

**EXAMINATION OF THE  
KENTUCKY EMERGENCY MANAGEMENT**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2910**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

August 6, 2013

Major General Edward Tonini  
Adjutant General, Department of Military Affairs

The Auditor of Public Accounts (APA) has completed its examination of the Kentucky Emergency Management (KYEM). This letter summarizes the procedures performed and communicates the results of those procedures.

Examination procedures included interviewing current and former staff concerning KYEM's environment and operating activities; reviewing expenditure transactions associated with the Governor's Emergency Management Workshop (GEMW) for 2010, 2011, and 2012; and reviewing certain additional financial activity related to KYEM's federal grant activities for fiscal years 2010 through 2013.

The purpose of this examination was not to provide an opinion on financial statements, but to ensure appropriate processes are in place to provide strong oversight of financial activity of KYEM and to review specific issues brought to the attention of this office.

Detailed findings and recommendations based on our examination are presented in this report to assist all parties involved for improving procedures and internal controls. Overall, these findings identify serious concerns with regards to management's override of appropriate policies and procedures leading to excessive and/or unnecessary expenditures, possible noncompliance with federal grant requirements, and a lack of proper oversight. Due to the seriousness of these matters, this report will be referred to the Kentucky Executive Branch Ethics Commission, the U.S. Department of Homeland Security, and the Kentucky Attorney General.

If you have any questions or wish to discuss this report further, contact me or Libby Carlin, Assistant Auditor of Public Accounts.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen  
Auditor of Public Accounts





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## **Examination of the Kentucky Emergency Management**

### **Examination Objectives**

On March 14, 2013, we notified the Department of Military Affairs that matters had come to our attention related to Kentucky Emergency Management (KYEM) which warranted further review from our office. The purpose of the APA examination was to determine if KYEM funds are administered in a manner to ensure KYEM objectives are met and accountability and transparency exist. The examination was not to perform a financial statement audit of KYEM.

### **KYEM Background**

KYEM was created per KRS 39A.030 as the emergency management agency of state government for the purpose of developing and enhancing comprehensive emergency management program policies, plans, or procedures to provide for a coordinated responsive, and integrated emergency management system in the Commonwealth.

KYEM has a vision of a resilient Commonwealth, safe, secure, and prepared for emergencies and disasters through the programs and efforts of a superior emergency management team, staffed and led by professional managers and administrations. KYEM's mission is to protect and restore the Commonwealth.

### **Findings and Recommendations**

**Finding 1: The KYEM working environment is not conducive to ethical, efficient and effective operations.** Discussions with former and current employees, supported by on site observations, identified a potentially hostile working environment that nurtured a culture of waste and abuse within the agency. The unfavorable and difficult working

environment has led to several questionable expenditures and activities as identified within other findings of this report because the environment does not appear to support or motivate employees to identify waste, fraud, or abuse.

**Recommendation:** We recommend KYEM strengthen its control structure by creating a professional working environment which promotes sound governance over the use of state and federal funding.

**Finding 2: Supporting documentation provided by KYEM was altered to obscure expenditure details.** During the examination, serious questions arose as to the accuracy and adequacy of information provided by KYEM. Additional evidence and inquiry indicated invoices were intentionally altered by KYEM employees and/or by the Governor's Emergency Management Workshop (GEMW) conference hotel at the request of KYEM, in order to conceal unallowable activity or to remain in compliance with state regulations.

**Recommendation:** We recommend KYEM strengthen its control environment and make sound business decisions that are in the best interest of the Commonwealth by ensuring expenditure of funds are compliant with state regulations and are only spent on relevant and necessary expenditures to meet legitimate objectives of the division. KYEM should require, maintain, and review itemized supporting documentation for each expenditure and cease the practice of altering, or requesting that vendors alter, detailed expense information in an effort to circumvent state or federal laws and regulations.

**Finding 3: Certain conference expenditures did not appear to be either necessary or reasonable in amount.** During the review of expenditures associated with the 2010, 2011 and 2012 GEMW conferences, auditors identified more than \$122,000 in expenditures that were either not necessary to meet the objectives of a taxpayer funded event, or were excessive in amount, or both. These types of expenditures included significant pre-conference planning, after-hour meals, receptions including alcoholic drinks, entertainment, and conference attendee gifts and door prizes.

**Recommendation:** We recommend KYEM strengthen controls to ensure all costs are allowable, necessary to carry out legitimate business objectives, reasonable in amount, and compliant with any requirements specified by the funding sources utilized. We further recommend KYEM work with its federal grantor to determine the proper resolution for questionable costs that exist within the conference expenditures.

**Finding 4: KYEM lacked sufficient documentation to support the accuracy and reasonableness of conference expenditures.** Analysis of activity related to the GEMW for 2010, 2011, and 2012 identified spending that was not evidenced by sufficient supporting documentation to determine whether the expenditures were valid. These include conference meals, which appear to be served for a significantly greater number of individuals than could be accounted for based on the number of paid registrants plus KYEM employees.

**Recommendation:** We recommend KYEM implement procedures to maintain sufficient supporting documentation for all expenditures, with special attention given to processes for maintaining appropriate supporting evidence for conference charges.

**Finding 5: KYEM's accounting for certain charges increases the risk that unallowable activities could be charged to federal programs and not be detected.** During the examination, a

review of expenditure activity included evaluating funding sources in order to determine if proper accounts were charged for each transaction. Analysis revealed confusing and complicated methodologies for recording expenditures. In each of the scenarios described, KYEM's process increases the risk that federal programs could be charged for unallowable activity or that federal programs could be charged more than once for the same expenditures.

**Recommendation:** We recommend KYEM strengthen policies and procedures to ensure an unambiguous and systematic methodology for improving the funding source for federal expenditures. The agency's methodology should consider allowable costs for each federal program, and should avoid routine use of transfers to correct funding source errors. It is expected that implementation of such policies will increase the efficiency and effectiveness of the agency.

**Finding 6: KYEM incurred significant expenditures hosting routine working lunch meetings at a Frankfort hotel.** The examination identified that KYEM routinely held various meetings at a Frankfort hotel for various groups, committees, or events associated with the agency. From July 1, 2009 through April 30, 2013, KYEM spent \$113,497 at the hotel including hotel rooms, working lunches, and meeting space.

**Recommendation:** We recommend KYEM reevaluate the reasonableness and necessity of paid working lunches, as well as the necessity of paying for off-site meeting space.

**Finding 7: The KYEM director did not properly procure programming services from a software vendor.** During the examination, the APA received concerns indicating that a possible conflict of interest existed between the KYEM director and a software company contracted by KYEM and specifically with regard to the procurement of one of the software products developed with assistance from this vendor. In



## Executive Summary (Continued)

examining evidence obtained, auditors identified a flawed procurement process, which is a red flag that may indicate a less than objective relationship existed between the director and the software vendor, although a direct conflict of interests stemming from financial gain by the director was not identified.

**Recommendation:** We recommend KYEM follow the Kentucky Model Procurement Code by ensuring all contracts for goods and services are properly procured in accordance with enacted policies, procedures, and state regulations.

**Finding 8: Conference contracts included perks utilized by the KYEM director.** Review of the 2011 and 2012 GEMW contracts between KYEM and the conference hotel revealed the inclusion of conference concessions that potentially influenced the vendor selection for the conference location. The 2011 conference included one two-bedroom waterfront balcony suite complimentary for two nights. Based on the room's rack rate, this added value totaled \$1,350. In 2012, the contract between KYEM and the conference hotel included a complimentary waterfront balcony suite for three nights, with a total added value of \$2,025 based on the room's rack rate.

**Recommendation:** We recommend KYEM renegotiate proposed concessions in order to provide the greatest benefit to the Commonwealth, while removing the appearance that business was being solicited for perks and gifts from the vendor which were intended to benefit only top level management.

**Finding 9: Management's use and emphasis on its internal audit function was inadequate in addressing known deficiencies.** The internal audit function consists of one employee who provides services for the entire Department of Military Affairs, including KYEM. Analysis of the internal auditor's work plans failed to identify management's efforts to direct attention toward high risk areas impacting KYEM identified in the

previous four fiscal year external state audits. Management's failure to give attention to high risk areas associated with KYEM's operations increases the opportunity for weaknesses to continue and may indicate a lack of willingness by management to review, address, and resolve known deficiencies in KYEM's operations.

**Recommendation:** We recommend consideration be given to an expanded use of the internal audit function to improve its effectiveness.

### Conclusion

The findings indicate a weak control environment within KYEM which promoted unnecessary and/or excessive spending, inefficient operations, and noncompliance with state and federal regulations.

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## Background

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### *Examination Objectives*

On March 14, 2013, the Auditor of Public Accounts (APA) notified the Department of Military Affairs (DMA) that a special examination would be conducted in order to address areas of concern and allegations identified during the annual audit. Upon consideration of the risk factors identified, the APA determined an expanded examination was warranted to address significant concerns surrounding the Department of Military Affairs, most notably within the Kentucky Emergency Management (KYEM). Based on allegations noted, the examination focused on several key areas – expenditures associated with conferences hosted by KYEM between 2010 and 2013, federal grant accounting, potential conflicts of interest involving KYEM management, and whether the overall environment at KYEM is conducive for proper fiscal management.

The purpose of this examination was not to perform a financial statement audit of KYEM, but instead to determine whether state and federal funds are administered in a way to ensure KYEM objectives are met, and that the proper level of accountability and transparency exists for activities funded with taxpayer dollars. In order to meet this objective, the examination focused on reviewing transactions to determine if KYEM funds were appropriately expended and reported.

### *Prior Audit Results*

The necessity of this investigation was further prompted by the results of prior federal compliance audits reported in the Single Statewide Audit of Kentucky (SSWAK) between FY 2007 and FY 2012. For these audits, 19 KYEM findings classified as either material weaknesses or significant deficiencies were identified with a combined \$5.6 million in questioned costs.

### *Scope and Methodology*

The scope of the KYEM examination was a review of transactions and activities from July 1, 2009 through June 24, 2013. To address the examination objectives, the APA conducted numerous interviews with KYEM employees, both former and current, who had direct knowledge of KYEM requirements and administration. In addition, auditors reviewed and analyzed financial documents and reports.

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## Background

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### *Department of Military Affairs*

KYEM is a division of the Department of Military Affairs (DMA). Per KRS 36.010, DMA is responsible to the Governor for the proper functioning of the Kentucky National Guard, militia, and all other military or naval matters of the state. DMA consists of the Office of Management and Administration, Division of Emergency Management, Office of the Chief of Staff for Federal Army Guard, Office of the Chief of Staff for Federal Air Guard, Kentucky Guard Youth Challenge Division, and the Kentucky Civil Air Patrol.

### *KYEM Structure and Mission*

Per KRS 39A.030, a Division of Emergency Management was created as the emergency management agency of state government which shall develop the comprehensive emergency management program of the Commonwealth on behalf of the Governor, and in consultation with the cabinet secretaries of state government, other appropriate state agency heads, local elected chief executives, local emergency management directors, and local emergency planning committees, for the purpose of developing and enhancing comprehensive emergency management program policies, plans, or procedures to provide for a coordinated responsive, and integrated emergency management system in the Commonwealth.

KYEM has a vision of a resilient Commonwealth, safe, secure, and prepared for emergencies and disasters through the programs and efforts of a superior emergency management team, staffed and led by professional managers and administrations. KYEM's mission is to Protect and Restore the Commonwealth.

In fiscal year 2012, KYEM expended a total of \$64,613,103, with approximately 88% of those expenditures related to federal programs and the remaining 12% related to general fund and agency revenue expenditures. The majority of KYEM's federal funding comes from the U.S. Department of Homeland Security, specifically the Federal Emergency Management Agency (FEMA). The largest federal program administered by KYEM is the FEMA Disaster Grants – Public Assistance, which provides assistance so communities and the Commonwealth can quickly respond to and recover from major disasters or emergencies declared by the President. This program made up more than half of KYEM's federal expenditures during fiscal year 2012. Another 24% of the division's federal expenditures in fiscal year 2012 related to the Chemical Stockpile Emergency Preparedness Program, which provides emergency preparedness assistance and resources to communities surrounding the Army's chemical warfare agent stockpiles at the Bluegrass Army Depot near Richmond, Kentucky.

