did not prevent the error; KYTC's internal controls subsequently detected the error. However, the error was not communicated to FAC for correction until the auditor inquired.

Cause

A unit cost was entered into OMS as \$1,250 per roll instead of \$1.25 per foot. The error was included on the Annual Financial Report (AFR) form submitted to FAC and was not corrected after being identified.

Effect

KYTC submitted an inaccurate inventory balance to FAC for inclusion in the Commonwealth's ACFR. After the auditor inquired, KYTC approved the auditor's recommended adjustment to the inventory balance. If the error had not been reported to FAC, inventory would have been overstated by \$9,261,979.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Recommendation

KYTC should strengthen internal controls to ensure significant corrections to inventory values are properly communicated to FAC. Unit cost amounts should be reviewed for accuracy for financial statement reporting.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-018: The Kentucky Transportation Cabinet Overstated Inventory On The Closing Package (Continued)**

Management's Response and Planned Corrective Action

This was an administrative error that has been corrected. Going forward, the Division of Traffic Operations will remind District staff to reach out to us should any questions regarding the ordering of materials arise. We will also work with Audits regarding an analysis of unit costs of traffic-related materials to ensure issues such as this don't happen again. We will also work with Audits regarding an annual analysis of unit costs prior to each end-of-year inventory.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-019: The Finance And Administrative Cabinet's Financial Reporting Branch Failed To Implement Adequate Internal Controls To Ensure The Completeness And Accuracy Of The Schedule Of Expenditures Of Federal Awards

Condition and Context

This is a repeat finding as reported in the fiscal year 2024 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2024-008.

The Financial Reporting Branch within the Finance and Administration Cabinet's (FAC) Office of the Controller prepares the Commonwealth of Kentucky's Schedule of Expenditures of Federal Awards (SEFA). State agencies submit information to the Financial Reporting Branch for their review and approval when compiling the Commonwealth's SEFA. During the compilation of the 2025 SEFA, errors were noted as follows:

- Manual adjusting entries were prepared by FAC which understated cash expenditures reported for the Cabinet for Health and Family Services (CHFS) Assistance Listing Number (ALN) 93.778 Grants to States for Medicaid program by \$170,128,074.
- FAC failed to include manual adjustments submitted by the Kentucky Transportation Cabinet (KYTC), resulting in ALN 20.526 Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs expenditures being understated by \$527,526.

Cause

The errors were made during the compilation of the SEFA by FAC which resulted in the misstatements. Internal controls were not in place to ensure the errors were prevented, or detected and corrected, before submission of the SEFA for auditor review. For CHFS, the adjustment made by FAC failed to include Medicaid expenditures for one department. For KYTC, FAC received an email with adjustments and failed to make the adjustments.

Effect

The SEFA is the foundation for the identification and selection of major federal programs as required by federal regulations. Inaccurate information could mislead federal oversight agencies and other entities who rely on the accuracy of the SEFA. Errors on the SEFA could also lead to additional noncompliance with federal regulations over the identification, monitoring, and reporting of major federal programs.

Criteria

2 CFR 200.510(b) states, "The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. The schedule must include the total Federal awards expended as determined in accordance with § 200.502."

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-019: The Finance And Administrative Cabinet's Financial Reporting Branch Failed To Implement Adequate Internal Controls To Ensure The Completeness And Accuracy Of The Schedule Of Expenditures Of Federal Awards (Continued)**

Criteria (Continued)

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Recommendation

We recommend the Financial Reporting Branch implement additional internal controls over the preparation of the SEFA. All adjustments should be adequately reviewed and approved to ensure the completeness and accuracy of the SEFA.

Management's Response and Planned Corrective Action

The Finance and Administration Cabinet (FAC) agrees with the Finding. The errors identified were on draft statements and were corrected before publication. Internal controls will be strengthened to ensure the integrity of agency provided documentation for SEFA reporting.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-020: The Cabinet For Economic Development Failed To Accurately Account For Grant Activity On The Schedule Of Expenditures Of Federal Awards**

Condition and Context

The Schedule of Expenditures of Federal Awards (SEFA) for the Commonwealth is compiled by the Controller's Office within the Finance and Administration Cabinet (FAC). This compilation is based upon information submitted by each state department or cabinet which expends federal awards during the fiscal year.

