

**REPORT OF THE AUDIT OF THE  
KENTUCKY DEPARTMENT OF VETERANS' AFFAIRS  
VETERANS' PROGRAM TRUST FUND**

**For the Fiscal Year Ended  
June 30, 2020**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5481**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
BALANCE SHEET – MODIFIED CASH BASIS .....	5
STATEMENT OF RECEIPTS, EXPENDITURES, AND CHANGES IN FUND BALANCE – MODIFIED CASH BASIS .....	6
NOTES TO THE FINANCIAL STATEMENTS.....	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	13
SCHEDULE OF FINDINGS AND RECOMMENDATIONS .....	17





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

Lt. Col. (Retired) Keith L. Jackson, Commissioner  
Veterans' Program Trust Fund Board  
Kentucky Department of Veterans Affairs

**Independent Auditor's Report**

***Report on the Financial Statements***

We have audited the accompanying modified cash basis financial statements of the Kentucky Department of Veterans' Affairs Veterans' Program Trust Fund (Program), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

***Management Responsibility for the Financial Statements***

The Program's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Program, as of June 30, 2020, and the respective changes in financial position - modified cash basis and, where applicable, cash flows, thereof and for the year then ended on the basis of accounting described in Note 2.

***Basis of Accounting***

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2020, on our consideration of the Program's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 16, 2020

## **FINANCIAL STATEMENTS**





**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS  
VETERANS' PROGRAM TRUST FUND  
BALANCE SHEET - MODIFIED CASH BASIS**

**June 30, 2020**

Assets:

Cash and Cash Equivalents	\$ 239,336
Total Assets	<u>\$ 239,336</u>

Fund Balance:

Restricted	\$ 239,336
Total Liabilities and Fund Balance	<u>\$ 239,336</u>

The accompanying notes are an integral part of the financial statements.

**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS  
VETERANS' PROGRAM TRUST FUND  
STATEMENT OF RECEIPTS, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - MODIFIED CASH BASIS**

**For the Year Ended June 30, 2020**

Receipts:	
Veterans' Plate Sales	\$ 510,656
Refund from Prior Year Grant	59,700
Miscellaneous Donations	23,527
Donations from Taxes	11,116
Interest Income	2,852
Total Receipts	<u>607,851</u>
Expenditures:	
Program Grants	454,981
Program Administration	17,808
Program Expenditures	3,456
Program Expenditure - Other	434
Total Expenditures	<u>476,679</u>
Excess Receipts over Expenditures	131,172
Net Change in Fund Balance	131,172
Fund Balance at July 1, 2019	<u>108,164</u>
Fund Balance at June 30, 2020	<u>\$ 239,336</u>

The accompanying notes are an integral part of the financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**



**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS  
VETERANS' PROGRAM TRUST FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020**

**Note 1 - Background**

The Kentucky General Assembly established the Veterans' Program Trust Fund (Program) as part of the Kentucky Vietnam Veterans Bonus Act on December 23, 1988. The purpose of the Program is to direct funding to projects and programs that help Kentucky's veterans but for which other funds are not available.

The Program is overseen by a Board of Directors whose members are appointed by the Governor. The Program's Board of Directors meets on a quarterly or "as needed" basis to approve or deny requests for funding.

The Program has received a steady, moderate income from a \$5 or \$10 fee (depending on the plate) that is included in the initial purchase price and renewal of Veterans' license plates. The Program is also a legal recipient of tax-deductible contributions from individuals, companies and organizations.

The Program uses 201 KAR 37:010 as guidance in collecting and expending funds.

KRS 186.162(2) identifies the Program as an organization eligible to collect a portion of funds from the sale of special license plates. The collection of these funds is discussed further below.

**Note 2 – Summary of Significant Accounting Policies**

Basis of Presentation

The financial statements have been prepared on a cash basis of accounting modified by the application of KRS 45.229, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This statute provides that for a period of 30 days after the close of any fiscal year, warrants may be drawn against available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during the year or in fulfillment of contracts properly made during the year but for no other purpose.

Concentration of Revenues

Program receipts are derived from the sale of special license plates as authorized in KRS 186.164, available for purchase in each of Kentucky's County Clerks' offices. The funds are submitted to the Kentucky Transportation Cabinet (KYTC) and a portion of the funds are forwarded to the Kentucky Department of Veterans Affairs – Veterans' Program Trust Fund as outlined in KRS 186.162(2) which indicates \$5 or \$10 (depending on the plate) from the sale of new plates and \$5 from a renewal plate is designated for the Program. The Program also accepts donations to the fund through tax donations, miscellaneous donations, gifts, and earns interest income.

**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS  
VETERANS' PROGRAM TRUST FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020  
(Continued)**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

Expenditures

The Program provides funds to organizations, individuals, or groups for projects and programs that help Kentucky Veterans. These are classified as Program Grants on the financial statements. These are approved by the Board of Directors and are included in the Board of Directors meeting minutes.

Fund Balance

Fund balance represents the difference between assets and liabilities reported on the Program's balance sheet. The fund balance does not lapse for the Program, and therefore is available for use in future periods. Fund balance is classified as restricted. GASB 54 identifies fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, laws and or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation. The Kentucky General Assembly established the Program as part of the Kentucky Vietnam Veterans' Bonus Act on December 23, 1988. KRS 40.460 (2) (b) established the Program with its proceeds and interest required to be used for Veterans' programs.

Commitments

The Program has outstanding commitments related to projects and programs that help and assist Kentucky Veterans. These commitments consist of outstanding projects approved by the Program Board of Directors, in which the obligations have not yet been completed.