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## **Background**

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Because KYEM's operations rely so heavily on federal funding, compliance with federal regulations is critical to maintain timely and adequate funding to maximize the Commonwealth's ability to prepare Kentuckians for future emergencies and provide appropriate response to those in need when emergencies arise.

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## Findings and Recommendations

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**Finding 1: The KYEM working environment is not conducive to ethical, efficient and effective operations.**

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Discussions with former and current employees, supported by on site observations, identified a potentially hostile working environment that nurtured a culture of waste and abuse within the agency. Reported threats of retaliation and intimidation of staff weakened the control structure by undermining the degree by which transactions were reviewed for reasonableness and necessity. During interviews, current and former employees cited comments from the KYEM director used to intimidate staff. During the examination, auditors also experienced the effects of this working environment, often hearing that employees were fearful of talking with auditors on their office phones, through email, or in person at their desk. Auditors were told this behavior was due to employee concerns that their phones and offices were bugged, their emails were being read, or that they would be retaliated against for being seen with auditors. Current and former employees expressed a fear of retaliation for anything said that might discredit the KYEM management.

The unfavorable and difficult working environment has led to several questionable expenditures and activities as identified within other findings of this report because the environment does not appear to support or motivate employees to identify waste, fraud, or abuse. Additionally, over the past few years, KYEM has experienced significant employee turnover which has affected the stability of the day to day operations of the division.

An organization's success in achieving its operational goals is dependent on several factors, one being the tone at the top. This includes the ethical values established by the beliefs and actions of key management personnel, which promotes sound governance over the entity as a whole. All organizations should ensure that a strong environment is established, which fosters a strong internal control system that is firmly established by the words and actions of key management personnel.

***Recommendations***

We recommend KYEM strengthen its control structure by creating a professional working environment which promotes sound governance over the use of state and federal funding. The tone of the organization should be set to promote efficiency in operations, establish and require adherence to necessary internal controls, and create an ethical foundation by which KYEM should operate.

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## Findings and Recommendations

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**Finding 2: Supporting documentation provided by KYEM was altered to obscure expenditure details.**

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During the examination, serious questions arose as to the accuracy and adequacy of information provided to auditors by KYEM. Additional evidence and inquiry indicated invoices were intentionally altered by KYEM employees and/or by the conference hotel for the Governor's Emergency Management Workshop (GEMW) at the request of KYEM, in order to conceal unallowable activity or hide expenses exceeding limitations in state regulations. The examination included a review of expenditures associated with the GEMW conference for 2010, 2011, and 2012. The 2010 GEMW conference was held June 23-24, 2010; the 2011 conference was held December 14-16, 2011; and the 2012 conference was held December 11-13, 2012. KYEM contracted with the same hotel in Louisville, Kentucky to host conference events all three years.

*Room Rental Charge -  
KYEM Altered Invoices*

One invoice provided by KYEM as supporting documentation related to the 2010 GEMW conference appeared to have been altered due to misalignment of text. Upon identifying this concern, auditors inquired with the conference hotel to confirm the amount of the invoice, and to acquire additional information concerning a "Room Rental" line item on the invoice in the amount of \$67,826. The room rental charged raised questions because the contract between KYEM and the conference hotel waived room rental costs due to the amount being spent on meals and other activities.

During this inquiry, a hotel representative stated the invoice was not produced by their accounting software, and, therefore, they were unable to confirm what the room charge represented. The representative indicated the content, formatting, and alignment were all inconsistent with the way the document would appear when printed from the hotel's system. Auditors requested a copy of the actual detailed charges from the conference hotel and determined through further inquiry that the \$67,826 room rental charge was actually related to meal purchases and beverages. KYEM employees were interviewed regarding the invoice, and an employee confirmed that the invoice had been altered. Auditors were unable to determine who gave the direction to alter the invoice. Although auditors inquired with the employee about who directed the invoice to be altered, the employee did not respond. A copy of this invoice obtained from KYEM, as well as the related correspondence with the conference hotel, is presented in Appendix D.

*Room Rental Charge –  
Conference Hotel Billing*

In addition to KYEM altering invoices, auditors also identified another method used to obscure KYEM expense details. Invoices prepared by the conference hotel were also found that included "Room Rental" charges. Additional discussions with conference hotel representatives indicated that KYEM instructed them to

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## Findings and Recommendations

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modify cost details on invoices to move meal costs exceeding the state per diem limitations to a “Room Rental” line item in order to be in compliance with 200 KAR 2:006. This state regulation requires employee meals directly purchased by an agency not exceed per diem limitations.

Upon obtaining information regarding the actual expenses, auditors noted the room rental charges were in fact additional meal charges for the amounts exceeding the state per diem limitation for state employees, and also included alcohol charges. This review identified \$4,111 in alcohol charges concealed by the “Room Rental” description for the 2010 GEMW conference alone.

An example of an invoice that obscured the actual per person meal cost, as well as an invoice showing the actual charges, is presented in Appendix E. In this example, the first invoice was provided by KYEM, and indicates 63 New York strip steak meals were served at a cost of \$15 per person. On the next invoice obtained directly from the conference hotel, the details of the same meal indicate the actual cost per person was \$41, or \$26 per person higher than the state employee per diem limitation for dinner. Thus, this one meal exceeded the state per diem for employee meals by more than \$1,600.

Another troubling aspect of the inquiry with the conference hotel representatives is that auditors were told that this invoice modification is considered an “all inclusive” billing methodology, and it is a common practice in the hospitality industry. However, the all inclusive methodology was not clear given all charges were not listed under a single line item, but were split among various categories with “Room Rental” being only one of the categories. Although there has not been confirmation as to whether the conference hotel representative’s statement regarding the common use of this methodology is accurate, if the statement is true, this presents a very high risk for government agencies because it would be impossible to rely on invoices to monitor agency spending or compliance with state and federal requirements. The complete lack of transparency this methodology identifies is troubling because waste, fraud, and abuse could be concealed by inaccurate descriptions on invoices.

The inadequacies of operations resulting in apparently altered documentation could damage the integrity of KYEM and increases the risk that other questionable or unethical activities have occurred within the division that have not been detected through agency internal controls or the external audit process.

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## Findings and Recommendations

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### *Recommendations*

We recommend KYEM strengthen its control environment and make sound business decisions that are in the best interest of the Commonwealth by ensuring that expended funds are compliant with state regulations and are only spent on relevant and necessary expenditures to meet legitimate objectives of the division. KYEM should require, maintain, and review itemized supporting documentation for each expenditure and cease the practice of altering, or requesting that vendors alter, detailed expense information in an effort to circumvent state or federal laws and regulations.

### **Finding 3: Certain conference expenditures did not appear to be either necessary or reasonable in amount.**

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During the review of expenditures associated with the 2010, 2011 and 2012 GEMW conferences, auditors identified more than \$122,000 in expenditures that were either not necessary to meet the objectives of a taxpayer funded event, or were excessive in amount, or both. These types of expenditures included significant pre-conference planning, after-hour meals, receptions including alcoholic drinks, entertainment, and conference attendee gifts and door prizes. A detail of these expenditures is presented in Appendix B. These types of expenditures are difficult for governmental entities to justify, and, therefore, are often paid by vendors through event sponsorships. KYEM management indicated it intended to offset these types of costs with vendor fees. However, registrant and vendor fees are not the same as sponsorships for specific events, and should be used to defray the cost of the conference in general, not only applied for additional meals, entertainment and other expenditures inconsequential to the conference. This appears to be the initial intent of KYEM because all vendor fees were deposited into the state treasury and comingled to the extent that it was not possible for auditors to determine which activities were paid from vendor fees and which were paid from other funding sources, such as attendee fees. Also, as explained below, auditors identified that these expenditure amounts exceeded the amount KYEM received from vendor fees during the 2010 GEMW conference.

### *2010 Pre-Conference Planning Costs*

KYEM spent more than \$6,100 on pre-planning expenses such as hotel rooms, parking, food and other services in the months leading up to the event, and an additional \$12,357 for meals for dozens of people who arrived two days prior to the start of the conference. Auditors questioned the necessity of such extensive on-site planning, especially when several planners' work stations are located in Frankfort.

In addition, meal costs exceeded the state's per diem limitations for state employees. The state per diem limitations are \$7 for breakfast, \$8 for lunch, and \$15 for dinner for a total of \$30 per day.



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## Findings and Recommendations

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The breakdown of the pre-planning expenses is as follows:

KYEM held a three-day planning session at the conference hotel on November 2 through November 4, 2009 to prepare for the GEMW conference to be held in June 2010. During this time frame, the planning meetings cost \$3,967 including:

- \$1,223 in hotel rooms and parking;
- \$1,871 in food; and
- \$873 in audio video and other service charges.

On April 21 and April 22, 2010, a second planning session occurred at the conference hotel. The pre-conference planning session's expenses totaled \$2,185, which included:

- \$908 in parking and hotel rooms;
- \$1,156 in food charges;
- \$79 in audio video fees and other miscellaneous items;
- Supporting invoices also identified a \$42 "room service" charge dated April 26, 2010, four days after the planning sessions had concluded.

In addition to the pre-conference planning activities detailed above, dozens of individuals arrived before the official start of the 2010 conference for planning activities, beginning on Monday, June 21, 2010. These individuals were provided meals over the two day period totaling \$12,357. The number of individuals participating in these meals ranged from 45 to 105 based on invoices. A detail of all conference expenditures deemed excessive or unnecessary, including these meals, is presented in Appendix B of this report.

Again, these charges are excessive, and are not in line with state per diem limitations for state employees participating in the planning activities as noted above. Based on the total participants for each meal, the per person meal prices ranged from \$24 to \$58 per person. Auditors were unable to determine if all individuals participating in the meals were state employees, although it would be questionable for KYEM to pay for meals for non-employees for planning activities.

### *Entertainment, Receptions, After-Hour Meals, Door Prizes and Gifts*

Auditors found that KYEM spent more than \$103,000 over the three-year period on entertainment, after-hours receptions, alcohol, door prizes, and gifts for attendees. As noted earlier, government entities cannot justify the use of taxpayer dollars for these expenses and conference planners did not obtain sponsorships from vendors, which is a common and acceptable practice among government

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## Findings and Recommendations

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conference planners. Also, little or no documentation existed to justify after-hour meals. Several examples of these expenditures are included below.

### 2010 GEMW Conference

- On the evening before the start of the conference, entertainment was provided for 214 attendees on the Belle of Louisville, which included a cruise on the Ohio River, DJ, and light refreshments at a cost of \$3,600. That evening also included a reception for 600 guests totaling \$41,173, of which \$1,635 was for alcoholic beverages.
- On the first day of the conference, KYEM paid for a New York strip steak dinner for 78 attendees totaling \$3,870. Also, another evening reception was held with charges of \$1,353, which included \$284 for alcoholic beverages.
- On the last day of the conference, a staff dinner was held for 60 attendees totaling \$3,049 and an evening reception for 600 attendees costing \$9,431, which included \$2,347 for alcoholic beverages and related service fees. That evening, entertainment was provided for 200 guests to attend the National Guard Honorary Night at the Louisville Bats baseball game. Tickets for the event cost \$600, with an additional \$1,250 spent on a shuttle service offered to and from the conference hotel throughout the game.
- Review of Procard purchases identified 725 small brass horseshoes were purchased and engraved at a cost of \$1,729 and provided to conference participants. Review of documentation also revealed \$12,000 was spent on embroidered messenger bags and \$2,000 on ink pens distributed as gifts to attendees.
- Door prizes purchased with a KYEM Procard totaling \$1,347 included: two 19" LCD TV's, GPS unit, three MP3 players, a video camera, three cameras, a Nintendo Wii, and two \$50 gift cards. We obtained a listing of giveaway winners, and we were unable to confirm the giveaway of one of the \$50 gift cards.

