

**REPORT OF THE AUDIT OF THE
SOMERSET - PULASKI COUNTY AIRPORT BOARD
A COMPONENT UNIT OF THE
PULASKI COUNTY FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2012**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SOMERSET - PULASKI COUNTY AIRPORT BOARD

June 30, 2012

The Auditor of Public Accounts has completed the audit of the Somerset - Pulaski County Airport Board (Airport Board), a component unit of the Pulaski County Fiscal Court for fiscal year ended June 30, 2012.

We have issued an unqualified opinion on the financial statements of the Airport Board.

Financial Condition:

The Airport Board had total net cash and cash equivalents of \$166,497 with total net assets of \$15,153,197. The Airport Board had total debt principal of \$108,787 with \$18,249 due within the next year.

Report Comments:

- 2012-01 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties
- 2012-02 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits
- 2012-03 Internal Controls Over Payroll Should Be Strengthened

Deposits:

The Airport Board's deposits as of July 11, 2011 were exposed to custodial risk as follows:

- Uncollateralized and Uninsured - \$93,320

The Airport Board's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT..... 1

STATEMENT OF NET ASSETS5

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS9

STATEMENT OF CASH FLOWS 13

NOTES TO FINANCIAL STATEMENTS..... 16

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 25

COMMENTS AND RECOMMENDATIONS..... 29



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Delynn Gibson, Somerset-Pulaski County Airport Board Chairman
Members of the Somerset-Pulaski County Airport Board
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Somerset - Pulaski County Airport Board (Airport Board), a component unit of the Pulaski County Fiscal Court as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Airport Board. Our responsibility is to express opinions 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, the standards applicable to 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Airport Board as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2013 on our consideration of Airport Board's internal control over financial reporting and on our tests 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



Honorable Delynn Gibson, Somerset-Pulaski County Airport Board Chairman
Members of the Somerset-Pulaski County Airport Board
Members of the Pulaski County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2012-01 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties
- 2012-02 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits
- 2012-03 Internal Controls Over Payroll Should Be Strengthened

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

May 14, 2013

**SOMERSET - PULASKI COUNTY AIRPORT BOARD
STATEMENT OF NET ASSETS**

June 30, 2012

**SOMERSET - PULASKI COUNTY AIRPORT BOARD
STATEMENT OF NET ASSETS**

June 30, 2012

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 166,497
Accounts Receivable	35,899
Inventory	838
Inventory - Fuel	64,055
Total Current Assets	<u>267,289</u>

Noncurrent Assets:

Capital Assets - Net of Accumulated Depreciation	
Land	3,367,808
Construction In Progress	130,059
Buildings	3,780,161
Other Equipment	374,774
Vehicles	164,315
Infrastructure	7,202,236
Total Noncurrent Assets	<u>15,019,353</u>
Total Assets	<u>15,286,642</u>

LIABILITIES

Current Liabilities:

Financing Obligations	18,249
Sales Tax Payable	2,341
Payroll Liabilities	2,370
Accrued Payroll	2,221
Accounts Payable	4,282
Deferred Revenue	2,100
Accrued Expenses	11,344
Total Current Liabilities	<u>42,907</u>

Noncurrent Liabilities:

Financing Obligations	<u>90,538</u>
Total Noncurrent Liabilities	<u>90,538</u>
Total Liabilities	<u>133,445</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	14,986,700
Restricted For:	
Capital Projects	352
Unrestricted	166,145
Total Net Assets	<u>\$ 15,153,197</u>

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

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**SOMERSET - PULASKI COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

For The Year Ended June 30, 2012

SOMERSET - PULASKI COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For The Year Ended June 30, 2012

Operating Revenues	
Hangar Rent	\$ 118,544
Gasoline	399,292
Charts, Oil, & Other Income	4,044
Other Rent	16,350
Miscellaneous	32,671
Total Operating Revenues	570,901
 Operating Expenses	
Cost of Sales	358,815
Utilities	46,253
Office Supplies	38,839
Legal and Accounting Expenses	32,800
Automobile Gas and Expenses	13,301
Advertising	3,079
Facilities Maintenance	67,943
Insurance	56,305
Payroll	106,558
Payroll Taxes	10,113
Telephone	10,962
Security Expense	4,331
Weather Service	3,098
Miscellaneous	17,535
Depreciation Expense	453,465
Total Operating Expenses	1,223,397
Operating Income (Loss)	(652,496)
 Nonoperating Revenues (Expenses)	
Interest Income	240
Contributions	184,136
Grants	262,432
Interest Expense	(1,206)
Total Nonoperating Revenues (Expenses)	445,602
Change In Net Assets	(206,894)
Total Net Assets - Beginning (Restated)	15,360,091
Total Net Assets - Ending	\$ 15,153,197