**Note 3 – Cash and Cash Equivalents**

Participation in the Commonwealth's Internal Cash and Investment Pool

Receipts are deposited in the Commonwealth's general depository administered by the State Treasurer, who has statutory responsibility and authority to safeguard the monies. The Program participates in the internal cash and investment pool of the Commonwealth of Kentucky. Therefore, it follows the policies established by the Commonwealth for all pooled cash and investments. The Commonwealth's internal investment pool offers same day liquidity with no limitations, fees or restrictions on withdrawals. The risk disclosures related to deposits and investments are reported in the Commonwealth of Kentucky's Comprehensive Annual Financial Report. Accordingly, the Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for disclosures required by the Governmental Accounting Standards Board. For the year ended June 30, 2020, the Program's position in the pool totaled \$239,336.

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







**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

Independent Auditor's Report

Lt. Col. (Retired) Keith L. Jackson, Commissioner  
Veterans' Program Trust Fund Board  
Kentucky Department of Veterans Affairs

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Veterans Affairs Veterans' Program Trust Fund (Program) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated September 16, 2020.

***Internal Control Over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations we identified a certain deficiency in internal control that we consider to be a material weakness and another to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations to be a material weakness, which is identified as finding 2020-VPTF-01.



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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations to be a significant deficiency, which is identified as finding 2020-VPTF-02.

***Compliance and Other Matters***

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

***The Program's Response to Findings***

Management's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 16, 2020

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**



**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS  
VETERANS' PROGRAM TRUST FUND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2020**

**2020-VPTF-01: The Kentucky Department Of Veterans Affairs Failed To Apply Proper Accounting Treatment To A Refund Of A Grant Award**

---

The Kentucky Department of Veterans Affairs (KDVA) administers the Veterans' Program Trust Fund (VPTF) which provides funding for projects to help Kentucky's Veterans. In fiscal year (FY) 2019, VPTF provided \$60,000 in grant funds for a project that helped Kentucky Veterans receive hyperbaric oxygen treatment. During FY 2020, KDVA requested and received \$59,700 of unspent grant funds back from the recipient. KDVA failed to apply correct accounting treatment of the refund, as they were incorrectly reported as a negative expenditure. Proper accounting requires the refund crossing fiscal years to be recorded as a receipt in the current year financial statements.

Due to the non-routine circumstances surrounding the transaction, KDVA was unaware of and did not apply proper accounting treatment to the refund crossing fiscal years. Although the fund balance was unaffected by the error, both expenditures and receipts were understated in the current reporting period. Financial statements should be complete and accurate to ensure information reported can be relied on and utilized by internal and external parties.

GASB Statement No. 33: "Accounting and Financial Reporting for Nonexchange Transactions" requires that after a nonexchange transaction has been recognized in the financial statements it may become apparent the recipient will not comply with the purpose restrictions within the specified time limit. Providers that require the return of resources should recognize revenues in the period when the returned resources are available. This guidance is also appropriate for modified cash basis reporting.

**Recommendation**

We recommend KDVA utilize the proper accounting of nonexchange transactions which require that refunds crossing financial reporting periods should be reported as revenues in the period in which the returned resources are available.

**Management's Response and Corrective Action Plan**

*The Kentucky Department of Veterans Affairs (KDVA) will ensure in current fiscal years that all vendor refunds in the current fiscal be recorded as a negative expenditure and any vendor refunds from any prior fiscal year be recorded as a Prior Year Refund, showing as a revenue and not an expenditure. Monthly accounting reconciliations will ensure that this process is followed and notation has been made in the Standard Operating Procedure for the Veterans Program Trust Fund.*

**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS  
VETERANS' PROGRAM TRUST FUND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2020  
(Continued)**

**2020-VPTF-02: The Kentucky Department Of Veterans Affairs Failed To Implement Adequate Internal Controls To Monitor And Ensure That The Collection Of Receipts From Tax Donations Were Received In Their Entirety**

---

The Kentucky Department of Veteran Affairs (KDVA) administers the Veterans' Program Trust Fund (VPTF) which provides funding for projects to help Kentucky's Veterans. The VPTF is supported from the sale of special license plates, tax donations, other miscellaneous donations and gifts, and from interest earned. KDVA failed to implement adequate internal controls to monitor and ensure the collection of receipts from tax donations, as collected and distributed by the Kentucky Department of Revenue (DOR), were received in their entirety. During fiscal year 2020, \$4,478 in tax donations were not remitted to VPTF as required.

Due to an error, all tax donations were not transferred to VPTF during fiscal year 2020. Additionally, internal controls were not in place enabling KDVA to verify all tax donations were received per available supporting documentation. Failure to ensure the receipt of all tax donations reduced VPTF funds available for projects during the fiscal year. Following identification of the error, DOR completed a correcting journal voucher to provide the funds to VPTF in fiscal year 2021.

Sound internal controls dictate that transactions reported within the accounting system be complete and accurate. Supporting documentation should be maintained to validate any activity as reported within the accounting system. Controls implemented should also provide safeguards against the possible omission of transactions within the accounting system.

**Recommendation**

We recommend KDVA implement adequate internal controls to ensure tax donations are received in their entirety. KDVA should communicate and coordinate with DOR to acquire and maintain supporting documentation in sufficient detail to ensure the completeness and accuracy of all tax donations transferred to VPTF.

**Management's Response and Corrective Action Plan**

*The Kentucky Department of Veterans Affairs (KDVA) management personnel and budget specialist was unaware that reports were available from the Department of Revenue (DOR) regarding tax contributions to the Veterans Program Trust Fund (VPTF). Upon notification of the error, KDVA budget specialist immediately contacted DOR and requested a monthly report. DOR will now submit reports directly to KDVA's budget specialist so the agency can add into their monthly review of receipts and expenditures and accurately report on the financials to the Trust Fund board at least quarterly.*