### 2011 GEMW Conference

- A vendor-sponsored dinner reception was held the first evening of the conference. Although the vendor sponsorship covered charges for dinner, KYEM paid \$1,158 in alcohol charges for the event.

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## Findings and Recommendations

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- Door prizes purchased with a KYEM Procard totaling \$629 included: two University of Kentucky framed portraits, one Kindle Fire and one University of Kentucky gift basket. We were not provided a listing of giveaway winners. However, we were provided photos of the winners.

### 2012 GEMW Conference

- After hours dinner receptions were held both nights of the conference paid by KYEM. The cost of these receptions totaled \$7,472, of which \$1,212 was attributable to alcohol charges.
- Door prizes purchased with a KYEM Procard totaling \$773 included: one 32” LCD Combo TV/DVD, one skillet set, one corn popper, two bottles of perfume, two DVDs, one coffee maker, University of Louisville and University of Kentucky apparel, one travel mug and two books. We were not provided a listing of giveaway winners, but we were provided photos of some of the giveaway items, which did not indicate the winners.

Auditors took into consideration KYEM management’s explanation that vendor fees paid for these types of activities. As explained earlier, vendor fees, as well as registrant fees, should apply toward defraying the cost of the conference in general, and are not the same as vendor sponsorships. All vendor fees were deposited into the state treasury and under the control of KYEM. At that point, those fees should be treated as agency funds and the state agency must follow all appropriate state procurement requirements, including that all expenditures should be both necessary to carry out a business related function related to the public purpose of the agency, and reasonable in amount. Appendix A identifies the conference costs exceeding the collected vendor and paid registrant fees. The remaining balances for the three conferences were paid with federal funds.

Because of the nature of these expenditures, it is not likely that the costs are allowable federal expenditures. Therefore, KYEM may be required to repay these charges to federal grantors. The objective of this examination did not include testing for federal program compliance, although the APA will take this finding into consideration during its FY 13 single audit.

### *Miscellaneous Concerns*

In addition to the unnecessary and excessive charges detailed above, auditors identified numerous other concerns throughout the review of the GEMW conferences including:

- Conference hotel invoices for the 2010 GEMW conference

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## Findings and Recommendations

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identified \$630 in valet parking at \$18 per day, double the rate for regular overnight parking.

- Comparison of employees work assignments for the 2010 GEMW conference to the hotel stays identified several instances where employees had rooms provided even though they were not scheduled to work or speak at the event per provided schedules.
- For the 2010 GEMW conference, although the conference was scheduled to end before 5:00pm, hotel rooms were provided for 20 employees who were not scheduled to assist in wrapping up conference activities on the following day.
- Review of hotel room costs for the 2011 GEMW conference identified that KYEM paid \$3 per room, per night, in excess of the agreed upon rate per their signed contract with the conference hotel.
- During each conference, KYEM paid for meals and hotel rooms for not only KYEM employees, but also local county officials and other individuals. All county officials should have travel policies in their governments that dictate how travel costs are reimbursed when on official business. It was not clear why KYEM paid for lodging for local officials, although division management indicated it was an enticement to draw the county officials to the conference. However, because this is not a benefit provided to all attendees, it appears to be a perk for officials due to their positions, and does not appear to be a reasonable or necessary expense. Additionally, because county officials are also governed by their local travel policies, there is a risk that individuals could, intentionally or inadvertently, request reimbursement for travel expenditures from the county for expenses already paid by KYEM.

### *Recommendations*

We recommend KYEM strengthen controls to ensure all costs are allowable, necessary to carry out the public purpose of the agency, reasonable in amount, and compliant with any requirements specified by the funding sources utilized. We further recommend that KYEM work with its federal grantor to determine the proper resolution for questionable costs related to conference expenditures. Because of these questionable costs, the APA will evaluate these expenditures using federal compliance requirements during the 2013 Statewide Single Audit of Kentucky.

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## Findings and Recommendations

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**Finding 4: KYEM lacked sufficient documentation to support the accuracy and reasonableness of conference expenditures.**

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Analysis of activity related to the GEMW for 2010, 2011, and 2012 identified spending that was not supported by sufficient documentation to determine the allowability and reasonableness of the expenditures. Although the types of costs identified in this finding may have otherwise been reasonable costs associated with hosting a conference, such as lunch for attendees, records were not sufficient to determine whether the event, amounts, numbers served, etc., were reasonable. Auditors also noted certain expenditures paid by KYEM for the conference that could not be determined as necessary to carry out the objective of the conference and appear to be excessive in amount, and those details are presented in Finding 3 of this report.

During all three conference years, KYEM indicated it charged conference attendees \$40 per person for registration to offset the costs of lunches provided, and also collected vendor fees from businesses to permit them to set up exhibits during the course of the conferences. During the examination, the division provided examples of checks that were collected, and also badge listings, but did not have check in sheets to verify attendees. The auditors attempted to utilize the badge listings as possible substitutions for an attendee list, but found errors in the lists that raised questions about their accuracy. For instance, auditors noted that the badge listing included names of employee spouses and children for at least one year. Also, in two of the three conference years, the badge listing appeared to identify individuals from which the \$40 attendee fee had been collected. However, the total of this listing did not agree to the total of attendee fees deposited in the state's accounting system for those two years. For example, for the 2010 conference, the state's accounting system identifies \$15,870 collected in attendee fees, although the badge listing only identifies \$4,740 paid, for a difference of \$11,130. Also, no information on paid attendees was noted on the badge listing for the 2012 conference. Thus, auditors were unable to discern exactly how many attendees participated in the conferences, and therefore were unable to determine whether conference expenditures were allowable and reasonable.

Because of this lack of documentation, auditors attempted to verify the necessity and reasonableness of conference expenditures through other means. Appendix A of this report, details the conference receipts and expenditures for all three years. In attempting to verify the number of registrants and also the reasonableness of meals served during the conference, auditors noted that KYEM was invoiced for a much higher number of people for several meals and snacks. The conference hotel invoices identify the number of people served, so the auditors suspect that the difference is likely

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## Findings and Recommendations

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due to a large number of undocumented and/or unpaid attendees or guests.

Auditors noted that the 2010 conference had higher attendance than the other two years because it coincided with the national CSEPP conference, whereas the 2011 and 2012 conferences were state conferences. Based on paid registrants, auditors anticipated expenditures for approximately 397 conference attendees plus an additional 77 KYEM employees identified on the badge listing, for a total of 474 attendees. However, a review of the meal expenditures identified that during the conference, meals were served to 600 to 850 individuals.

Likewise, during the 2011 conference, there were approximately 139 paid registrants plus 68 KYEM employees for a total of 207 attendees. However, meals were served during the conference for 375-510 individuals. Also, during the 2012 conference, lunch meals were served for up to 375 individuals when it appears there were only 102 paid registrants and 82 KYEM employees for a total of 184 attendees.

In the absence of sufficient supporting documentation, auditors were unable to determine the reason for or appropriateness of a large number of unpaid registrants. The lack of sufficient documentation did not allow for the determination of whether invoices reasonably reflected the number of meals actually served, whether only conference attendees were included in meals, and whether non-conference attendees such as spouses and other guests were included in the meal counts. Auditors considered the likelihood that vendors were participating in meals, although that explanation still did not account for the large differences noted.

The details of meals served exceeding the number of paid registrants and KYEM employees during GEMW conference hours for all three years are presented in Appendix C.

### ***Recommendations***

We recommend KYEM implement procedures to maintain sufficient supporting documentation for all expenditures, with special attention given to processes for maintaining appropriate supporting evidence for conference charges. These include conference records sufficient for identifying attendees – both paid and unpaid registrants, as well as employees. Conference planners should maintain sufficient information to verify the accuracy and adequacy of conference related invoices.

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## Findings and Recommendations

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**Finding 5: KYEM's accounting for certain charges increases the risk that unallowable activities could be charged to federal programs and not be detected.**

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*Confusion Over Appropriate Funding Source for Coding Expenditures.*

During the examination, a review of expenditure activity included evaluating funding sources in order to determine if proper accounts were charged for each transaction. Analysis revealed confusing and complicated methodologies for recording expenditures. In each of the scenarios described below, KYEM's process increases the risk that federal programs could be charged for unallowable activity or that federal programs could be charged more than once for the same expenditures.

In testing expenditures, auditors noted that the documentation contained little to no justification to support which funds were utilized to pay each transaction. Payments would often be split between multiple funding sources, some of which did not appear to be allowable for a particular federal program listed. Additionally, supporting documentation would sometimes include several accounting strings marked out before a funding source was finally settled on. This uncertainty during the payment process created the impression that KYEM treated all funds as being from the same pool of money, with little regard as to the allowability of the expense to the federal program or for the proper accounting and tracking of funds in accordance with federal grant requirements. Rumors persisted throughout the examination that the reason for this was because KYEM had financial problems making proper coding of expenditures difficult. Auditors inquired with KYEM management, which indicated they were not aware of funding problems, and attributed payment processing errors and delays to a need for improved procedures and staff training.

*Significant Journal Vouchers Used To Transfer Expenditures Between Funding Sources.*

Auditors noted that detailed accounting transactions related to KYEM's federal fund identified significant transfers of expenses between various federal funds. In the accounting system, KYEM utilized journal vouchers (JVs) to process these transfers of expenditures. In the normal course of operations, it would be expected that JVs would be used as correcting entries to make a change in an original accounting record. However, excessive use of JVs, especially between restricted use funds, such as federal programs complicate the accounting trail by making it difficult to determine whether the original activity is allowable to the funds the charges are transferred to. In most instances, JVs did not include sufficient justification to support their necessity, making it difficult to determine the purpose of the transfer.

Also, excessive use of JVs makes it difficult for program managers to perform proper reconciliations to ensure that federal funds are only being reimbursed for allowable expenditures. If expenditures are initially coded to one program in error, then are included as part

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## Findings and Recommendations

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of a request for federal reimbursement for that program, these expenditures would be considered questioned costs of the program. Subsequently, if the expenditures are transferred to other programs, there is a risk that they will be included in requests for reimbursement of those programs, as well. Therefore, the risk of noncompliance or even fraudulent activity is heightened.

Finally, the need to make expenditure transfers on a routine basis may also indicate more basic problems with the division's operations. Regular transfer of expenditures between funding sources would not be necessary if program managers and accountants had a better handle on the accounts they manage so that original transactions were not being posted to erroneous accounts.

*Supporting Documentation For  
Payroll Is Not Sufficient For  
Determining Federal  
Compliance.*

Testing of payroll documentation revealed KYEM did not have a mechanism in place to ensure employee time charges were accounted for in accordance with required federal regulations. Instances were identified in which employee positions were being funded by grants the employee never worked on. Additionally, some current and former employees admitted they were instructed to work significant amounts of time on assignments inconsistent with the way their position was funded. Requests for personnel activity reports revealed that no additional documentation was maintained or submitted to the cognizant agency for approval.

2 CFR Part 225 Appendix A states in part:

Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

2 CFR Part 225 Appendix B states in part:

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work



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## Findings and Recommendations

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on:

- (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and coincide with one or more pay periods, and
  - (d) They must be signed by the employee.

### *Recommendations*

We recommend KYEM strengthen policies and procedures to ensure an unambiguous and systematic methodology for improving the funding source for federal expenditures. The agency's methodology should consider allowable costs for each federal program, and should avoid routine use of transfers to correct funding source errors. It is expected that implementation of such policies will increase the efficiency and effectiveness of the agency.

Furthermore, we recommend KYEM maintain adequate support justifying all transfers, and implement a procedure to ensure all federal programs are properly monitored and reconciled to avoid the risk of obtaining duplicate reimbursements from two or more federal programs for the same expenditure.