During fiscal year 2025, the Cabinet for Economic Development (CED) received and expended funds from the U.S. Department of the Treasury (US Treasury) for the State Small Business Credit Initiative (SSBCI) program. This program is designed to support small businesses and entrepreneurs by providing funds for capital and technical assistance to promote growth and success of those businesses.

Capital funds totaling \$40,725,646 received and expended by CED for the SSBCI program were incorrectly included on the SEFA information submission to FAC and ultimately reflected in the Commonwealth's draft SEFA under Assistance Listing Number (ALN) 21.031.

Cause

Internal controls failed to prevent, or detect and correct, the inclusion of SSBCI capital funds as federal awards on SEFA information submitted to FAC and included in the Commonwealth's draft SEFA.

Effect

The Commonwealth's SEFA was overstated for ALN 21.031 by \$40,725,646. Without adequate controls to ensure accurate SEFA reporting, misstatements in the SEFA could go undetected. Additionally, the determination of the Commonwealth's major federal programs for the annually required Single Audit would be affected as it is based on federal awards expended by each program.

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-020: The Cabinet For Economic Development Failed To Accurately Account For Grant Activity On The Schedule Of Expenditures Of Federal Awards (Continued)

Criteria (Continued)

SSBCI Capital Program Policy Guidelines issued by U.S Treasury, Section X. Reporting, state:

For reporting purposes, SSBCI capital funds are not considered federal financial assistance. The SSBCI statute, 12 U.S.C. § 5702(c)(5), specifically states that capital funds transferred to jurisdictions are not considered federal financial assistance for the purposes of 31 U.S.C. subtitle V. Funds given to provide technical assistance, however, are considered federal financial assistance, and therefore the related reporting requirements, which will be described in the forthcoming technical assistance guidance, will apply to those funds.

12 U.S.C. §5702 (c)(5) Transferred amounts not assistance, states “The amounts transferred to a participating State under this section shall not be considered assistance for purposes of subtitle V of title 31.”

31 U.S.C. §7501 (a)(4), which is under subtitle V of title 31, defines federal awards as “Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass through entities[.]”

31 U.S.C. §7502 (e)(2), which is also under subtitle V of title 31, states an auditor shall “determine whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole[.]”

Recommendation

We recommend CED improve internal controls to ensure amounts reported on the SEFA are only funds which are applicable to SEFA reporting requirements.

Management’s Response and Planned Corrective Action

In response to the audit findings demonstrating the weakness of internal controls which overstated the 2024 SEFA submission, the Department for Financial Services would like to accept the recommendation to adjust the SEFA and improve internal controls to ensure amounts reported on the SEFA are only funds which are applicable to SEFA requirements. Historically our department has reported federal fund activity for various ‘Small Business Credit Initiatives’ on our SEFA. In past years FAC used an unassigned CFDA, now ALN, to track and report those funds, including CFDA 21.A03 and in recent years ALN 21.U03.

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-020: The Cabinet For Economic Development Failed To Accurately Account For Grant Activity On The Schedule Of Expenditures Of Federal Awards (Continued)**

Management's Response and Planned Corrective Action (Continued)

With the reauthorization and funding of the SSBCI program through ARPA, CED understood it to be necessary to report these funds. Historically our department, reported the federal fund activity for various 'Small Business Credit Initiatives' on our SEFA as an unassigned CFDA. We were instructed to review the award documentation and reach out to our federal counterparts to determine the appropriate CFDA/ALN. CED's deputy commissioner was in contact with the U.S. Department of the Treasury, our federal counterpart to inquire about the appropriate CFDA/ALN to report in the SEFA for the SSBCI 2.0.

UST RESPONSE: Per section X of the SSBCI Capital Program Policy Guidelines, "For reporting purposes, SSBCI capital funds are not considered federal financial assistance. The SSBCI statute, 12 U.S.C. § 5702(c)(5), specifies that capital funds transferred to states, the District of Columbia, territories, Tribal governments, and eligible municipalities are not considered federal financial assistance for the purposes of 31 U.S.C. subtitle V. Funds given to provide technical assistance, however, are considered federal financial assistance, and therefore the related reporting requirements, which will be described in the forthcoming technical assistance guidance, will apply to those funds." In other words, because SSBCI capital funds are not federal financial assistance, the SSBCI Capital Program does not have an assistance listing number (ALN) and certain requirements applicable to federal financial assistance do not apply to funding under the Capital Program. In contrast, funding provided under the SSBCI Technical Assistance (TA) Grant Program is considered federal financial assistance. The ALN for the TA Grant Program is 21.031.