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

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**SOMERSET - PULASKI COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2012

**SOMERSET - PULASKI COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2012

Cash Flows From Operating Activities	
Cash Receipts From Customers for Sales	\$ 529,948
Cash Payments for goods and services	(373,716)
Cash Payments for operating expenses	(294,446)
Cash payments for personnel expenses	(117,345)
Net Cash Provided (Used) By	
Operating Activities	<u>(255,559)</u>
Cash Flows From Noncapital Financing Activities	
Interest Income	240
Proceeds from contributions	184,136
Cash received from others	10,708
Net Cash Provided (Used) By	
Noncapital Financing Activities	<u>195,084</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from financing obligations	75,000
Cash received from capital grant	262,432
Acquisition of capital assets	(425,628)
Debt Service Principal payments	(17,192)
Debt service interest	(1,206)
Net Cash Provided (Used) By	
Capital and Related Financing Activities	<u>(106,594)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(167,069)
Cash and Cash Equivalents - July 1, 2011	<u>333,566</u>
Cash and Cash Equivalents - June 30, 2012	<u>\$ 166,497</u>

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

SOMERSET - PULASKI COUNTY AIRPORT BOARD
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2012
(Continued)

**Reconciliation of Operating Income to
Net Cash Provided (Used) by Operating
Activities**

Operating Income (Loss)	\$ (652,496)
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:	
Depreciation Expense	453,465
Change in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	(2,678)
Inventories	(38,275)
Increase (Decrease) in Liabilities:	
Accounts Payable	4,194
Accrued Payroll	(674)
Deferred Revenue	<u>(19,095)</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ (255,559)</u></u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	16
NOTE 2.	DEPOSITS.....	18
NOTE 3.	CAPITAL ASSETS	19
NOTE 4.	LONG-TERM DEBT.....	20
NOTE 5.	INSURANCE	21
NOTE 6.	RELATED PARTY TRANSACTIONS	21
NOTE 7.	PRIOR PERIOD ADJUSTMENT.....	22

SOMERSET - PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The Airport Board presents its financial statements in conformity with accounting principles generally accepted in the United States of America for governments as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are reported using the economic resources measurements focus and the full accrual basis of accounting. All assets and liabilities are recognized on the Statement of Net Assets. Revenues are recorded when earned and liabilities are recorded when incurred, regardless of timing of cash. Therefore, deferred revenues are only reported for receipts and prepayments or revenues collected in advance.

B. Reporting Entity

The Somerset Pulaski County Airport Board is a component unit of the Pulaski County Fiscal Court. The financial statements of the Airport Board include the funds, agencies, boards, and entities for which the Airport Board is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the Airport Board is financially accountable or the organization's exclusion would cause the Airport Board's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The Airport Board has no component units.

C. Financial Statements

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The accompanying Statement of Revenues, Expenses, and Changes in Net Assets reports revenues and expenses as either operating or non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the ongoing operations. The principal operating revenues of the Airport Board are charges to customers for hangar and other rent and sales of aviation fuel.

SOMERSET - PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Financial Statements (Continued)

Operating expenses include the cost of sales and services, selling and administrative expenses, and depreciation on capital assets. All other revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

Inventories

Inventories primarily consist of aviation fuel and logs for resale. Inventories are valued at average cost as of June 30, 2012. Average cost for all items is updated continuously in the Airport Board's software.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the Airport Board to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

SOMERSET - PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

F. Long-term Obligations

In the financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

G. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

Note 2. Deposits

The Airport Board maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of July 11, 2011, the Airport Board's bank balance was exposed to custodial risk as follows:

- Uncollateralized and Uninsured \$93,320

SOMERSET - PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Business Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,367,808	\$	\$	\$ 3,367,808
Construction In Progress	21,478	130,059	(21,478)	130,059
Total Capital Assets Not Being Depreciated	3,389,286	130,059	(21,478)	3,497,867
Capital Assets, Being Depreciated:				
Buildings	4,340,942	143,870		4,484,812
Other Equipment	522,348	71,859		594,207
Vehicles	266,847	79,840		346,687
Infrastructure	9,454,340			9,454,340
Total Capital Assets Being Depreciated	14,584,477	295,569		14,880,046
Less Accumulated Depreciation For:				
Buildings	(613,305)	(91,346)		(704,651)
Other Equipment	(194,464)	(24,969)		(219,433)
Vehicles	(140,656)	(41,716)		(182,372)
Infrastructure	(1,956,670)	(295,434)		(2,252,104)
Total Accumulated Depreciation	(2,905,095)	(453,465)		(3,358,560)
Total Capital Assets, Being Depreciated, Net	11,679,382	(157,896)		11,521,486
Governmental Activities Capital Assets, Net	\$ 15,068,668	\$ (27,837)	\$ (21,478)	\$ 15,019,353

SOMERSET - PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Long-term Debt

A. Airport Development Loan

On October 30, 2003 the Somerset-Pulaski County Airport Board entered into a loan agreements with the Kentucky Transportation Cabinet Division of Aeronautics, for airport development use. The Airport Board uses the proceeds from the loan to help construct a corporate hangar. The original loan amount was for \$65,000 with an interest rate of 2.00% per year. Principal and interest are to be repaid in ten equal, consecutive annual installments of \$6,500, beginning November 24, 2004 and continuing annually thereafter on the 24th day of November until the maturity date of November 24, 2013. The total principal balance was \$13,000 as of June 30, 2012. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2013	\$ 6,500	\$ 260
2014	6,500	130
Totals	<u>\$ 13,000</u>	<u>\$ 390</u>

B. Fuel Tanker Truck

On March 4, 2011, the Somerset-Pulaski County Airport Board entered into a loan agreement with the Branch Bank and Trust Company to help purchase a fuel tanker truck. The original loan amount was for \$35,000 with an interest rate of 2.92% per year. The agreement requires quarterly payments of principal and interest beginning June 4, 2011. The total principal balance was \$20,787 as of June 30, 2012. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2013	\$ 11,749	\$ 479
2014	9,038	132
Totals	<u>\$ 20,787</u>	<u>\$ 611</u>

SOMERSET - PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Long-term Debt (Continued)

C. Line of Credit – Terminal Remodel Project

On August 9, 2011, the Somerset-Pulaski County Airport Board entered into a loan agreement with the Somerset Pulaski County Development Foundation Inc. for the purpose of remodeling the airport terminal. The loan amount was for \$75,000 with a 0% interest rate for a period of ten years. Terms of the loan agreement specify that borrower may pay any amount at any time for the duration of the agreement. The principal balance as of June 30, 2012 was \$75,000. Future principal and interest have no set schedule.

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2013-2021	\$ 75,000	\$
Totals	\$ 75,000	\$ 0

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 51,699	\$ 75,000	\$ 17,912	\$ 108,787	\$ 18,249
Long-term Liabilities	\$ 51,699	\$ 75,000	\$ 17,912	\$ 108,787	\$ 18,249

Note 5. Insurance

For the fiscal year ended June 30, 2012, the Somerset-Pulaski County Airport Board was insured through Wells Fargo Insurance Services.

Note 6. Related Party Transactions

During fiscal year ended June 30, 2012, the Airport Board had the following related party transactions:

- Airport Board paid \$312 to Tucker Ready Mix for concrete. Tucker Ready Mix is owned by a board member.
- Airport Board paid \$7,378 to Vanhook Enterprises, Inc. for plumbing and electrical supplies. Vanhook Enterprises, Inc. is owned by a board member.
- Airport Board paid \$15,163 to Modern Systems, Inc. for service and maintenance of the airport security system. Modern Systems, Inc. is owned by a board member.

SOMERSET - PULASKI COUNTY AIRPORT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 7. Prior Period Adjustment

Beginning net assets has been restated by \$10,050 for an error made by Airport Board management.