In regard to employee time charged to federal grants, we recommend KYEM ensure compliance with federal grant regulations by implementing policies and procedures to ensure an adequate tracking system of employee work activities is in place to ensure compliance with 2 CFR Part 225 and applicable grant agreements. KYEM should also strengthen its level of monitoring of employee work activities to ensure each employee is accurately working on and accounting for their time spent on each federal grant appropriately.

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## Findings and Recommendations

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**Finding 6: KYEM incurred significant expenditures hosting routine working lunch meetings at a Frankfort hotel.**

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The examination identified that KYEM routinely held various meetings at a Frankfort hotel for various groups, committees, or events associated with the agency. Examples of these meetings included:

- C-Group Meetings - a group of KYEM employees and volunteers with a purpose to protect the Commonwealth
- Regional Response Meetings - a group of regional individuals located throughout the state that responds to disasters and emergencies.

From July 1, 2009 through April 30, 2013, KYEM spent \$113,497 at the hotel including hotel rooms, working lunches, and meeting space. The working lunches were justified by KYEM as an “attempt to maximize available meeting and training times.” Based on invoices sampled, several thousand dollars were spent on working luncheons and banquets, with per person dollar amounts exceeding the per diem rate for employees on travel status. KYEM was unable to provide attendance records; therefore we could not determine the number of employees attending each meeting, the number of non-employee attendees, or the validity of hotel room charges for employees in overnight travel status due to their daily workstation’s distance from Frankfort.

Also, the use of state or federal funds for the rental of meeting space on a routine basis is questionable if other, more economical, space is available. Auditors are not sure of meeting space availability within KYEM; however, many state agencies have sufficient meeting space to accommodate various size groups that would be available at little or no cost to KYEM.

KYEM acknowledged that many events involved attendees from other state agencies, local governments, and the private sector. Providing meals for local employees not in travel status, or individuals that are not agency employees as part of a routine work meeting is not a necessary or reasonable expense for carrying out a governmental function. KYEM justified the purchase of working lunches by citing Finance and Administration Policy (FAP) 111-58-00 (10.c.). This policy is not relevant to this circumstance as it does not authorize agencies to purchase employee or non-employee meals, but instead relates to procurement card purchases. This regulation requires when using a Procard, “Purchases of food or beverage shall be accompanied by documentation explaining the reason for the purchase, justification of need, and proof that they benefited the Commonwealth.” Further review of the payment documentation revealed the hotel was not paid with a Procard; therefore this policy is not applicable and does not support the working lunch explanation.

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## Findings and Recommendations

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### *Recommendations*

We recommend KYEM reevaluate the reasonableness and necessity of paid working lunches, as well as the necessity of paying for off-site meeting space.

### **Finding 7: The KYEM director did not properly procure programming services from a software vendor.**

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During the examination, the APA received concerns indicating a possible conflict of interest between the KYEM director and a software company contracted by KYEM, specifically with regards to one of the software products developed with assistance from this vendor. In examining evidence obtained, auditors identified red flags that may indicate a less than objective relationship existed between the director and the software vendor, although a direct conflict of interest stemming from financial gain by the director was not identified.

Evidence indicated that the KYEM director had an established long-term business relationship with the Kentucky representative for a software company incorporated out of state. During the examination, auditors learned that the current KYEM director previously served as the CIO for the Kentucky National Guard, and worked with the software vendor's Kentucky representative on several projects. In one of those projects, the current KYEM director served as the lead analyst for the development of the software Individual Technology Enterprise Architecture Management System (ITEAMS), and hired the software vendor for programming services due to his positive experience with the vendor on earlier projects.

In July 2008, the KYEM director left the Kentucky National Guard to begin his employment with KYEM. Early in his tenure with KYEM, he identified that the division was lacking software capabilities he believed were necessary. He did not perform a search for the availability of software available to meet the needs of KYEM, but instead decided to utilize the ITEAMS software that he helped develop even though it was not suitable for immediate use by KYEM. Because the software had to be modified to be used by KYEM, the KYEM director determined a programmer was needed to help with the transition. Based on the software programmer's experience in the initial programming of ITEAMS for the National Guard and the director's positive experience with the programmer, KYEM entered into a contract with the same software company.

Upon reviewing the contracts between the software vendor and KYEM, auditors identified that the contracts were procured utilizing a no-bid, sole source provider contract. Auditors found no evidence that consideration had been given to other software or other software vendors prior to deciding to utilize a sole source determination for the contract procurement. All sole source contracts are required to have a letter of justification supporting the sole source

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## Findings and Recommendations

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determination. Auditors reviewed the procurement documentation, and identified two justification letters.

One of those letters is from The Adjutant General to the Finance and Administration Cabinet Secretary, and it cited as justification for sole source procurement Finance and Administration Policy FAP 111-10-00-07–Sole Source Procurement for Computer Software that is Copyrighted and Available from Only One Source. The letter indicates the implementation support for the software is only available from one manufacturer. It explains that it is software developed over several years, with the software vendor being the only company that worked on the development of the software. However, this does not appear to be the correct FAP guiding this procurement. KYEM’s contract was not for the purchase of software, especially not software containing a copyright. The agency’s contract was actually for the procurement of programming services. Therefore, FAP 111-15-00 would be the applicable FAP because it addresses related computer services. The FAP cited by the agency, FAP 111-10-00-07 actually states the justification is for “Copyrighted software, if only that software will meet the need of the application. See FAP 111-15-00 for other approval requirements.” Finance and Administration Cabinet’s policy related to procurement of computer software, hardware, and related services - FAP 111-15-00 states,

A procurement of computer hardware, software and related services, excluding hardware maintenance, which totals less than \$50,000 per line item or \$200,000 for the entire order, may be processed without COT review and approval if the hardware, software and related services are in accordance with and procured as part of the most recent list. *All other computer hardware, software, and related services procurements shall be submitted to the Office of Material and Procurement Services (OMPS) for COT review.*

In conjunction with state policy, this procurement for software programming services should have been reviewed by the Commonwealth Office of Technology, which would have been able to assist KYEM in determining the reasonableness and necessity of the software vendor contracts. Based on discussions with the KYEM director, he indicated he had a need to get the software up and running for the division quickly, and did not have the time to wait for COT’s involvement.

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## Findings and Recommendations

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The second justification letter for sole source procurement was actually a letter from the software vendor, stating, “[d]ue to its small implementation base and limited commercial exposure, there are no other companies that offer commercial training and support for this system.” The concern with this justification is that there is a presumption that ITEAMS is the only software that could meet the needs of KYEM, and additional analysis or research was not performed to determine the best fit for the agency’s needs prior to selection of ITEAMS and the software vendor.

Since 2010, KYEM has paid \$69,875 to the software vendor through the use of multiple amended contracts. The agency’s small purchase authority is \$10,000, and therefore contracts exceeding this amount must go through a competitive procurement process in accordance with the Kentucky Model Procurement Code unless a sole source can be justified. Although it is possible that having attempted a competitive procurement, the agency may have found that the contract was not feasible to bid, the use of a sole source justification without attempting a competitive process is not acceptable for these services.

Because the KYEM director’s decisions related to the ITEAMS software and the software vendor avoided proper procurement policies and procedures, further evaluation of the software vendor was performed to determine whether other circumstances existed that might explain the KYEM director’s decisions and to further investigate the allegations of a potential conflict of interests.

Further inquiry revealed the current KYEM director had additional ties that influenced business for the software vendor. The KYEM director is affiliated with the National Emergency Management Association (NEMA). The KYEM director has held positions of acting treasurer of NEMA, vice president of NEMA, and was the Chairman of the Emergency Management Assistance Compact (EMAC) within NEMA. EMAC offers assistance during governor-declared states of emergency through a responsive, straightforward system that allows states to send personnel, equipment, and commodities to help disaster relief efforts in other states. Realizing the benefit of being able to track the location of mutual emergency aid responders across the state during an emergency, the KYEM director presented a proposal to NEMA for a software idea. The director recommended using the same software vendor to build a pilot for this program. NEMA alternatively contracted with the software vendor to develop the Mutual Aid Support System (MASS) and provided KYEM a grant to implement and integrate the system.

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## Findings and Recommendations

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While we recognize the benefit the KYEM director's actions brought to the Commonwealth in regard to his involvement with NEMA, there is an appearance that his relationship with this vendor is not objective. Also, due to the KYEM director's involvement with the development of the ITEAMS software, he does not appear to be objective enough to evaluate the strengths and weaknesses of the software itself, or the software vendor that assisted in its development. Although auditors did not identify evidence indicating that the KYEM director was receiving financial incentive for the promotion of the ITEAMS software or from the software vendor, decisions to circumvent state procurement requirements and other information gathered do raise red flags as to whether he was objective in making decisions regarding the ITEAMS software and the procurement of the software vendor.

### *Recommendations*

We recommend KYEM follow the Kentucky Model Procurement Code by ensuring all contracts for goods and services are properly procured in accordance with enacted policies, procedures, and state regulations. KYEM should take adequate measures to ensure sole source determinations are justifiable, accurate, and well supported. Also, we recommend the KYEM director take measures to avoid appearances of potential conflicts of interest by adhering to established internal controls for the evaluation, monitoring and awarding of contracts.

### **Finding 8: Conference contracts included perks utilized by the KYEM director.**

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Review of the 2011 and 2012 GEMW contracts between KYEM and the conference hotel revealed the inclusion of conference concessions that potentially influenced the vendor selection for the conference location. The 2011 conference included one two-bedroom waterfront balcony suite complimentary for two nights. Based on the room's rack rate, this added value totaled \$1,350. In 2012, the contract between KYEM and the conference hotel included a complimentary waterfront balcony suite for three nights, with a total added value of \$2,025 based on the room's rack rate. Inquiry revealed these rooms were utilized by the KYEM director, who was ultimately responsible for approving the contract between KYEM and the conference hotel. Although these added value measures are common practice for the hospitality industry, and these rooms were not negotiated by KYEM, contract terms should only be agreed to with the best interest of the Commonwealth in mind.

### *Recommendations*

We recommend KYEM renegotiate proposed concessions in order to provide the greatest benefit to the Commonwealth, while removing the appearance that business was being solicited for perks and gifts from the vendor which were intended to benefit only top level management.

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## Findings and Recommendations

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**Finding 9:  
Management's use and  
emphasis on its internal  
audit function was  
inadequate in  
addressing known  
deficiencies.**

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The internal audit function consists of one employee who provides services for the entire Department of Military Affairs, including KYEM. Analysis of the internal auditor's work plans failed to identify management's efforts to direct attention toward high risk areas impacting KYEM identified in the previous four fiscal year external state audits. Management's failure to give attention to high risk areas associated with KYEM's operations increases the opportunity for weaknesses to continue and may indicate a lack of willingness by management to review, address, and resolve known deficiencies in KYEM's operations. The control environment has prevented adequate measures to be undertaken to address problem areas identified in previous audits, which leads to repetitive reporting of material weaknesses and significant deficiencies in audits of KYEM's operations.

The establishment of an adequate control system is a responsibility of management that demands proper attention on a continuous basis. Internal audit is normally assigned specific responsibility by management for reviewing key systems, monitoring operations, and recommending improvements. As such, internal audit should be a reliable mechanism for management's assessment of risk within the entity, as well as a way to monitor the implementation, design, and effectiveness of internal controls.

***Recommendations***

We recommend consideration be given to an expanded use of the internal audit function to improve its effectiveness, including:

- Performance of annual risk assessments to identify areas where the risk of misstatement, fraud, abuse, and/or noncompliance may occur; and
- Consistent and routine review and testing of areas deemed to be significant and/or high risk.

Through its monitoring efforts in such areas as fraud prevention, improving control processes, and promoting reliable information, a properly designed and functioning internal audit group can add significant value to an organization. Strong internal controls, including an internal audit function and an independent external audit, are part of sound governance.

