

**REPORT OF THE AUDIT OF THE  
KENTUCKY DEPARTMENT OF  
FISH AND WILDLIFE RESOURCES**

**Made Pursuant To  
KRS 150.152**

**For the Fiscal Year Ended  
June 30, 2015**



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

Kentucky Legislature's Interim Joint Committee  
on Natural Resources and Environment  
Kentucky Department of Fish and Wildlife Resources Commission  
Gregory Johnson, Commissioner  
Kentucky Department of Fish and Wildlife Resources

**Independent Auditor's Report**

***Report on the Financial Statements***

We have audited the accompanying Statement of Revenue Sources - Modified Cash Basis for the Fish and Game Fund, and the Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis for the Program Income Fund of the Fish and Game Fund of the Kentucky Department of Fish and Wildlife Resources (KDFWR), as of and for the year ended June 30, 2015, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

KDFWR'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 misstatement 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

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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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenue sources of the Fish and Game Fund and the revenues, expenditures, and changes in fund balance for the Program Income Fund of the Fish and Game Fund of KDFWR, as of and for the year ended June 30, 2015, on the basis of accounting described in Note 2.

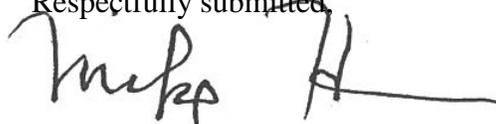
***Basis of Accounting***

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 comprehensive 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 April 29, 2016 on our consideration of KDFWR'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 KDFWR's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", written over a horizontal line.

Mike Harmon  
Auditor of Public Accounts

April 29, 2016

## **FINANCIAL STATEMENTS**



**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES  
STATEMENT OF REVENUE SOURCES - MODIFIED CASH BASIS  
FISH AND GAME FUND**

**For The Year Ended June 30, 2015**

Revenues:

Hunting and Fishing Licenses	\$ 28,872,082
Motor Boat Registration Fees and Dealer Licenses	3,477,219
Interest Income	365,539
Fines, Fees, Rentals and General Sales	1,242,275
Fish and Game Law Enforcement Fines	95,551
Fish and Wildlife Educational Program	8,037
Private Grants, Donations, and Gifts	2,027,075
Proceeds From Asset Disposition	273,392
Fish and Wildlife Hunter for the Hungry	328
Loss Claim Proceeds	141,166
Program Income	496,371
Miscellaneous Revenues	666,749
Total Revenues	<u>37,665,784</u>

Transfers From Other Funds:

Transfer from Capital Project Fund	248,763
Transfer from Agency Revenue Fund	1,035,002
Total Transfers	<u>1,283,765</u>

Total Revenues and Transfers From Other Funds	<u>\$ 38,949,549</u>
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**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
PROGRAM INCOME FUND**

**For The Year Ended June 30, 2015**

Revenues:

Program Income		
Camp Income and Fees	\$	521
Other Program Income		28,569
Interest Income		<u>33,977</u>
Total Revenues		<u>63,067</u>

Expenditures:

Total Expenditures	
--------------------	--

Transfers to Other Funds:

Transfer to Agency Revenue Fund	<u>35,002</u>
Total Transfers	<u>35,002</u>

Net Change in Fund Balance	28,065
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Fund Balance - July 1, 2014 (Restated)	<u>4,961,444</u>
Fund Balance - June 30, 2015	<u>\$ 4,989,509</u>

The accompanying notes are an integral part of this financial statement.

## **NOTES TO THE FINANCIAL STATEMENTS**



**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**Note 1 - Organization**

The Kentucky Department of Fish and Wildlife Resources (KDFWR) is organized as an agency of the Commonwealth of Kentucky, with the mission to conserve and enhance fish and wildlife resources and provide opportunities for hunting, fishing, trapping, boating, and other wildlife related activities. KRS 150.152 requires an annual audit of KDFWR, specifically to: a) examine the separate revenue streams of each account within KDFWR's Fish and Game Fund; b) to disaggregate and report the revenues and expenditures, by type, within the Program Income Fund of the Fish and Game Fund; c) identify internal controls, weaknesses, operating inefficiencies, and make recommendations for improvements; and, d) submit a written report to the Interim Joint Committee on Natural Resources and Environment.