**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**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Delynn Gibson, Somerset-Pulaski County Airport Board Chairman
Members of the Somerset Pulaski County Airport Board
Members of the Pulaski County Fiscal Court

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

We have audited the financial statements of the Somerset-Pulaski County Airport Board (Airport Board), a discretely presented component unit of the Pulaski County Fiscal Court, as of and for the year ended June 30, 2012, and have issued our report thereon dated May 14, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the Airport Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Airport Board's internal control over financial reporting as a basis for designing our auditing procedures 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 Airport Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying comments and recommendations as items 2012-01, 2012-02, and 2012-03 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Airport Board's financial statements as of and for the year ended June 30, 2012, 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 Airport Board Chairman's responses to the findings identified in our audit are included in the comments and recommendations. We did not audit the Airport Board Chairman's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Somerset-Pulaski County Airport Board, and the Pulaski County Fiscal Court, and is not intended to be and should not be used by anyone other than these specified parties

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

May 14, 2013

**SOMERSET - PULASKI COUNTY AIRPORT BOARD
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2012

**SOMERSET - PULASKI COUNTY AIRPORT BOARD
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2012

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2012-01 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties

As a result of our audit, we noted the Somerset-Pulaski County Airport Board (Airport Board) has a lack of segregation of duties over all accounting functions. The airport manager is responsible for preparing invoices, collecting receipts, preparing and depositing the receipts, and posting to the ledgers. The manager also prepares, signs, and posts all disbursements including payroll.

Because a lack of adequate segregation of duties existed for the above-mentioned accounting functions, we noted the following:

- Sales tax reports were not properly prepared resulting in \$229 due to the Kentucky Department of Revenue.
- Numerous payroll errors occurred (see comment 2012-03).

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds, recording and reporting of those receipts and disbursements. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

To protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, and preparing checks. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be provided over the person responsible for these duties. The person providing this oversight should document his or her review by initialing source documents.

Airport Board Chairman's Response: The airport cannot segregate duties due to budget constraints; however we feel that there are adequate compensating controls over all accounting functions for Fiscal year 2013 forward.

2012-02 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits

During our test of daily receipts, we noted the Airport Board does not properly account for deposits. Customer payments are applied to the applicable invoice in the accounting system or sales receipts are used to record monies received from customers. However, there is no supporting documentation maintained for deposits to determine what payments make up the total funds deposited. Furthermore, there is no documentation maintained to show the funds received are reconciled and deposited in-tact daily and that receipts are accounted for in numerical order. We recommend the Airport Board implement procedures to properly account for daily deposits and account for all receipts in numerical order. After applying customer payments, the accounting system utilized by the Airport Board allows for the entity to record bank deposits using the deposit function. A deposit detail report can provide the information you would normally see in a cash receipts journal, however, it is not being utilized. Furthermore, we recommend the Airport Board maintain documentation of the reconciliation of the cash drawer to the accounting system and to the daily deposit.

SOMERSET – PULASKI COUNTY AIRPORT BOARD
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2012
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2012-02 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits
(Continued)

Airport Board Chairman's Response: Same as before. The accounting system produces a payment receipt for each deposit received, and will be viewed periodically by the Board's CPA.

2012-03 Internal Controls Over Payroll Should Be Strengthened

During our audit, we noted the following payroll errors:

- For three (3) months of the fiscal year, the former airport manager did not prepare a timesheet. The current airport manager does prepare a timesheet, as required.
- All pre-existing employees received pay rate increases in September 2011 without Board knowledge or approval.
- Incorrect hours worked and pay rates were entered into payroll software.
- Payroll checks were in the payroll software as issued but checks never cleared the bank.
- Payroll checks were deleted from the payroll software program but cleared the bank.
- Incorrect overtime rate paid to two (2) employees
- Incorrect check amounts were included on the payroll register.
- Payroll check amounts clearing the bank did not agree to check amounts in the system.

KRS 337.320(1)(a, b, c) requires that “every employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) the hours worked each day and each week by each employer; (c) and such other information as the executive director requires.” Timesheets should be kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

We recommend the Somerset-Pulaski County Airport Board (Board) ensure that all pay rate increases are approved by the Board, that hours worked and pay rates are properly entered into the payroll software accurately, and overtime should be calculated accurately. Also, each month the Board should reconcile the payroll expenditures to the monthly bank statement to ensure accuracy.

Airport Board Chairman's Response: The Airport Board has taken proper steps to monitor payroll accuracy and completeness. The Board approves all pay increases and is recorded in the minutes as approved, however the above pay increase was approved by the Board but was not properly documented within the Board minutes.