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## **APPENDICES**



## Appendix A - GEMW Conference Receipt/Expenditure Summary

The table below depicts the breakdown of total conference receipts and expenditures for the 2010, 2011, and 2012 Governor's Emergency Management Workshop hosted by the Kentucky Emergency Management. Based on discussions with agency personnel, expenditures exceeding the amount collected were charged to various federal grants.

<b>Receipts vs. Conference Expenditures</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
<b>Receipts:</b>				
Vendor Fees	\$ 32,980	\$ 31,580	\$ 38,450	\$ 103,010
Attendee/Registration Fees	15,870	5,540	4,080	25,490
<b>Total Receipts</b>	<b>48,850</b>	<b>37,120</b>	<b>42,530</b>	<b>128,500</b>
<b>Conference Expenditures:</b>				
Hotel Rooms	49,202	38,171	36,919	124,292
Café Charges	170	1,803	2,193	4,166
Banquet Food	110,750	43,052	22,243	176,045
Banquet Service Charges	23,967	9,456	4,883	38,306
Beverage Charges w/ Service Fees	4,341	1,158	1,223	6,722
Entertainment	5,450			5,450
Audio Video & Service Fee	10,268	183	1,464	11,915
Miscellaneous Charges & Service Fees	9,726	7,647	4,585	21,958
Pre-Conference Planning	6,152			6,152
Door prizes and Giveaways	17,208	629	773	18,610
<b>Less Adjustments &amp; Vendor Payments:</b>				
Direct Vendor Payments to the Hotel	(4,000)	(6,000)		(10,000)
Lodging, Banquet, & Parking Credits	(3,388)	(3,020)	(1,358)	(7,766)
Audio Video and Other Credits	(12,941)			(12,941)
<b>Total Conference Expenditures</b>	<b>216,905</b>	<b>93,079</b>	<b>72,925</b>	<b>382,909</b>
<b>Conference Expenditures Exceeding Receipts</b>	<b>\$ 168,055</b>	<b>\$ 55,959</b>	<b>\$ 30,395</b>	<b>\$ 254,409</b>

## Appendix B - Conference Expenditures Appearing Unnecessary and/or Excessive

The table below depicts expenditures related to the 2010, 2011, and 2012 Governor's Emergency Management Workshop that did not appear to be necessary government expenditures, or excessive in amount.

GEMW Year	Date	Description	Number Served Per	
			Invoice	Total Cost
2010	11/2/2009	Meal: Pre-Planning Dinner	5	\$ 83
	11/3/2009	Meal: Pre-Planning Breakfast	35	884
	11/3/2009	Audio Video and Service Charges	n/a	462
	11/3/2009	Meal: Pre-Planning Dinner	7	187
	11/4/2009	Meal: Pre-Planning Breakfast	35	717
	11/4/2009	Audio Video and Service Charges	n/a	411
	11/2 - 11/4/2009	Hotel Rooms and Parking	5	1,223
	4/21 - 4/22/2009	Hotel Rooms and Parking	6	908
	4/21/2009	Meal: Pre-Planning Dinner	7	188
	4/22/2009	Meal: Pre-Planning Breakfast	25	145
	4/22/2009	Meal: Pre-Planning Lunch	25	823
	4/22/2009	Audio Video and Service Charges	n/a	79
	4/26/2009	Misc: Room Service Charge	n/a	42
	6/21/2010	Meal: Pre-Conference Lunch	45	1,089
	6/21/2010	Meal: Pre-Conference Dinner	60	3,485
	6/22/2010	Meal: Pre-Conference Breakfast	105	2,846
	6/22/2010	Meal: Pre-Conference Lunch	60	1,888
	6/22/2010	Meal: Pre-Conference Dinner	60	3,049
	6/22/2010	Evening Reception	600	39,538
	6/22/2010	Evening Reception Alcohol	231	1,635
	6/22/2010	Entertainment: Riverboat Cruise	214	3,600
	6/23/2010	Meal: New York Strip Dinner	78	3,870
	6/23/2010	Evening Reception	600	1,069
	6/23/2010	Evening Reception Alcohol	42	284
	6/24/2010	Evening Reception	600	7,018
	6/24/2010	Evening Reception Alcohol	336	2,347
	6/24/2010	Meal: Staff Dinner	60	3,049
	6/24/2010	Entertainment: Baseball Game	200	1,850
	6/25/2010	Meal: Post-Conference Brunch	35	1,101
		Attendee Gifts	n/a	15,729
		Door Prizes	n/a	1,347
			Subtotal 2010	100,946
	2011	12/14/2011	Reception	350
12/15/2011		Evening Reception Alcohol	167	1,158
12/15/2011		Meal: Dinner	15	469
12/15/2011		Reception	200	3,093
		Door Prizes	n/a	629
		Subtotal 2011	13,195	
2012	12/11/2012	Evening Reception	100	3,155
	12/12/2012	Evening Reception	100	3,105
	12/12/2012	Evening Reception Alcohol	194	1,212
		Door Prizes	n/a	773
		Subtotal 2012	8,245	
		<b>TOTAL-ALL YEARS</b>	<b>\$ 122,386</b>	

## Appendix C - Conference Expenditures Without Adequate Support

This table is a detail of all expenditures for the 2010, 2011, and 2012 Governor's Emergency Management Workshop that could not be verified. Because these charges may be otherwise reasonable had adequate supporting documentation existed to verify the number of attendees, justify the large number of unpaid attendees, or other details, auditors did not question the necessity of these conference-related expenditures. The invoices for the meals listed below indicate the number of people served significantly exceeded a reasonable amount based on approximate paid attendees plus an estimated number of KYEM employees.

<b>GEMW Year</b>	<b>Attendees</b>	<b>Date</b>	<b>Description</b>	<b>Number Served Per Invoice</b>	<b>Total Cost</b>
<b>2010</b>					
Paid attendees <sup>1</sup>	397	6/23/2010	Breakfast/ Refreshments	750	\$ 15,760
Employees <sup>2</sup>	77	6/23/2010	Meal: KY Hot Brown Lunch	850	20,570
	<u>474</u>	6/24/2010	Breakfast/ Refreshments	750	15,488
		6/24/2010	Meal: Ribeye Steak Lunch	750	25,410
			Subtotal 2010		<u>77,228</u>
<b>2011</b>					
Paid attendees <sup>1</sup>	139	12/14/2011	Meal: Deluxe Lunch	510	10,198
Employees <sup>2</sup>	68	12/14/2011	Refreshments	510	2,991
	<u>207</u>	12/15/2011	Meal: Deluxe Breakfast	400	6,134
		12/15/2011	Meal: Deluxe Lunch	400	7,998
		12/16/2011	Meal: Traditional Breakfast	375	5,751
		12/16/2011	Meal: Deluxe Lunch	375	7,498
			Subtotal 2011		<u>40,570</u>
<b>2012</b>					
Paid attendees <sup>1</sup>	102	12/12/2012	Meal: Deluxe Lunch	375	7,498
Employees <sup>2</sup>	82	12/13/2012	Meal: Deluxe Lunch	375	7,498
	<u>184</u>		Subtotal 2012		<u>14,996</u>
			<b>TOTAL-ALL YEARS</b>		<u>\$ 132,794</u>

1 Estimated based on attendee fee collected divided by the \$40 per person rate charged by KYEM.

2 Number based on KYEM conference badge listings.

## Appendix D - Example of Altered Invoice

This invoice indicates a "Room Rental" charge of \$67,826.01. The examination determined the conference hotel did not actually charge for room rental, and that this invoice was altered to obscure the details. In fact, the "Room Rental" charge below was for meal charges. The conference hotel indicated this invoice is not consistent in format, alignment, or content for invoices printed from its accounting system.

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Note: Handwritten notes were present on the original copy provided by KYEM.

MST - CSEP/KYEM WORKSHOP  
CSEP/KYEM WORKSHOP

Room Number: 9005  
Daily Rate: 0  
Room Type: HOUSE  
No. of Guests: 1/0

ARRIVAL	DEPARTURE	CREDIT CARD	RATE PLAN	CATEGORY	ACCOUNT
6/20/2010	6/25/2010		GSTAT	GSTATE	

  

DATE	ROOM NO.	DESCRIPTION	REFERENCE	AMOUNT
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BANQUET MEALS 6/21 - 25/2010

6/21/2010	9005	COMBS-CHANDLER	BOX LUNCH (HAM & TURKEY SANDWICHES)	\$ 435.60
6/21/2010	9005	COMBS-CHANDLER	DINNER (PORT OF LOU BUFFET)	\$ 1,089.00
6/22/2010	9005	COMBS-CHANDLER	STAFF LUNCH (SLICED BEEF TENDERLOIN)	\$ 580.80
6/22/2010	9005	COMBS-CHANDLER	DINNER (KY HAM BUFFET)	\$ 1,089.00
6/22/2010	9005	WATERFORD ROOM	RECEPTION	\$ 1,542.75
6/22/2010	9005	WETHERBY-EXHIBIT HALL	RECEPTION PLUS (AV & INTERNET)	\$ 39,869.09
6/22/2010	9005	MORROW	CONTINENTAL BREAKFAST	\$ 831.27
6/22/2010	9005	McCREARY	CONTINENTAL BREAKFAST	\$ 707.85
6/22/2010	9005	COMBS-CHANDLER	CONTINENTAL BREAKFAST	\$ 423.50
6/23/2010	9005	ARCHIBALD COCHRAN	LUNCH (KY HOT BROWN)	\$ 8,228.00
6/23/2010	9005	COMBS-CHANDLER	LUNCH (KY HOT BROWN)	\$ 561.44
6/23/2010	9005	WETHERBY-EXHIBIT HALL	CONTINENTAL BREAKFAST PLUS (AV)	\$ 8,551.07
6/23/2010	9005	COMBS-CHANDLER	DINNER (NY STRIP)	\$ 1,143.45
6/23/2010	9005	NUNN	DINNER (NY STRIP)	\$ 272.25
6/23/2010	9005	WETHERBY-EXHIBIT HALL	RECEPTION	\$ 993.41
6/24/2010	9005	GRAND BALLROOM A & B	VENDOR LUNCH (RIBEYE MANHATTAN)	\$ 7,260.00
6/24/2010	9005	WETHERBY-EXHIBIT HALL	CONTINENTAL BREAKFAST & BREAK	\$ 8,228.00
6/24/2010	9005	COMBS-CHANDLER	STAFF LUNCH (RIBEYE MANHATTAN)	\$ 338.80
6/24/2010	9005	COMBS-CHANDLER	STAFF DINNER (KY COUNTRY BUFFET)	\$ 1,089.00
6/24/2010	9005	WETHERBY-EXHIBIT HALL	RECEPTION	\$ 7,018.00
6/25/2010	9005	COMBS-CHANDLER	BRUNCH (BUFFET)	\$ 296.45
SUB TOTAL				\$ 90,548.73

*includes AV and setup fee for 88 tables @ 45.00 each (3,960)*

6/21-25/2010	9005	ROOM RENTAL	25 rooms	\$ 67,826.01
--------------	------	-------------	----------	--------------

9/1/2010	9005	OVERCHARGE AV - ELECTRIC		\$ (12,940.95)
----------	------	--------------------------	--	----------------

*2713.04 / 1.5 = 542.61 a day*

*39,869.09  
12,940.95 credit  
26,928.14  
3,960.00 setup fee  
22,968.14*

\$ 145,433.79

TOTAL DUE:

## Appendix D - Example of Altered Invoice (Continued)

This correspondence is between the auditor and conference hotel representative regarding the altered invoice presented on the previous page.

[REDACTED]

---

**From:** [REDACTED]  
**Sent:** Friday, May 10, 2013 1:54 PM  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** RE:  
**Attachments:** Banquet Invoice.pdf

[REDACTED] – This document was not produced from our AR software. The content, formatting, and alignment is inconsistent with how this document would normally appear. Having said that, I cannot tell you what the room rental figure of \$67,826.01 represents.

