

**REPORT OF THE AUDIT OF THE  
KENTUCKY DEPARTMENT OF VETERANS' AFFAIRS  
I SUPPORT VETERANS LICENSE PLATE**

**For the Fiscal Year Ended  
June 30, 2019**



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

Benjamin F. Adams III, Commissioner  
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 I Support Veterans License Plate (Program), as of and for the year ended June 30, 2019, 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 a material respects, the respective modified cash basis financial position of the Program, as of June 30, 2019, 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 September 23, 2019, 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 stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 23, 2019

## **FINANCIAL STATEMENTS**





**KENTUCKY DEPARTMENT OF VETERANS' AFFAIRS  
I SUPPORT VETERANS LICENSE PLATE  
BALANCE SHEET - MODIFIED CASH BASIS**

**June 30, 2019**

**Assets:**

Cash	\$ 276,783
<b>Total Assets</b>	<b><u>\$ 276,783</u></b>

**Fund Balance**

Unreserved	\$ 276,783
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 276,783</u></b>

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

**KENTUCKY DEPARTMENT OF VETERANS' AFFAIRS  
I SUPPORT VETERANS LICENSE PLATE  
STATEMENT OF RECEIPTS, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - MODIFIED CASH BASIS**

**For the Year Ended June 30, 2019**

Receipts:

Veteran's Plate Sales	\$ 123,633
Total Receipts	<u>123,633</u>

Expenditures:

In-State Travel	50,108
IT Hardware & Software	17,559
Printing and Postage	15,032
Telephone Charges	13,127
Building Materials & Supplies	10,269
Office Supplies	8,806
Program Admin Costs - Outside Vendor	5,334
Miscellaneous Services & Supplies	3,712
Total Expenditures	<u>123,947</u>

Excess Revenues over Expenditures (314)

Net Change in Fund Balance (314)

Fund Balance at July 1, 2018	<u>277,097</u>
Fund Balance at June 30, 2019	<u>\$ 276,783</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**



**KENTUCKY DEPARTMENT OF VETERANS' AFFAIRS**  
**I SUPPORT VETERANS LICENSE PLATE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**Note 1 - Background**

The Kentucky General Assembly established the "I Support Veterans" specialty plate as part of the House Bill 187 and as part of a new Section of KRS Chapter 186. The purpose of the license plate is to establish a means by which non-veteran owners or lessees of a motor vehicle registered under KRS 186.050(1) or (3)(a) may show their support for veterans and contribute to veterans' programs in the Commonwealth of Kentucky. The Kentucky Department of Veterans' Affairs "I Support Veterans" License Plate Fund (Program) receives a portion of the initial and renewal fees from each license plate. KRS 186.162(2)(aa) identifies the Program as an organization eligible to receive 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 portion of the funds are forward to the Program as outlined in KRS 186.162(2)(aa) which indicates \$10 from the sale of new plates and \$5 from a renewal plate is designated for the Program.

Expenditures

The Program funds can be used for the Kentucky Department of Veterans' Affairs operations in accordance with an affidavit filed with KYTC.

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 "I Support Veterans" specialty plate on July 12, 2012. KRS 186.1722 established the Program with its proceeds and interest required to be used to support Veterans.

**KENTUCKY DEPARTMENT OF VETERANS' AFFAIRS  
I SUPPORT VETERANS LICENSE PLATE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019  
(Continued)**

**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, 2019, the Program's position in the pool totaled \$276,783.

**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

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 Kentucky Department of Veterans Affairs I Support Veterans Plate (Program) as of and for the year ended June 30, 2019, 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 23, 2019.

***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.

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 a certain deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a significant deficiency, which is identified as finding 2019-SVLP-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)

***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 long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 23, 2019

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**



**KENTUCKY DEPARTMENT OF VETERANS AFFAIRS  
I SUPPORT VETERAN'S PLATE  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2019**

**2019-SVLP-01: The Kentucky Department Of Veterans Affairs Failed To Initially Report All I Support Veterans Plate Program Activity On The Prepared Financial Statements**

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The Kentucky Department of Veteran Affairs (KDVA) receives funding from the sale of the I Support Veteran's License Plate (Plate) which is utilized to support Kentucky Veterans in accordance with Kentucky Revised Statute (KRS) 186.1722. KDVA established a new restricted fund in accounting for Plate activity during Fiscal Year 2019. The prepared financial statements initially reported only activity recorded in the new fund, omitting \$8,609 of expenditures tracked under activity code SVLP which pertained to the Plate under the previously utilized reporting methodology.

All financial activity related to the Plate was not charged to the newly created fund, which resulted in errors in the initial presentation of the 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. This includes that all transactions recorded are complete, accurate, properly classified, and agree to the underlying records within the entities accounting system.

**Recommendation**

If KDVA elects to utilize the newly established fund in accounting for the Plate, KDVA should ensure all Plate activity is recorded in the fund. This includes calculating and transferring the appropriate cash balance to the fund as available and restricted for the purposes of the Plate. Additional disclosures might also be necessary in the notes to the financial statements next year related to any changes in financial reporting.

Additionally, we recommend financial information reported should be reconciled back to the accounting system to ensure the accuracy and completeness of the financial statements. 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's Response and Corrective Action Plan**

*KDVA shall utilize the newly established 13PU fund in accounting for the I Support Veterans License Plate and shall ensure all Plate activity is recorded in the 13PU fund. This includes calculating and transferring the appropriate cash balance to the fund as available and restricted for the purposes of the Plate. If necessary, additional disclosures shall be made in the notes to the Plate financial statements next year related to any changes in financial reporting. Plate financial information reported shall be reconciled back to the accounting system to ensure the accuracy and completeness of the Plate financial statements. Plate financial statements and related notes shall be reviewed by the KDVA Budget Manager who has the knowledge and expertise to identify any reporting errors.*