The Department of Fish and Wildlife Resources Commission (Commission) oversees KDFWR's operations and is made up of nine members, one from each wildlife district, as appointed by the Governor in accordance with KRS 150.022. As the oversight authority of KDFWR, the Commission advises the commissioner to take actions as may be beneficial to the department and in the interest of wildlife and conservation of natural resources.

**Note 2 - Basis of Presentation and 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. Under the cash basis of accounting, revenues are recognized when cash is received and expenditures are recorded when paid. The application of KRS 45.229 provides that for a period of thirty (30) days after the close of any fiscal year (FY), 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.

**Revenue Recognition**

As noted above, revenues under the cash basis of accounting are recognized when cash is received. The primary sources of revenue for the funds presented are hunting and fishing license fees and boat registration fees for the Fish and Game Fund, and camp income and fees and interest proceeds for the Program Income Fund.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**  
**(Continued)**

**Note 2 - Basis of Presentation and Accounting Policies (Continued)**

Functional Expenses

KRS 150.152 requires a disaggregation of revenues and expenditures for the Program Income Fund. There were no expenditures for the Program Income Fund during FY 2015. Prior to FY 2015, KDFWR primarily used program income for land acquisitions. As discussed in Note 5, program income receipts are now used for grant related activities.

Operating Transfers

Operating transfers are recorded when a fund receiving the revenue provides it to the fund that expends the resources. Operating transfers are used to finance capital projects and land acquisitions and remaining cash may be transferred back to the fund once a project is complete.

Fish and Game Fund

The Fish and Game Fund received program revenues of \$37,665,784 and transfers in from other funds of \$1,283,765 for total revenues and transfers in of \$38,949,549 during FY 2015.

Program Income Fund

During FY 2015, KDFWR transferred \$35,002 from the Program Income Fund to the Fish and Game Fund as reimbursement for the Somerset Office Maintenance Project. This funding was derived from the sale of the Williamsburg Office.

**Note 3 - Financial Reporting**

KRS 150.152 requires the examination of the separate revenue streams of each account within the Fish and Game Fund, as well as a disaggregation and report on the revenues and expenditures, by type, within the Program Income Fund of the Fish and Game Fund. To accomplish these objectives, this report presents two statements:

Statement of Revenue Sources - Modified Cash Basis for the Fish and Game Fund

This statement presents the separate revenue streams of the Fish and Game Fund. Revenues are categorized into major sources, and further detailed by license type or grantor, when possible. As noted above, the statement is presented on the 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.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**  
**(Continued)**

**Note 3 - Financial Reporting (Continued)**

**Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis for the Program Income Fund**

This statement presents the disaggregated revenues and expenditures for the Program Income Fund of the Fish and Game Fund. Revenues are categorized into major sources, and further detailed by type, when possible. This statement is also presented on the cash basis modified by the application of KRS 45.229.

**Note 4 - Cash and Cash Equivalents**

The cash receipts of KDFWR are deposited with the Commonwealth's State Treasury. The Commonwealth's Office of Financial Management is responsible for investing the funds of KDFWR as part of the Commonwealth's investment pool. See the Commonwealth's Comprehensive Annual Financial Report for disclosure of the legally authorized investments and the credit risk classifications of the investment pool.

In accordance with applicable statutes, KDFWR is to receive interest on the available balances accumulated from the collection of fees. Interest is received pro-rata, based on the average balances of KDFWR.

At June 30, 2015, the fair market value of KDFWR's pooled deposits with the Commonwealth totaled \$5,014,817 for the Program Income Fund.

**Note 5 - Change in Accounting Principle**

KDFWR changed the processing of program income receipts from an additive method to the deductive method in May 2015. Previously, funds were deposited into the Program Income Fund and accumulated to be used for land acquisition projects. Program income receipts are now processed directly to the grant program and used for grant related activities. The program income funds that were accumulated prior to this change are still being used for land acquisition projects that have already been written into grant agreements. This change had no effect on the fund balance of the Program Income Fund at July 1, 2014.

**Note 6 - Prior Period Adjustment**

The ending fund balance for the Program Income Fund at June 30, 2014, has been restated to account for additional receipt activity not recorded in the prior year. This prior period adjustment resulted in a decrease of \$442 in the fund balance at July 1, 2014.