[REDACTED]  
Senior Staff Accountant  
[REDACTED]  
[REDACTED]

CONFIDENTIALITY NOTICE:

The information contained in this message may be privileged and confidential. It may also be protected from disclosure or be a privileged work product or proprietary information. This information is intended for the exclusive use of the addressee(s). If you are not the intended recipient, please notify the sender immediately by replying to this message and you are hereby notified that any use, disclosure, dissemination, distribution (other than to the addressee(s)), copying or taking of any action because of this information is strictly prohibited.

Thank you,  
[REDACTED]

## Appendix E - Example of Invoices With Obscured Expenditure Detail

Two invoices were provided as supporting documentation to support conference related expenses in 2010. The first invoice was obtained from KYEM, and identifies a meal at \$15 per person with room rental charges of \$1,981.98. The second invoice (next page) obtained from the conference hotel identifies the actual meal cost \$41 per person, with no room rental charges.



### Banquet Check

Created: 6/7/10 Printed: 9/9/10 9:12 AM BEO #: 148015

#### CSEPP/KyEM Workshop (9005)

Account: Kentucky Division of Emergency Management	Title: [REDACTED]
Main Contact: [REDACTED]	Phone: [REDACTED]
Address: Office of the Director 100 Minuteman Parkway Frankfort, KY 40601	Fax: [REDACTED]
	On Site: [REDACTED]
Post As: Dinner	Billing Name: Kentucky Division of Emergency Management
Sales Mgr: [REDACTED]	Address: [REDACTED]
Catering Mgr: [REDACTED]	Phone and FAX: [REDACTED]
	Master Account #: 9005

Date	Time	Room	Room Rental	Event	Setup	ATT	GTD	SET
Wed, 6/23/2010	5:30 PM - 7:00 PM	Combs Chandler	\$0.00	Dinner	Round of 8	60	0	0

Actual Served	ITEMS CHARGED	PRICE	TOTAL
FOOD			
FOOD ITEMS			
63	NEW YORK STRIP	\$15.00	\$945.00
<b>SUBTOTAL FOOD</b>			\$945.00
Service Charge			\$198.45
Tax			\$0.00
<b>TOTAL FOOD</b>			\$1,143.45

Actual Served	ITEMS CHARGED	PRICE	TOTAL
OTHER			
MISCELLANEOUS			
1	GROUP IS TAX EXEMPT	\$0.00	\$0.00
<b>SUBTOTAL OTHER</b>			\$0.00
Service Charge			\$0.00
Tax			\$0.00
<b>TOTAL OTHER</b>			\$0.00

Room Rental	\$1,981.98
Total	\$3,125.43
Additional Gratuity	

*All Menu Items, Audio Visual and Misc. Items Subject to 21% Service Charge and Applicable Taxes  
The guaranteed number is required seventy-two (72) hours or three (3) business days prior to your function date. The guarantee is not subject to reduction (within 72 hours prior to the function). You will be assessed a fee if cancelled 10 days prior to the event.*

PLEASE SIGN BELOW CONFIRMING THE ABOVE INFORMATION.

Client Authorized Signature  
148015

Date  
Page 1

Kentucky Division of Emergency Management

Source: KYEM



# Appendix E - Example of Invoices With Obscured Expenditure Detail (Continued)



## Banquet Check

Created: 6/7/10

Printed: 5/13/13 10:24 AM

BEO #: 148015

### CSEPP/KyEM Workshop (9005)

<b>Account:</b> Kentucky Division of Emergency Management	<b>Title:</b> [REDACTED]
<b>Main Contact:</b> [REDACTED]	<b>Phone:</b> [REDACTED]
<b>Address:</b> Office of the Director 100 Minuteman Parkway Frankfort, KY 40601	<b>Fax:</b> [REDACTED]
	<b>On Site:</b> [REDACTED]
<b>Post As:</b> Dinner	<b>Billing Name:</b>
	<b>Account:</b> Kentucky Division of Emergency Management
<b>Sales Mgr:</b> [REDACTED]	<b>Address:</b>
<b>Catering Mgr:</b> [REDACTED]	<b>Phone and FAX:</b>
	<b>Master Account #:</b> 9005

Date	Time	Room	Room Rental	Event	Setup	ATT	GTD	SET
Wed, 6/23/2010	5:30 PM - 7:00 PM	Combs Chandler	\$0.00	Dinner	Round of 8	60	0	0

Actual Served	ITEMS CHARGED	PRICE	TOTAL
---------------	---------------	-------	-------

**FOOD**

**FOOD ITEMS**

63 NEW YORK STRIP \$41.00 \$2,583.00

<b>SUBTOTAL FOOD</b>	\$2,583.00
Service Charge	\$542.43
Tax	\$0.00
<b>TOTAL FOOD</b>	\$3,125.43

Actual Served	ITEMS CHARGED	PRICE	TOTAL
---------------	---------------	-------	-------

Actual Served	ITEMS CHARGED	PRICE	TOTAL
---------------	---------------	-------	-------

**OTHER**

**MISCELLANEOUS**

1 GROUP IS TAX EXEMPT! \$0.00 \$0.00

<b>SUBTOTAL OTHER</b>	\$0.00
Service Charge	\$0.00
Tax	\$0.00
<b>TOTAL OTHER</b>	\$0.00

Room Rental	\$0.00
Total	\$3,125.43
Additional Gratuity	

*All Menu Items, Audio Visual and Misc. Items Subject to 22% Service Charge and Applicable Taxes. The guaranteed number is required seventy-two (72) hours or three (3) business days prior to your function date. The guarantee is not subject to reduction (within 72 hours prior to the function). You will be assessed a fee if cancelled 10 days prior to the event.*

PLEASE SIGN BELOW CONFIRMING THE ABOVE INFORMATION.

Client Authorized Signature  
148015

Date  
Page 1

Kentucky Division of Emergency Management

Source: Conference hotel

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## **KYEM MANAGEMENT RESPONSE**



## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

Since July 2008, the Kentucky Division of Emergency Management has placed the needs of the citizens of the Commonwealth and the advancement of the Commonwealth's Emergency Management program at the forefront of all its decisions, its actions, and its initiatives.

The Division has worked through numerous challenges including limited manpower, limited funding, and a significant number of disasters and emergencies; all the while practicing continuous improvement.

While administrative mistakes may have been made, **no illegal, immoral, or unethical actions have been initiated or condoned by the Division leadership.**

The Division mission and values drive the actions of the majority of the employees that make up one of the finest emergency management organizations in the nation.

All decisions have been made in concert with the mission of the agency and in keeping with being good stewards of the taxpayer dollars and in concert with the program administered by the Division.

The KYEM noted unprecedented practices associated with this specific audit engagement that included:

- The absence of an entrance conference conducted by the KY auditor with KYEM leadership to outline the scope of the work or to obtain basic program information;
- Specific and key KYEM individuals were not interviewed by the audit team, such as the KYEM fiscal officer. Other interviews were not conducted until the end of the audit process, such as the KYEM Director, where it appeared evident that conclusions had already been drawn and findings determined;
- The process of the audit created an environment of potential wrong doing, suspicion and mistrust from the onset. The interviews were perceived as being mandatory offsite engagements; telephone interviews were to be on personal cell phones; and meetings were to be conducted after hours;
- Emergency management employees who exhibited enthusiasm and support for the current vision of the KYEM leadership expressed concern that they were accused by the KY auditors as being in collusion and collaboration with the KYEM leadership.

While KYEM disagrees with some of the findings in the audit, the KYEM leadership fully supports transparency and accountability in all state agencies, and we will redouble our efforts to make sure every process meets this standard.

The Kentucky Emergency Management Division continues to strive to prepare all Kentucky citizens for natural disasters and other emergencies, and we will do so in a way that provides good value and accountability to Kentucky taxpayers.

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

**Finding 1: Working Environment****KYEM Response**

The KYEM does **NOT** agree with the Auditor's findings or commentary.

To leadership's knowledge, no employee has ever been threatened or suffered retaliation from KYEM leadership.

At no time has any KYEM employee ever been singled out, harassed, or demoted.

At no time have KYEM employee phones been monitored, e-mails reviewed, or personal correspondence reviewed.

The KYEM officials diligently strive to present a professional, accountable and ever-improving environment for its staff.

The KYEM leadership has espoused and demonstrated an open door policy for employees to bring issues and concerns to the Director for discussion, review, and adjustment. This opportunity for one-on-one time with the Director has been used regularly by staff for issues to voice concerns, and to seek career counseling throughout the five years of the current administration.

At no time has the Division Director ever expressed any level of tolerance for any action that was unethical, immoral, discriminatory, or not in keeping with progressive business management.

Employees HAVE been counseled on work performance and job duties as warranted. All employees are regularly reminded that all systems provided by the state are for state business, as is prudent.

Senior management has heard during exit interviews with employees who have left the agency, that there is the need to seek a permanent merit position status (which is not available for the majority of KYEM positions), or to seek increased career opportunities and pay that were not available within the agency.

The Division is manned with more than 60% of its employees classified as grant-funded non-P1 (not merit) positions that do not provide a long-term career path. Overall, more than 75% of the current positions within the Division have been upgraded or evaluated for promotion or restructuring to better the status of the employees during this administration.

At no time during the last five years has any type of retaliation against an employee of the Division been conducted, coordinated, or supported by the leadership of the Division. In fact, the vast majority of the Division has benefited under the current leadership through promotion, reorganization, or efficient use of available grant funds and programs to restore positions that were lost during a significant reduction of staff in 2008.

The work environment of the Division is often intense.

FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

During disaster events, every KYEM employee is on State-activation, leaving their families, managing response and recovery efforts both in the Commonwealth's Emergency Operations Center (EOC) and on site in impacted areas. For example, during the 2009 ice storm, the EOC was manned 24/7 for multiple weeks, with KYEM employees working a minimum of 12-hour shifts. During the last five years, there have been 11 presidential disaster declarations.

KYEM staff members understandably strongly feel that the effort is not commensurate with the limited pay scale, position status, or career opportunities. With the KYEM leadership focused on improvements regarding disaster preparation and the most-expedient support for the Commonwealth, these individual concerns can overshadow the Commonwealth's mission at hand.

KYEM is in the business of saving lives and livelihoods of the citizens of the Commonwealth.

Kentucky is at risk from natural disasters such as flooding and tornadoes.

Kentucky is also vulnerable to the tectonic activity of the New Madrid Fault; the most dangerous fault line in America.

The New Madrid Fault Earthquake would lay devastation to Western Kentucky, where an enormous amount of deadly chemical weapons is housed and the main physical natural gas lines to the East Coast run through.

It is in the best interest of the Commonwealth and this great Nation to have a proactive and contingency-focused KYEM leadership team to maintain focused staff to help save lives WHEN needed.

This Directorate has lived this ethos during every work day, every work week, every exercise or event.

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

**Finding 2: Altered Documentation****KYEM Response**

The KYEM does **NOT** agree with the Auditor's findings or commentary.

The KYEM leadership was made aware of a billing issue regarding this specific workshop -for the very first time-via this audit.

Draft detailed activity reports pertaining to this GEMW were reviewed with hotel staff to ensure the final invoice was prepared to meet the workshop support plan which was negotiated in advance by the workshop planning staff.

When the hotel staff produced the final invoice for the 2010 GEMW workshop, the original final cost corresponded to the originally estimated cost, but the corresponding line items and categories were not in accordance with the original KYEM workshop plan.

The KYEM workshop planning staff appropriately requested that the hotel resubmit an invoice that reflected the pre-approved contracted services, rates and support package as agreed to in the conference plan documents and estimates.

KYEM workshop planners received this invoice from the hotel.

The 2010 KYEM workshop planners are available to give sworn statements to this fact.

Through due diligence to respond to this Audit finding, KYEM staff asked the hotel to produce the same 2010 GEMW invoice from their system and they could not. The hotel staff indicated that at this time they only had the ability to produce the detailed activity bill from their system and not the agreed upon final invoice.

The KYEM leadership understands the auditor's concern and inquiry regarding this discrepancy between the invoice the hotel has on file and the invoice the hotel sent to the KYEM workshop planners.