It was determined that since we do not have Technical Assistance funds, SSBCI capital funds do not need to be reported in the SEFA and should not have been reported on the Fiscal Year 2024 Schedule of Expenditures of Federal Awards. Agency Delegation for SEFA reporting underwent changes in 2024 creating a disconnect of this information although those delegated have since been informed and with this corrective action plan will ensure proper reporting and improved internal controls.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-021: The Energy And Environment Cabinet Failed To Accurately Account For Grant Activity Resulting In A Misstatement In The Federal Fund And On The Schedule Of Expenditures Of Federal Awards

Condition and Context

This is a repeat finding as reported in the fiscal year 2024 Statewide Single Audit of Kentucky (SSWAK) Volume 1 as finding 2024-010.

The Financial Reporting Branch within the Finance and Administration Cabinet's (FAC) Office of the Controller prepares the Commonwealth of Kentucky's Annual Comprehensive Financial Report (ACFR) and Schedule of Expenditures of Federal Awards (SEFA). State agencies submit information to FAC to assist in compiling both financial reports.

Auditors reviewed the information submitted by the Energy and Environment Cabinet (EEC) and determined that activity entered into the statewide accounting system related to Assistance Listing Number (ALN) 15.252 Abandoned Mine Land Reclamation (AMLR) was incorrectly reported. AMLR federal funds in the amount of \$22,312,777, which were transferred to a restricted account for increased tracking and transparency, were incorrectly reported as cash expenditures on the SEFA even though these funds were not expended during the fiscal year. FAC accepted corrections to the aforementioned error once the issue was brought to their attention.

Cause

Internal controls failed to prevent, or detect and correct, the incorrect recording of the underlying AMLR transaction in the statewide accounting system and in the EEC SEFA information submitted to FAC.

Effect

Expenditures in the Federal Fund were overstated by \$22,312,777 on the SEFA. Inaccuracies in the measurement, recognition, presentation, and disclosure of reporting information, including federal draw downs, could negatively impact users of the financial statements including management decisions.

Additionally, inaccurate information reported in the SEFA could mislead federal oversight agencies and other entities who rely on the accuracy of the SEFA. Errors on the SEFA could also lead to additional noncompliance with federal regulations over the identification, monitoring, and reporting of major federal programs.

Criteria

2 CFR 200.510(b) states, "The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. The schedule must include the total Federal awards expended as determined in accordance with § 200.502."

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-021: The Energy And Environment Cabinet Failed To Accurately Account For Grant Activity Resulting In A Misstatement In The Federal Fund And On The Schedule Of Expenditures Of Federal Awards (Continued)**

Criteria (Continued)

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Recommendation

We recommend EEC strengthen internal controls to ensure all transactions are properly accounted for in information submitted to FAC for SEFA compilation. We also recommend EEC work with the FAC to strengthen annual SEFA training, to specifically address the reporting of expenditures and federal fund transfers.

Management's Response and Planned Corrective Action

EEC inadvertently recorded AMLR funds as expenditures because the transfer referenced above was processed in eMARS using event type XC01, which posts the transaction against the federal allotment and appears, for all intents and purposes, as an expenditure. As a result, the transfer was reported as an expenditure, and the federal authorized agency reimbursed the transaction that moved the funds into a separate holding account. These funds are now classified as restricted and will be spent accordingly.