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**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

Kentucky Legislature's Interim Joint Committee  
on Natural Resources and Environment  
Kentucky Department of Fish and Wildlife Resources Commission  
Gregory Johnson, Commissioner  
Kentucky Department of Fish and Wildlife Resources

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 Statement of Revenue Sources - Modified Cash Basis for the Fish and Game Fund, and the Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis for the Program Income Fund of the Fish and Game Fund of the Kentucky Department of Fish and Wildlife Resources (KDFWR), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2016.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered KDFWR'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 KDFWR's internal control. Accordingly, we do not express an opinion on the effectiveness of KDFWR's internal control.

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 material weaknesses 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 certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



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)

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 one deficiency described in the accompanying Schedule of Findings and Recommendations to be a material weakness: 2015-FW-01.

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 deficiencies described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies: 2015-FW-02 and 2015-FW-03.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether KDFWR'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Recommendations as item 2015-FW-01.

***KDFWR's Response to Findings***

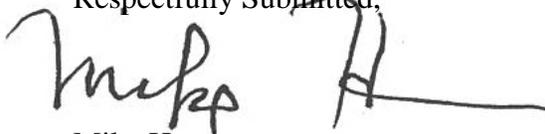
KDFWR's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. KDFWR's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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)

***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 results 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 *Governmental 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

April 29, 2016



## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**



**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2015**

**2015-FW-01: The Kentucky Department Of Fish And Wildlife Resources Failed To Maintain Adequate Internal Controls Resulting In The Misappropriation Of Receipts**

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The Kentucky Department of Fish & Wildlife Resources (KDFWR) derives revenue primarily through the sale of permits for recreational, commercial, scientific, and educational activities related to fish and wildlife. During the fiscal year 2015 audit of the Fish and Game Fund, an internal investigation by KDFWR management revealed the suspected misappropriation of permit fees received at the KDFWR central office located in Frankfort.

Permits, dependent upon the activity, may be obtained online at the KDFWR website, through licensed retail agents located throughout the state, or via walk-in or mailed application to the KDFWR central office. Permit application processing and issuance is conducted by the KDFWR division responsible for oversight of the respective activity. The related permit fees received at central office, in the form of cash, check, or money order, are processed by the Accounting Branch of the Administrative Services Division (Accounting Branch). Mailed applications and corresponding fees are first received and processed by the Accounting Branch, and the application is then routed to the appropriate division for permit issuance. Walk-in applicants are first directed to the appropriate KDFWR division where the application is submitted, fee is collected, and permit is issued. KDFWR divisions are physically located in several different areas of the central office, including buildings or floors separate from the Accounting Branch. Consequently, all fees collected from walk-in applicants by divisions in the various locations must be forwarded to the Accounting Branch for processing.

KDFWR has designed a Receipts Database (Database) which is used as a tracking system to record all revenues received at their central office. This Database contains information about each receipt including the date received, source, purpose, and amount. The Database uses a sequential numbering system to assign a unique tracking number to each receipt, and this number is recorded on the corresponding permit application or other supporting documentation. The tracking number is also recorded as a reference when the receipt is entered into the Enhanced Management Administrative & Reporting System (eMARS), the statewide accounting system. Once recorded in eMARS, the revenue is sent to the state depository for deposit into the proper account.

Testing of permit applications was conducted by the Auditor of Public Accounts to verify that permit fees were properly processed and deposited with the state depository. Five out of a sample of 332 permit applications tested revealed that fees received from the issuance of permits could not be traced into the Database or eMARS, and therefore, it could not be confirmed they were deposited into the state's depository. A tracking number from the Database was recorded on the permit applications; however, the information recorded in the Database and eMARS for the tracking number did not match the information contained on the permit application. Additional Database searches by source, purpose, and amount could not locate where the receipt of fees for the permits issued had been recorded. The fees for the five unrecorded permit issuances totaled \$1,625.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2015**  
**(Continued)**

**2015-FW-01: The Kentucky Department Of Fish And Wildlife Resources Failed To Maintain Adequate Internal Controls Resulting In The Misappropriation Of Receipts (Continued)**

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KDFWR failed to implement adequate policies, procedures, and internal controls to safeguard agency assets at the Frankfort central office. As a result, fees received by KDFWR for various permits were not deposited into the Fish and Game Fund, and therefore, appear to have been misappropriated. KDFWR's internal investigation has identified a potential \$90,635 in suspected misappropriations dating back to 2007.