Finding 2 makes use of the word 'altered'. We believe a more proper description would be that the invoice was revised to reflect the original agreement with the total amount due being the same in both cases.

Ultimately the objective should be complete transparency, so that the auditor and the taxpayers are aware of how both state and federal dollars are spent in the course of conducting such a conference.

We will request the Kentucky Finance Cabinet study banquet style meals to determine a more accurate method of proper reflecting the variety of charges involved in conducting such an event to assure concurrence with all applicable regulations and guidelines.



## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

**Finding 3: Conference Expenditures****KYEM Response**

The KYEM does **NOT** agree with the Auditor's findings or commentary.

Over the several years, the KYEM conference planners comprised of KYEM staff, peers from other states, and Federal CSEPP grant program coordinators, developed a detailed plan and executed a superior conference from all objective elements. Vendor participation fees were used to address all expenditures outside those properly covered under registration fees and the appropriate grant funding limits for workshops and training.

**No taxpayer or grant funds** were used for vendor receptions or normal, planned, after-hours conference entertainment events.

The KYEM accounted for all the funds generated from vendors and those vendor funds that were used to offset the conference costs, again--ensuring no expense to the KY taxpayers.

Kentucky was asked to host the 2010 National Chemical Stockpile Emergency Preparedness Program (CSEPP) Workshop serving as a combined statutory/mandatory Governor's Emergency Management Workshop. This joint event was attended by nearly 1,000 people from across the United States and was a resounding success and compliment to the Commonwealth as the workshop provided training, motivation and education regarding the role of emergency management and the CSEPP program.

**No one from KYEM attempted to circumvent any state or federal laws or regulations regarding this conference.**

Spending parameters were established between the conference hotel and the KYEM conference planners; all within tolerance of pre-established State conference guidance that the KYEM followed.

The practice of collecting vendor funds to finance receptions and give-aways were suggested by many other states and directorates as a best practice, to ensure that **taxpayer dollars are never spent.**

The KYEM disputes that the directorate spent "more than \$103,000 over the three-year period on entertainment, after-hours receptions, alcohol, door prizes, and gifts for attendees."

The capital related to any of the receipts indicated by the KY Auditors was vendor dollars, not KYEM or taxpayer dollars.

Again, vendors underwrote these expenditures, provided gifts for drawings, and hosted events.

There was never a "dinner reception" for which KYEM used taxpayer or program resources for alcohol. In order to enhance conference attendees' exposure to the supporting vendors, vendors hosted a one hour reception at the end of each training day in the vendor hall for attendees. The vendors paid for light snacks and limited drinks. These events were included on the published materials as planned-vendor events as described in the workshop agenda.

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

Again, CSEPP Federal grant program coordinators were actively involved in the planning of the 2010 conference and agreed for the use of federal grant funds for costs associated with meetings and training. These items included training/meeting rooms, production of training materials, instructor expenses, and audio/visual support.

The KY Auditor was apprised that the work assignment schedules were preliminary and were not reflective of the final staff assignments.

No employees were provided a paid holiday.

Every KYEM staff member at the conference was in a work-related status. Some staff were required to remain through the end of the event to pack up the materials, transport equipment/supplies, and participate in after action review sessions.

The entire intent of conducting the annual Governor's Emergency Management Workshop, as required by statute, is to provide meaningful emergency management training to local elected officials and emergency managers. Many counties and cities--especially during the current and extended economic downturn--do not have the resources available to attend. Without providing scholarships, many judges, mayors, and emergency managers could not attend. Non-attendance by key county leaders could result in a less-trained-for-disaster county leadership, thus putting citizens and property at undue risk.

The KYEM Directorate welcomes guidance from the KY Auditor of how better to serve the Commonwealth in support of state mandated EM conferences, without costing KY taxpayers one nickel, as the current KYEM was able to accomplish with vendor support.

The next page exhibits a table of revenue, expenses and an allocation of source payments related to the GEMW workshops of 2010, 2011 and 2012.

It is understood that the accounting system used in 2010 and 2011 does not allow for the expeditious break down of expenditures to reflect program expenditures versus workshop support expenditures. At the time of this response, the KYEM continues to strive for clarity.

It is of the opinion of the KYEM leadership, however, that all workshop support items, door prizes, etc., that were planned to be paid for by vendors, were – in fact – paid for by vendors.

KYEM leadership maintains that the workshop planning staff adhered to the guidance provided for the development of the workshop support plan.

This guidance clearly stated that ONLY vendor fees and receipts would be used for workshop entertainment and support activities. If the projected vendor fees and receipts would not support an element of the workshop, then that element would not be executed.

Additional guidance authorized the use of grant program and general fund dollars to ONLY support elements of the workshop that met the appropriate criteria for expenditure under such category.

The planning and fiscal KYEM staff maintains that the guidance provided was followed and that each workshop was executed within budget, as the following table will illustrate.

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

The table below shows KYEM Revenue and Expense Tracking for each of the workshops in question. Each GEMW was conducted within budget and benefitted from a working balance in the Receipt Account from unexpended Vendor Fees.

The Vendor Fees were collected explicitly to underwrite the costs of the workshop.

KYEM Workshop Revenue and Expense Tracking			
	2010	2011	2012
	GEMW	GEMW	GEMW
<b><u>REVENUES</u></b>			
Previous Year's Unused Vendor Fees	\$35,677.08	\$9,924.25	\$10,490.30
New Vendor Fees	\$32,280.00	\$31,000.00	\$36,950.00
Attendee Registrations	\$16,570.00	\$6,120.00	\$4,080.00
Total Available	\$84,527.08	\$47,044.25	\$51,520.30
<b><u>EXPENDITURES</u></b>			
Lodging, Meals, Training Facilities, After -hour Events	\$144,344.71	\$87,200.28	\$70,939.72
Support Items, Door Prizes, Security, Audio/Visual, Badging, Travel	\$78,684.69	\$10,384.23	\$7,192.10
Total Expenditures	\$223,029.40	\$97,584.51	\$78,131.82
<b><u>SOURCE OF PAYMENTS</u></b>			
Attendee Registrations	\$16,570.00	\$6,120.00	\$4,080.00
Total Spent on Vendor Supported Activities	\$58,032.83	\$30,433.95	\$29,439.81
Fed. Programs (i.e.Training Expenses)			
CSEPP	\$74,618.61		
HZMAT	\$73,807.96		
LEPC		\$61,030.56	\$32,000.00
EMPG			\$5,639.02
<b><u>BALANCE REMAINING</u></b>			
Registrations	\$0.00	\$0.00	\$0.00
Vendor Fees	\$9,924.25	\$10,490.30	\$11,027.50

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

**Finding 4: Sufficient Documentation****KYEM Response**

The KYEM DOES agree with the Auditor's findings.

The KYEM agrees that record keeping for the conference registration was not accurate in 2010, but has continued to improve as required.

The badge listing provided to the Auditor was the overall list of attendees – including paid registrants, staff, vendors, scholarship attendees, and volunteers. All attendees were required to have an official event badge for admission to training classes, meetings, lunches, and other activities.

All training participants were required to sign-in when entering each training session. If an attendee did NOT sign-in during their class, they would not receive continuing-education credit hours or training certificates.

The KYEM disagrees with the overall meal counts cited by the audit. The Auditor's calculation does not reflect scholarship and volunteer attendees. A slight variation in meal count is the result of the estimates provided to the hotel by the planning staff in advance of the event, but the majority of the variance cited by the audit report is attributed to omitting the number of scholarship attendees.

The KYEM has consistently improved the tracking of conference attendees and the categorization into the appropriate groups. Improvements in documentation are warranted and changes to processes to improve employee time and attendance is improved and meets grant accounting requirements.

<b>Workshop Meal Count Tracking</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>GEMW</b>	<b>GEMW</b>	<b>GEMW</b>
<b>KYEM Staff</b>	77	69	82
<b>Paid Registrations</b>	415	153	102
<b>Vendors</b>	112	62	74
<b>Scholarship Attendees</b>			
<b>*</b>	<u>276</u>	<u>274</u>	<u>264</u>
<b>Total Badges Issued **</b>	<b>880</b>	<b>558</b>	<b>522</b>
<b>Total Meals Served</b>	<b>850</b>	<b>510</b>	<b>375</b>

**\* Judge/Executives, Mayors, Emergency Management Directors, Voluntary Organizations, Conference Volunteer Workers, Panelists**

**\*\* Most of KYEM staff were not in attendance at meals as they were manning registration tables, monitoring vendor hall, working operations, filming events, etc.**

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

**Finding 5: Risk for Unallowable Activities Charged to Federal Programs****KYEM Response**

The KYEM accepts Auditor's recommendations.

The Auditor's recommendations regarding improvements in fiscal-related documentation are warranted.

Changes to KYEM processes regarding employee time and attendance management have already been implemented to meet grant accounting requirements.

The KYEM has implemented a mandatory time summary reporting for all employees to identify how much time was attributed to each perspective federal program for each workday. As required by Federal regulations, each employee's time summary is analyzed on a quarterly basis to ensure that their federal program activities are reflected in payroll charges made to the applicable federal grants. Any variances are adjusted according to Federal guidance and regulations.

At no time have KYEM employees been directed to work against the agency or grant supporting programs of prevention, preparedness, mitigation, response, and recovery.

No KYEM employees have been encouraged or supported in efforts to defraud the State or Federal Government.

The KYEM Director and leadership staff does not tolerate such behavior or practice with the directorate.

The Federal programs associated with KYEM and the state's accounting systems are highly complex.

The KYEM has self-identified instances where mistakes were made, such as when charges automatically hit one program but are shared expenses for multiple programs and applicable amounts must be moved to proper accounting lines.

The KYEM has acknowledged its need for improved documentation and explanation regarding corrected entries. Consequently, the KYEM has implemented a Journal Voucher tracking system to provide the Auditor with necessary information and justifications.

As indicated in this audit, the KYEM is highly dependent on Federal grants and appreciates the Auditor's work and guidance to assist and help ensure funding streams.

**Finding 6: Routine Working Meeting Charges****KYEM Response**

The KYEM does **NOT** agree with the Auditor's findings or commentary.

The KYEM did not violate any State or Federal statute or regulation regarding working meals or meeting space.

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

In all cases, decisions regarding the use of hotel meeting space and working meals were always made based on the needs of the Division, concern for the well being of employees, limits regarding travel and overtime expenditures and the non-availability of other locations or solutions.

For more than five years, the KYEM has routinely utilized every shared facility in Frankfort, to include parks and religious institutions when warranted. Hotel meeting spaces coupled with working lunches – which always had a work component--were only undertaken when the situation warranted group workspace and an agenda item that required gathering the whole division in one place at one time.

There was no real or perceived personal benefit to the employees or the administration to participate in this occurrence.

The KYEM's understanding of the Finance policy includes no prohibition of paying for working lunches through means other-than the Commonwealth Credit Card.

In all working-lunch occurrences, the KYEM used the stated funding criteria cited - the needs of the Division to conduct required and necessary training, concern for the well being of employees, and the need to limit travel and overtime expense issues as the correct criteria.

As provided in Finance and Administration Policy 111-58-00 (10.c.) "Purchases of food or beverage shall be accompanied by documentation explaining the reason for the purchase, justification of need, and proof that they benefited the Commonwealth. Examples of this documentation include, but are not limited to, prior approval memo, meeting minutes, and board calendars."

The KYEM followed this Finance and Administration Policy each and every time, as demonstrated to the KY Auditor.

### **Finding 7: Software Procurement**

#### **KYEM Response**

The KYEM does **NOT** agree with the Auditor's findings or commentary.

In all cases of procurement, the KYEM and DMA followed State procurement rules and conducted operations in the best interest of the taxpayers.

In all cases of procurement, the KYEM and the Division director looked for the best option for the Commonwealth and the program. The KYEM has aggressively pursued information processing systems within program funding limits to offset personnel shortfalls, increase efficiency, and to meet grant reporting requirements.