Going forward, EEC will identify all federal transfers and ensure they are treated and recorded as reconciling items, as was done during the FY25 SEFA adjustment. EEC agrees that improved communication with the FAC is necessary to strengthen annual SEFA training—specifically regarding the reporting of federal fund transfers. Additionally, EEC will update its standard operating procedure for the annual SEFA process to clarify how these transfers should be recorded.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-022: The Department Of Agriculture Failed To Accurately Report Payments To Subrecipients On The Schedule Of Expenditures Of Federal Awards

Condition and Context

The Financial Reporting Branch within the Finance and Administration Cabinet's (FAC) Office of the Controller prepares the Commonwealth of Kentucky's Schedule of Expenditures of Federal Awards (SEFA). State agencies submit information to the Financial Reporting Branch for their review and approval when compiling the Commonwealth's SEFA.

The Kentucky Department of Agriculture (KDA) inaccurately reported expenditures paid to subrecipients for ALN 10.569 Emergency Food Assistance Program. For the reporting period, KDA reported subrecipient expenditures totaling \$85,466, which corresponds with their cash expenditures for the program. However, the correct amount that should have been reported was \$27,538,295, which corresponds with the noncash expenditures for the program.

Cause

KDA failed to implement internal controls to ensure accurate reporting of all elements of the SEFA which include cash expenditures, noncash expenditures, and amounts provided to subrecipients.

Effect

Underreporting expenditures or amounts provided to subrecipients may lead to incomplete or inaccurate federal reporting, reduced transparency, and potential issues with compliance and oversight.

Criteria

2 CFR §200.510(b) states, "The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. The schedule must include the total Federal awards expended as determined in accordance with § 200.502."

2 CFR §200.502 states, in part:

- (a) Determining Federal awards expended. The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity related to the Federal award pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as:
 - (1) Expenditure/expense transactions associated with grants, cooperative agreements, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, and direct appropriations;
 - (2) The disbursement of funds to subrecipients...

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-022: The Department Of Agriculture Failed To Accurately Report Payments To Subrecipients On The Schedule Of Expenditures Of Federal Awards (Continued)**

Criteria (Continued)

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

Recommendation

KDA should strengthen its financial reporting controls to ensure that all elements of the SEFA are accurately compiled, reviewed, and reported in accordance with federal requirements.

Management's Response and Planned Corrective Action

In Management's Response to Finding The Kentucky Department of Agriculture (KDA) inaccurately reported expenditures paid to subrecipients for ALN 10.569 Emergency Food Assistance Program. For the reporting period, KDA reported subrecipient expenditures totaling \$85,466, which corresponds with their cash expenditures for the program. However, the correct amount that should have been reported was \$27,538,295, which corresponds with the noncash expenditures for the program. During preparation of the FY 2025 SEFA, the noted error was a result of a typographical mistake during data entry. The document/record has been corrected to reflect accurate information. We have implemented an additional review step to ensure data entry accuracy and to prevent similar errors in the future.

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-023: The Kentucky Transportation Cabinet Did Not Have Adequate Internal Controls Established Over The Kentucky Driver License Information System

Note: the numbers in parenthesis at the end of a paragraph or sentence correlate to management's response found in the 'Management Response and Planned Corrective Action' section.

Condition and Context

The fiscal year (FY) 2025 audit of the Kentucky Transportation Cabinet (KYTC) revealed that inadequate system controls had been established over the Kentucky Driver License Information System (KDLIS), which houses driver license records and processes applications for issuance. While KYTC has developed the Driver Credentialing and Real ID Specialist Training Manual, which explains the steps to follow to issue a driver license; they have not documented a formal written policy addressing specific processing rules, purpose and accountability in KDLIS. (1)

Auditors attempted to test logon activity in KDLIS for the period January 1, 2025 through June 30, 2025, however, the information was not maintained for dates prior than the most recent 120 days of activity. As a result, auditors selected the month of August 2025 to review. During testing of logon activity, which showed a population of 719 user IDs logged into KDLIS between August 3 and August 31, the following issues were noted:

- 230 users, 32 % of the population, were logged into more than one computer. 96 users were found to have logged into more than one computer within 10 minutes of each other. (2)
- 34 user IDs, 4.7% of the population, did not have full names captured to show who is using them. (3)

Cause

KYTC failed to properly implement internal controls that would prevent or detect multiple uses of an employee's user ID within the KDLIS. There were no documented procedures to provide notification if a user ID was being used on more than one machine or in multiple open sessions. The decentralization of operations may have contributed to the lack of oversight. In addition, KYTC failed to implement internal controls to ensure that KYTC's retention schedule requirements were followed. Also, the Commonwealth Office of Technology (COT) only maintained record of logon activity within KDLIS for 120 days. (4)