KRS 41.070, Moneys to be deposited in state depositories, states, in part,

(1) Unless otherwise expressly provided by law, no receipts from any source of state money or money for which the state is responsible shall be held, used, or deposited in any personal or special bank account, temporarily or otherwise, by any agent or employee of any budget unit, to meet expenditures or for any other purpose. All receipts of any character of any budget unit, all revenue collected for the state, and all public money and dues to the state shall be deposited in state depositories in the most prompt and cost-efficient manner available.

*The Finance and Administration Cabinet Agency Guidance For Cash Handling* requires that all monies received by agencies, departments, and institutions be promptly transmitted to the Kentucky State Treasury for deposit or promptly deposited in a state depository bank account per KRS 41.070. Additionally, each agency should establish and maintain written internal procedures that provide for adequate internal controls to ensure that all monies received are properly receipted, safeguarded, deposited, and recorded in eMARS.

**Recommendation**

KDFWR has taken appropriate action upon identifying the perceived misappropriation of assets by communicating the impropriety to the Office of the Auditor of Public Accounts, law enforcement officials, and the Kentucky Executive Branch Ethics Commission. We recommend KDFWR strengthen internal controls to safeguard assets and ensure all collected revenue is deposited into state depositories in a prompt and timely manner in accordance with KRS 41.070. As identified in finding 2015-FW-02, KDFWR should implement policies and procedures requiring the reconciliation of receipts between the various tracking databases and eMARS to confirm all funds were properly recorded and deposited. Additionally, KDFWR should refer to the *Finance and Administration Cabinet Agency Guidance For Cash Handling* for further directives and ensure internal controls implemented eliminate the opportunities for future misappropriations.

This finding will be formally referred to the Kentucky Executive Branch Ethics Commission and Kentucky State Police for their review and consideration.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2015**  
**(Continued)**

**2015-FW-01: The Kentucky Department Of Fish And Wildlife Resources Failed To Maintain Adequate Internal Controls Resulting In The Misappropriation Of Receipts (Continued)**

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

*The KDFWR agrees that additional safeguards were needed to prevent what appears to have been an ongoing misappropriation by a single employee. Those safeguards were put into place before this audit and will be discussed in more detail below.*

*On Friday, January 8, 2016, KDFWR staff realized that a small amount of cash may be missing from the daily receipts. The following business day, an internal investigation was launched. This investigation uncovered a pattern of suspected misappropriation that involved a significant amount of money missing over multiple years. The employee who was suspected of misappropriating the funds was suspended on January 12, 2016. This matter was reported to the Kentucky State Police on January 13, 2016 and assigned to the Special Investigations Unit. KDFWR staff notified the Auditor's office on January 20, 2016. Once the internal investigation was complete, the employee was discharged. The discharge became final on February 2, 2016. Our investigation revealed that a single employee was involved. This matter was reported to the Kentucky Executive Ethics Commission on February 4, 2016. The Department continues to cooperate with all authorities investigating this matter.*

*Since the discovery of the misappropriation the KDFWR requires that all receipts be delivered to the accounting branch Branch Manager, or a supervisor if the Branch Manager is not available, before entry into the receipts database. This insures that at least two people in the Administrative Division, as well as the division delivering the receipt, have signed off on the amount of the daily receipts. The KDFWR will also implement further reconciliation of the receipts database with the licensing system.*

*It must be noted that no KDFWR licensee or permittees were impacted by this misappropriation. Every individual who purchased a license or permit received a valid license or permit. The misappropriation occurred in the small window between the accounting branch receiving the cash receipts and their entry into the receipts database and eMars system. All requested licenses and permits were properly issued and were valid for the time in question.*

*It must be noted that the statements in the Condition (Nature of the Weakness or Noncompliance) Section contain some factual misstatements. First, the KDFWR does not receive a primary portion of its total revenue through the issuance of permits. The primary source of revenue for the Department is the issuance of hunting and fishing licenses. The permits that were affected by this matter were a small percentage of the Department's revenue. Second, this matter was not discovered during the 2015 audit of the Fish and Game Fund. It was actually discovered by alert KDFWR employees who noticed a suspicious invoice number for a cash receipt. Even though this was discovered during the time period that the audit was occurring, it was discovered by KDFWR's employees. Lastly, the time period of the misappropriation began in 2006, not 2007.*