The KYEM has the proper documentation demonstrating its adherence to these procurement policies.

The results of the proper procurement of this software for the KYEM include:

- A cost-savings of approximately \$93,000 to the Commonwealth tax payers, based on the initial cost of the software in comparison to the next comparable software package.

## FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

- The ability to customize the software to the specifications of the KYEM at a fraction of the cost and time required by the next comparable software package.
- A working knowledge and relationship with the ITEAMS developers to ensure the KYEM needs were met.

No one within the KYEM Directorate, from the Director to any other team member, fiscally or implicitly benefited from the procurement of ITEAMS services and software.

All work performed by the contractor has been of best value to the Commonwealth and was contracted by using the standards for procurement as established by the Commonwealth.

**Finding 8: Conference Contract Perks****KYEM Response**

The KYEM does **NOT** agree with the Auditor's findings or commentary.

Neither the KYEM staff nor the Division Director requested a complimentary hotel room be provided to the Director by the conference hotel. The contract with the hotel specified a number of complimentary rooms. The hotel provided the suite as one of the complimentary rooms.

The Director enjoyed no advantage with this offering.

Were KYEM to refuse the complimentary rooms, the overall cost of hotel accommodations would have obviously increased.

The Director made it known to the conference staff that the room assigned to him was available for meetings or storage space, as the size of the room provided for free by the hotel was more than he needed.

The complimentary rooms were at no cost to the Kentucky taxpayers nor perceived as a perk by the KYEM staff or KYEM conference planners.

**Finding 9: Internal Audit Functions Inadequate****KYEM Response**

The KYEM DOES agree with the Auditor's findings.

The KYEM agrees that administration and record keeping can, will, and are being improved upon.

The KYEM is challenged with the current structure and funding available to acquire the professional level of staffing necessary to meet the administration and oversight requirements of the Division programs.

The KYEM recognized the deficiency in its own internal audit capabilities in 2011. With existing funding, all the Division could accomplish was to create an Internal Control Specialist position. Since 2011, the

FINAL KENTUCKY EMERGENCY MANAGEMENT DIVISION RESPONSE

KYEM has moved forward in training, documenting, and implementing an aggressive internal control capability at its own volition.

With additional funding and changes to the organizational structure, KYEM could and should have its own audit and legal staff to support the programs that the Division is currently administering.

Today's fiscal and structural limitations do not support this solution.

**In Closing:**

The KYEM leadership fully realizes and appreciates the seriousness of the legitimate audit findings illustrated in their report to the Adjutant General of Kentucky and the Kentucky Emergency Management.

The KYEM will continue to address all issues in a serious and proactive manner.

Kentucky Division of Emergency Management is expected to be the stalwart steward of taxpayer resources. We will use this report to improve our processes, striving to protect and maximize those limited resources to the betterment of the people of the Commonwealth of Kentucky.



**AUDITOR'S REPLY TO  
KYEM MANAGEMENT RESPONSE**



KYEM stated in its response to the examination report that it had faced “numerous challenges including limited manpower, limited funding, and a significant number of disasters and emergencies... .” KYEM further stated that “[a]ll decisions have been made in concert with the mission of the agency and in keeping with being good stewards of the taxpayer dollars.” The APA agrees that KYEM has limited manpower and resources to address significant public issues; however, the findings presented in this report evidence KYEM has not acted, in all instances, as a good steward of these limited public resources.

In its response, KYEM management indicates that it noted "unprecedented practices" associated with the audit, such as a failure to conduct an entrance conference to discuss with management the scope of the work or to obtain basic program information. All reports issued by the APA are substantiated by a high level of evidence and examinations are conducted by experienced, professional staff. Also, the APA routinely audits KYEM as part of its annual audits of the Commonwealth's Comprehensive Annual Financial Report and Single Statewide Audit of Kentucky, and has significant experience with its programs. However, this report is not a result of a standard financial audit, but a special examination related in part to confidential allegations and concerns brought to the attention of auditors. Financial audit objectives are to opine on specific elements of a financial statement, compliance requirement, etc, whereas the objective of a special examination is to thoroughly evaluate allegations or concerns of waste, fraud, or abuse. An entrance conference for special examinations may communicate the general nature of the work, but would not disclose the confidential nature of allegations to the agency subject to examination. Auditors were already present in KYEM at the onset of the special examination due to their work on the annual single audit, but as a courtesy, the APA did notify the Department of Military Affairs in writing of the examination when it began in March 2013.

Other comments made in KYEM's response regarding the conduct of the examination included assertions that certain individuals were not interviewed, and questioned whether performing interviews contributed to an environment of wrong doing or mistrust. The APA will not disclose those employees interviewed in order to refute management's assertions; however, management's comments raise concerns as to whether KYEM staff has been further subjected to undue pressure to discuss information shared during or the circumstances surrounding confidential interviews with auditors. Many individuals actually sought out auditors to discuss their concerns during this examination. Auditors' interviews are objective, and seek to gather information to either support or disprove allegations. But, to be clear, auditors have never mandated the time, location or manner an interview is conducted, and any information disclosed was provided willingly.

In response to Finding 1, KYEM management asserts it has not created or contributed to a hostile agency environment where threats or retaliation are used as a method of managing its staff, and that morale issues are primarily a product of a lack of career advancement opportunities. Auditors have a responsibility to notify management of serious concerns that increase the agency's risk of legal action. Although management attempts to explain that work environment concerns are related to pay, career path, or work demands, the examination reported conditions more egregious than these types of typical employee morale concerns. Even as the examination was coming to a close, auditors obtained information regarding threats of retaliation against employees who were cooperating with the examination. The APA stands by the evidence

obtained during the examination, which included corroborated first-hand accounts of threats of retaliation, as well as the auditors' observations and experiences while conducting the examination. Auditors fully appreciate the mission of KYEM, which is why it is important that its business is conducted in a manner that encourages and promotes sound practices and good stewardship of federal and state taxpayer funds under its control.

KYEM's response to Finding 2 takes a position that altered invoices were merely an attempt to reconcile charges to the contractual agreement amounts. However, as noted in the examination, KYEM's contract with the conference hotel waived room conference rental charges. Although the hotel did not charge an amount for the conference room rentals, KYEM presented invoices listing room rental amounts to auditors as supporting evidence of conference expenditures. These room rental charges were subsequently identified during the examination to actually be charges for food and alcohol. Therefore, this apparent intentional methodology employed to obscure the details of the true charges moves further away from accurately reflecting the contractual agreement. Regardless of pricing agreements, invoices should never be used to obscure actual transaction activity. Auditors agree with KYEM that altered invoices ultimately resulted in the same total cost, which raises the underlying question of why the agency felt compelled to alter the details of invoices. As noted in the examination, interviews conducted with agency personnel expressed the need to document that meals did not exceed the state per diem limitations. The APA recognizes the difficulty in meeting state per diem limitations for employees working agency-hosted conferences, but intentionally obscuring details of the actual cost of specific items is neither a transparent or ethical approach.

In its response to Finding 3, KYEM argues that vendor fees were used to cover all after hour meals, receptions, gifts, door prizes, etc. KYEM acknowledges that the accounting system was not sufficient to properly track conference activity; however, it provides a breakdown of revenues and expenses for each conference. Auditors requested all conference related activity during the examination, and specifically requested an accounting of the conferences, but the agency provided incomplete and inaccurate information. Also, although the agency did contend during the examination that vendor fees were used to offset after-hour activities, gifts, and door prizes, it never mentioned the existence of previous year unused vendor fees, as denoted in the calculation presented in its response. In fact, auditors identified contradictory information. The 2010 GEMW conference brochure clearly indicated no meals were sponsored by vendors, and did not identify any events as being vendor sponsored.

The conference receipt/expense schedule presented in KYEM's response does not present sufficient detail of the charges attributed to vendor related expenses versus expenses paid by federal funds. Furthermore, KYEM's position regarding vendor fees contains some contradiction. In KYEM's explanation, vendor fees appear to be solely applied to vendor supported events, but vendors also participated in meals during conference hours and are included in KYEM's calculation for the number of meal participants. Without sufficient detail, it is impossible to verify even the mathematical accuracy of KYEM's calculation for unused vendor fees, not to mention the proper application of those receipts.

The APA stands by the auditor-prepared schedule of conference receipts/expenditures presented in Appendix A of this examination report, which identifies that vendor fees were not sufficient to cover all entertainment and gift related expenditures in all conference years. Furthermore, a key concept missed by KYEM's response is that vendor fees were all deposited into the state treasury. Once those fees were deposited into state accounts, they become state revenues and must follow all proper procurement requirements when spent. All expenditures from the state treasury should be necessary to carry out the agency's governmental function and be reasonable in amount. Therefore, the APA contends that those fees should have offset the overall cost of the conference to reduce the need for taxpayer funds rather than spent on entertainment and other nonessential items. Those activities sponsored by vendors should be paid directly to the conference hotel or paid through a non-government association.

In its response to Finding 4, KYEM disagrees with the meal counts estimated during the examination, indicating the estimate did not include vendors participating in conference meals and also scholarship participants. As noted above, it is unclear how vendor fees used solely to offset the cost of after hour meals, receptions, etc, as reported by KYEM in its response Finding 3, were also used to offset vendor participation in other meals during conference hours. These costs for meals would not otherwise be allowable federal expenditures. Furthermore, in its response KYEM identifies between 264 and 276 scholarship participants to make up the difference in meal counts, which is a larger number than paid participants in two of the three years examined. As noted in the examination, some of these individuals are government officials who should adhere to their own government's travel policies. It is possible that KYEM's methodology created a situation in which the federal programs were billed twice for the same travel - once by KYEM and again at the local government level. There is a risk of this occurring intentionally or unintentionally, and therefore the practice should be avoided unless additional controls are put in place to reduce this risk. Also, KYEM's response has a lengthy list of categories of non-government individuals that also received scholarships to attend the conference, such as volunteer organizations, volunteer workers, and panelists. Without specific documentation to identify the individuals that received scholarships and why, it is impossible to determine whether all unpaid attendees were reasonable, or whether those scholarships would result in allowable federal expenses.

In its response to Finding 6, KYEM asserts that it did not violate any state law regarding purchases of meals during working lunches for employees. However, again, state expenses should be those necessary to meet an agency's governmental functions and should be reasonable in amount. It has been a long standing, consistent practice in the Commonwealth to pay for meals only in instances when an employee is in travel status in order to meet the necessary and reasonable expenditure objectives. Agencies in the Commonwealth typically go to great lengths to review travel vouchers for timing of an employee's travel to determine whether the employee meets certain reimbursement requirements. As noted in the examination, lunches were not only provided to employees on travel status but also to those with a Frankfort workstation who would not be on official travel status. Also, meals again exceeded per diem limitations even if they were allowable. The APA also welcomes policy clarifications on this matter, although we believe it is highly unlikely policy clarifications will permit agency spending for meals for

employees not on travel status during a routine work day. Furthermore, these lunches were funded by federal programs, and do not appear to meet the criteria of allowable charges.

Finally, in its response to Finding 7, KYEM management asserts that it followed all procurement requirements. The APA spoke to the KYEM director regarding this procurement, and the KYEM director acknowledged he did not have time to follow the procurement policies requiring COT review of computer services, and that he selected the software and software vendor he wanted. At no time did the director indicate the existence of other procurement documentation outside of that maintained in official procurement records reviewed by auditors. Those records indicate a procurement practice that did not follow state procurement requirements, as detailed in the examination.

Upon reviewing KYEM's response, the APA continues to strongly support the details presented in the examination. The KYEM examination points to serious management, administrative, and compliance concerns. Management's response for many of these concerns does not indicate the issues will be given appropriate attention, therefore potentially exposing the agency to greater risks of litigation and loss of funding. We strongly encourage KYEM management and the Department for Military Affairs to immediately implement appropriate corrective action to resolve these matters.