Effect

Allowing users to log into multiple devices simultaneously weakens a system's security posture and the agency's ability to hold individuals accountable for their actions. These practices scatter user activity across overlapping sessions, complicating the reconstruction of events and increasing the risk of unauthorized actions going undetected. It reduces audit trail reliability, increase the risk of errors or unauthorized system activity, and reduce overall compliance with established security standards. (5)

FINANCIAL STATEMENT FINDINGS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2025-023: The Kentucky Transportation Cabinet Did Not Have Adequate Internal Controls Established Over The Kentucky Driver License Information System (Continued)**

Effect (Continued)

As a result of the noted weaknesses, KYTC could enable individuals to obtain privileges or benefits, such as drivers licenses that they were not entitled to. An illegally obtained driver's license can open doors to employment, travel, government services, or financial accounts that require legitimate identification. Licenses issued without proper vetting can allow unqualified or unknown individuals to legally operate vehicles on Kentucky roads. (6)

Criteria

In accordance with 200 KAR 38:070, Internal controls and pre-audit, each agency is responsible to develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets. Additionally, agency personnel shall implement the internal controls and monitor their effectiveness.

The National Institute of Standards and Technology (NIST) 800-53 revision 5, specifically IA-2 Identification and Authentication, states that organizations must "Uniquely identify and authenticate organizational users and associate that unique identification with processes acting on behalf of those users". In addition, IA-3 Device Identification and Authentication, states organizations must "Uniquely identify and authenticate devices before establishing a local, remote, or network connection".

KYTC's retention schedule states that driver license information should be retained for five years. In addition, all Commonwealth Records Retention Schedules contain an 'Audits and Legal Action' section, which states:

Agency records may be subject to fiscal, compliance or procedural audit. If an agency should maintain records longer than the approved retention period, as may be the case with some federal audits, then all affected records should be retained until the audit has been completed and the retention period met. In no case should records that are subject to audit be destroyed until the audit has been completed and retention periods met, or the records have been officially exempt from any audit requirements.

Records may also be involved in legal or investigative actions, such as lawsuits, administrative hearings, or open records matters. These records must be retained at least until all legal or investigative matters have concluded, regardless of retention period. This includes all appeals of lawsuits. (7)

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2025-023: The Kentucky Transportation Cabinet Did Not Have Adequate Internal Controls Established Over The Kentucky Driver License Information System (Continued)

Recommendation

We recommend KYTC:

- Develop a written policy to prohibit KYTC and regional driver license staff from logging into more than one computer at any given time. If this is required for regular processing, then it should be documented in the formalized policy and approved by management. (8)
- Work with COT to ensure all user IDs follow common naming conventions by identifying the full names of employees using the user IDs. (9)

Management's Response and Planned Corrective Action

- (1) *This italicized portion of the above sentence is not accurate. The Training Manual and the formal employee training process itself clearly outlines the requirements and process an employee must follow to issue various types of licenses. Further, to say accountability is not in place or documented is also inaccurate; it is in place through new employee training instruction, consistent supervisory oversight and recurring annual training which includes each employee's signature indicating he or she has reviewed and understands the guidance and will comply.*
- (2) *The statement above does not indicate whether these were 96 different accounts or the same accounts over the 30-day selection of August 2025. Also, simultaneous user logins are not against policy and is allowable because of business practice on many Commonwealth applications, not just KDLIS. Please supply us with a list of the accounts you are questioning.*
- (3) *The COT naming convention here may be inconsistent. If the users first initial and last name are used, then they are still unique IDs assigned to a specific employee. With the Commonwealth's thousands of employees it is very likely exact names cannot be assigned because they are assigned to someone else with the same or similar name. Additionally, this statement does not indicate the naming convention risk and whether this is this against a policy or just considered recommended practice. Please supply us with a list of the accounts you are questioning.*
- (4) *KYTC disagrees. User activity logs are retained for 120 days and these differ from Driver License activity logs. Driver licensing information is retained for a minimum of five years and for longer periods in certain cases, such as for Commercial Driver License (CDL) records. The KDLIS system maintains a comprehensive audit trail that identifies any user who has viewed or modified a record. This information is available and can be produced as part of the driver history record when needed. If there are different internal controls you are referencing please provide those.*
- (5) *KYTC disagrees. Sharing user credentials may result in being unable to adequately determine who performed a transaction, but sharing credentials is against KYTC policy already and that is clearly communicated to employees. Please share a copy of the referenced "established security standards" because KYTC would need to know*