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2015**  
**(Continued)**

**2015-FW-01: The Kentucky Department Of Fish And Wildlife Resources Failed To Maintain Adequate Internal Controls Resulting In The Misappropriation Of Receipts (Continued)**

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**Auditor's Reply**

Management's response identified what they consider to be "factual misstatements" within the condition. To clarify, our use of the term "permit" includes permission granted for any activity requiring consent or authorization including hunting and fishing. We make no distinction between the terms "permit" and "license" and consider them interchangeable. As a result, our statement that KDFWR derives revenue primarily through the sale of permits for recreational, commercial, scientific, and educational activities related to fish and wildlife is accurate. KDFWR is correct that only a small portion of permit receipts appear to have been affected by this lapse in internal controls. Second, KDFWR identified that this matter was not discovered during the 2015 audit of the Fish and Game Fund. As recognized in our finding, KDFWR was credited with discovering and communicating the suspected impropriety to our office, which occurred during fieldwork of the fiscal year 2015 audit of the Fish and Game Fund as stated. Finally, KDFWR's response identified that we stated the incorrect time period when the misappropriation of assets began. The 2007 date identified corresponds with the timeframe during which the suspected misappropriation of \$90,635 occurred. The amount and timeframe listed are based on documentation provided by KDFWR; therefore, any assets misappropriated prior to 2007 were not supported by the agency-provided documentation or reported on during our audit.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2015**  
**(Continued)**

**2015-FW-02: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems To eMARS**

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The greatest source of funding for the Kentucky Department of Fish and Wildlife Resources (KDFWR) is the sale of licenses related to recreational and commercial hunting and fishing activities. KDFWR developed and operates the Kentucky Direct Sales System (KDSS) which processes and tracks the issuance and sale of all licenses. License fees are processed through multiple mechanisms including manual processing at KDFWR headquarters and electronic processing through the Commonwealth's electronic payment system. A significant portion of license sales and all sales from the KDFWR website, including licenses and various other retail items, are processed through the state's electronic payment system. During fiscal year (FY) 2015, the ePAY Gateway was in use as the state's electronic payment system. This system was replaced in January 2016 with the NIC Payment Engine.

During the FY 2013 and FY 2014 audits of the Fish and Game Fund, findings were issued related to the reconciliation of sales data from the KDFWR website and KDSS system to data recorded in the statewide accounting system, the Enhanced Management Administrative & Reporting System (eMARS). Timely reconciliation of revenues recorded in the separate data sources did not occur. Further, instances were noted in which transactions processed through the electronic payment system posted incorrectly to eMARS.

When the NIC Payment Engine was implemented statewide, KDFWR implemented policies and procedures for the correct posting and reconciliation of sales processed through the electronic payment system to sales recorded in eMARS. However, reconciliation between all license sales recorded in KDSS and license sales recorded in eMARS was not performed. This procedure serves a vital function to ensure that all licenses sold have been correctly accounted for and recorded in eMARS.

Policies and procedures to ensure the timely reconciliation of all revenue data between KDFWR systems, including KDSS and the KDFWR website, to eMARS, were not established and implemented during FY 2015.

Without a timely reconciliation of revenues recorded in eMARS to KDFWR systems, the department is exposed to the risk that transactions will be recorded incorrectly or omitted from eMARS. Errors or discrepancies in the processing of revenues may not be detected and corrected in a timely manner resulting in inaccurate information for financial reporting and/or decision making purposes. Additionally, as identified in finding 2015-FW-01, failure to complete accurate and timely reconciliations could lead to KDFWR failing to identify loss from the misappropriation of assets.

Sound internal controls dictate that underlying accounting records, in the form of sales data from the KDFWR website and KDSS, be reconciled to the accounting records contained in the statewide accounting system. Reconciliations should be completed in a timely fashion as an essential part of the agency's internal control structure.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2015**  
**(Continued)**

**2015-FW-02: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems To eMARS (Continued)**

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**Recommendation**

We recommend KDFWR implement policies and procedures to ensure timely reconciliation of sales data from KDSS and the KDFWR website to sales data recorded in eMARS. Due to the magnitude to which the department is dependent upon license fees, additional emphasis should be placed on the reconciliation between KDSS and eMARS.

