

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

**For the Fiscal Year Ended
June 30, 2018**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Benjamin F. Adams III, Commissioner
Veteran's 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 Veteran's Program Trust Fund (Program), as of and for the year ended June 30, 2018, 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 partnership'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 a material respects, the respective modified cash basis financial position of the Program, as of June 30, 2018, and the respective changes in financial position – modified cash basis and, where applicable, cash flows, thereof 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 October 9, 2018, 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,



Mike Harmon
Auditor of Public Accounts

October 9, 2018

FINANCIAL STATEMENTS

**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS
VETERAN'S PROGRAM TRUST FUND
BALANCE SHEET – MODIFIED CASH BASIS**

June 30, 2018

Assets:

Cash and Cash Equivalents	\$ 505,269
Total Assets	<u>\$ 505,269</u>

Fund Balance:

Restricted	\$ 505,269
Total Liabilities and Fund Balance	<u>\$ 505,269</u>

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

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

For the Year Ended June 30, 2018

Receipts:	
Veteran's Plate Sales	\$ 464,038
Donations from Taxes	27,767
Miscellaneous Donations	9,024
Miscellaneous Private Grants and Gifts	150
Refund from Prior Year Expenditures	799
Interest Income	7,234
Total Receipts	<u>509,012</u>
Expenditures:	
Program Grants	528,400
Program Administration	13,255
Total Expenditures	<u>541,655</u>
Excess Receipts over Expenditures	(32,643)
Net Change in Fund Balance	(32,643)
Fund Balance at July 1, 2017	537,912
Fund Balance at June 30, 2018	<u>\$ 505,269</u>

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

NOTES TO THE FINANCIAL STATEMENTS

**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS
VETERAN'S PROGRAM TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 1 - Background

The Kentucky General Assembly established the Veteran's 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 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 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 Clerk's offices. The funds are submitted to the Kentucky Transportation Cabinet (KYTC) and a portion of the funds are forwarded to the Kentucky Department of Veteran Affairs - Veteran's Program Trust Fund as outlined in KRS 186.162 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
VETERAN'S PROGRAM TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018
(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 a 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 as approved by the Program Board, 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, 2018, the Program's position in the pool totaled \$505,269.

**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

Veteran's Program Trust Fund Board Members
Benjamin F. Adams III, Commissioner
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 financial statements of the Department of Veterans Affairs Veteran's Program Trust Fund (Program) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated October 9, 2018.

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.

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. 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.



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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be significant deficiencies which are identified as finding 2018-VPTF-01 and 2018-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

The Program's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The Program'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,



Mike Harmon
Auditor of Public Accounts

October 9, 2018

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS
VETERAN'S PROGRAM TRUST FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2018**

2018-VPTF-01: The Kentucky Department Of Veterans Affairs Failed To Properly Classify Receipts And Expenditures On The Veteran's Program Trust Fund Financial Statements

The Kentucky Department of Veterans Affairs (KDVA) administers the Veteran's Program Trust Fund (VPTF), which provides funding for projects and programs to help Kentucky's Veterans. Review of the compiled financial statements revealed reporting and classification errors of VPTF receipts and expenditures which required adjustments to accurately report financial statement activity. The following errors were noted on the financial statements requiring audit adjustments:

- Interest income and total expenditures were each overstated by \$9,501.
- A refund was incorrectly reported as interest income requiring a classification adjustment of \$799.

KDVA uses a receipts and expenditures log to create the VPTF financial statements with all financial activity being logged and tracked independent of the Enhanced Management Administrative and Reporting System (eMARS), KDVA's accounting system. All financial activity recorded in eMARS was not accurately reported or classified in the external log, resulting in errors on the prepared financial statements. Failure to accurately record and classify all financial activity resulted in misstatements on the VPTF financial statements. Inaccurate financial statements could negatively impact operational decisions by management or provide incorrect information to interested external parties reviewing the financial data.

Accounting standards require financial statements be complete and accurate to ensure information reported can be relied on and utilized by internal and external parties. Sound internal controls further dictate adequate policies and procedures be in place to ensure accuracy in the financial reporting process. This includes that all transactions recorded are complete, accurate, properly classified, and agree to the underlying records within the entities accounting system.

Recommendation

We recommend KDVA implement adequate internal controls over the financial reporting process to ensure VPTF financial statements are complete, accurate, and agree to the accounting system. Financial information reported should be reconciled back to the accounting system to ensure the accuracy and completeness of the financial statements. Additionally, the financial statements and related notes should be reviewed by a responsible official who has the knowledge and expertise to identify any reporting errors.

Management Response and Planned Corrective Action

In 2018, the KDVA fiscal manager performed monthly reconciliation of the trust fund in the Commonwealth's Reporting Module, Info Advantage, to ensure all account balances adequately reconciled to the eMars accounting system. Reconciliations are performed on a monthly basis. To ensure all account balances in the general ledger are reconciled and sufficiently supported and evidenced by credible information, management personnel will be assigned to review and check each classification on the financial statement to ensure accurate and credible financial reporting.

**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS
VETERANS PROGRAM TRUST FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2018
(Continued)**

2018-VPTF-02: The Kentucky Department Of Veterans Affairs Failed To Properly Segregate Duties In The Receiving And Recording Of Veterans Program Trust Fund Donations

The Kentucky Department of Veteran Affairs (KDVA) Veteran's Program Trust Fund (VPTF) receives various donations from multiple individuals and organizations throughout the year. KDVA failed to implement adequate segregation of duties over the receipt, recording, and processing of the received donations. The fiscal officer logs the donations received, enters the receipt into the accounting system, and delivers the receipt to Treasury for deposit. Additionally, three of five donation receipts tested were not included on the check receipt tracking log maintained by KDVA, which is utilized as a control mechanism to track and ensure the completeness of collected donations.

KDVA has implemented policies and procedures over the donation receipt process; however, these procedures were not always adhered with to adequately safeguard received donations. Additionally, the omission of donations on the receipt log was the result of lack of agency oversight. Failure to implement adequate segregation of duties, or equivalent compensating controls, leaves VPTF donations at risk to fraud, waste, and abuse. This could also impact the accuracy of financial reporting as well as available funding for program use.

Sound internal controls dictate that accounting functions be segregated and receipts be properly and accurately tracked in order to safeguard assets and ensure financial activity is properly recorded. Functions related to the opening of mail, logging of receipts, posting of receipts in the accounting system, deposit of receipts, and the reconciliation of deposits should be segregated. Additionally, per KDVA's Check Deposit Procedures Manual, "In no circumstance shall the person depositing the check be the same person who receives and logs the check into KDVA."

Recommendation

We recommend KDVA evaluate the procedures outlined in the Check Deposit Procedures Manual and ensure adequate internal controls are implemented to segregate duties so one employee does not log the donations received, record the donations in the accounting system, and deposit all receipts with Treasury. Implemented internal controls should be adhered to, which includes ensuring all cash and check donations received by the agency are entered into the agency cash and check receipt log.

Management Response and Planned Corrective Action

In accordance with the auditor's findings, KDVA will require the employee opening mail to log any checks received in the office before giving those checks to the Fiscal Manager. The Chief of Staff will scrutinize the check receipt log to ensure the employee is logging the checks as they are received.