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

- specifically what needs to be corrected if something is out of order.*
- (6) *KYTC disagrees with the opinion that there are “lax system controls in place.” As previously described, simultaneous logins are used for business purposes that allow for licensing efficiency. This entire statement is not an audit finding. It is an opinion that simultaneous logins could result in unintended issues.*
 - (7) *KYTC disagrees. See response (4) above.*
 - (8) *Limiting simultaneous user logins on multiple devices may be an option, however there are operational scenarios to maximize efficiency where this may be necessary and logging onto multiple devices is not against policy. For example, an employee may need to reference information on one workstation while entering vision screening results on another, or an employee may be logged on to a computer that crashes and the user must switch to another computer to continue working.*
 - (9) *KYTC disagrees. See response (3) above.*
 - (10) *Which “established policy” is being referenced here? Currently, DDL monitors user access through supervisory oversight and training. With the new KINDL system going live in June of 2026, this item will be considered as we review new roles and system privileges and understand the access control processes the new system will provide.*
 - (11) *KYTC disagrees. See response (4) above.*

Auditor’s Reply

After receiving KYTC’s original response on January 6, 2026, the auditor provided clarifications and rebuttals to all disagreements noted above on January 9, 2026. As such, we will not address every disagreement here. However, KYTC provided additional documentation on January 22, 2026, including human resources forms, policies and position descriptions, that they believed were in support of KDLIS system controls. One policy had a January 2026 date, which is outside the audit period under review. Also, while the position descriptions provided explain certain job tasks, they do not provide sufficient detail to identify specific reports being monitored by supervisors or the documentation being maintained to support the reviews KYTC says are being performed.

Furthermore, KYTC stated “simultaneous user logins are not against policy and is allowable” and “simultaneous logins are used for business purposes that allow for licensing efficiency”. KYTC never provided a written policy specifically stating that simultaneous user logins were allowable. In addition, system security should not be compromised to allow for processing efficiency.

KYTC also stated: “We do plan to follow up on communicating the APAs concerns regarding username naming conventions with COT”. While COT is responsible for the network and infrastructure; KYTC is still responsible for their data, their Ids, etc. Security controls established over KYTC systems is their responsibility to fix, not COT.

APPENDIX

COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2025

This report is available on our website, auditor.ky.gov, in PDF format. For other requests, please contact Savannah Baker, the APA's Open Records Administrator, at (502) 564-5841 or Savannah.Baker@ky.gov. If copies of the ACFR for FY 2025 are required, the report is available on the Finance and Administration Cabinet website at finance.ky.gov in PDF format.

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

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

Council on Postsecondary Education
100 Airport Road
Frankfort, KY 40601

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

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

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

Kentucky Communications Network Authority
500 Mero Street Suite 1-1
Frankfort, KY 40601

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

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

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

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

Kentucky Educational Television Authority
600 Cooper Drive
Lexington, Kentucky 40502

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

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

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

Kentucky Horse Racing and Gaming Corporation
4047 Iron Works Parkway
Lexington, KY 40511

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

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

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

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

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

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

Kentucky Public Pensions Authority
1260 Louisville Road
Frankfort, Kentucky 40601

Kentucky Public Transportation Infrastructure Authority
200 Mero Street
Frankfort, Kentucky 40601

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

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

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

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

Louisville Arena Authority
1 Arena Plaza
Louisville, KY 40202

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

Murray State University
200 Sparks Hall
Murray, Kentucky 42071

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2025
(Continued)**

Northern Kentucky University
Office of Financial Services
Lucas Administrative Center 612, Nunn Drive
Highland Heights, Kentucky 41099-8101

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

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

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

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

University of Kentucky
107 Main Building
Lexington, Kentucky 40506-0032

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

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

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