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

*The Kentucky Department of Fish and Wildlife accepts the Finding. Processes have been put into place to ensure that all KDFWR Kentucky Interactive Mall transactions are being reconciled to eMARS. KDFWR has worked with vendors in the state-managed Kentucky Interactive Mall to create a standard operating procedure (SOP) to reconcile all transactions to the eMARS system. Every transaction is kept in the online database and staff run reports and processes the receipt transactions in eMARS in a timely manner. KDFWR will also develop a reconciliation process to include the web-based sales system to the eMARS system. Systems implemented are continuous, which will further ensure timely reconciliation.*

*KDFWR will continue to assess and improve department documentation for reconciliation processes through creating standard operating procedures for each reconciliation process. KDFWR will assess and regularly monitor processes to ensure continued review of receipts. Evaluations will be used to uncover where problems may exist and determine necessary solutions.*

*KDFWR will continue to review accounting codes as a part of the reconciliation process to ensure correct coding within the eMARS system.*

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2015**  
**(Continued)**

**2015-FW-03: The Kentucky Department Of Fish And Wildlife Resources Failed To Formally Document Their Sponsorship Of The Becoming An Outdoors Woman Program**

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The Becoming an Outdoors Woman program (BOW) is a national, non-profit program designed to teach outdoor skills to women. BOW holds weekend workshops with classes for outdoor activities such as hunting, fishing, firearms, archery, wildlife, and safety. This program was adopted by the Kentucky Department of Fish and Wildlife Services (KDFWR) in 1995.

BOW was administered by KDFWR until budgetary constraints eliminated the staff position devoted to managing the program's operations. At that time, administration of BOW was transferred to a volunteer outside of KDFWR's purview. Due to its success and usefulness as a recruitment tool, KDFWR agreed to continue to help sponsor the program. KDFWR provides various resources in sponsorship of BOW including providing personnel as class instructors, paying of travel or lodging for KDFWR or volunteer instructors, allowing the use of KDFWR equipment for instructional purposes, and advertising BOW on the department website.

When the management of BOW was transferred to the volunteer administrator, no formal agreement was enacted between KDFWR and the new BOW administrator. The terms of the arrangement, including the distinction separating the program from the department, expectations of both parties, and resources to be dedicated to sponsorship of the program, were not explicitly identified.

Upon transferring the management responsibilities of BOW to the volunteer administrator, KDFWR failed to recognize the necessity to enter into an agreement formally separating KDFWR from BOW administration as well as defining KDFWR's terms of sponsorship. As a result, the general public, including program participants, could be uncertain as to the role each party plays in BOW's operations as well as which entity is ultimately responsible for its administration. The expectations of both parties, including the use of sportsmen's and sportswomen's resources in sponsorship of the program, are not clearly defined creating the potential risk of fraud, waste, or abuse.

Sound internal controls dictate that sponsorships are formally documented to effectively communicate the roles, responsibilities, and expectations of both parties involved. Additionally, the use and allocation of department resources in programmatic operations should be clearly defined to effectively and efficiently accomplish KDFWR's mission and objectives.

**Recommendation**

We recommend a formal agreement be executed which separates KDFWR from administration of BOW and further sets forth the parameters of KDFWR's sponsorship. KDFWR should ensure sponsorships are in the best interest of the department, help further promote the agency's mission and objectives, are economical, and are in compliance with any State laws and regulations.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2015  
(Continued)**

**2015-FW-03: The Kentucky Department Of Fish And Wildlife Resources Failed To Formally Document Their Sponsorship Of The Becoming An Outdoors Woman Program (Continued)**

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

*KDFWR is in the process of executing a formal written agreement outlining the terms of KDFWR's sponsorship of the BOW program. This agreement will be between the BOW administrators and KDFWR. In the event the agreement is not suitable for both parties, KDFWR will then reassess the needs of the program and decide if KDFWR needs to reassume the management responsibilities of the program or if the program needs to be discontinued. Additionally, the KDFWR website has been corrected to make a clear indication of the separation between BOW and the Department.*

