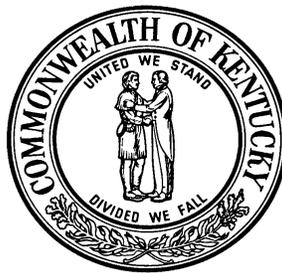


**REPORT OF THE AUDIT OF THE
KENTUCKY DEPARTMENT OF
FISH AND WILDLIFE RESOURCES**

**Made Pursuant To
KRS 150.152**

**For the Fiscal Year Ended
June 30, 2016**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT1

STATEMENT OF REVENUE SOURCES - MODIFIED CASH BASIS - FISH AND GAME FUND.....5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH
BASIS - PROGRAM INCOME FUND.....6

NOTES TO THE FINANCIAL STATEMENTS.....9

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.....15

SCHEDULE OF FINDINGS AND RECOMMENDATIONS19



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, 2016, 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



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 opinion.

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, 2016, on the basis of accounting described in Note 2.

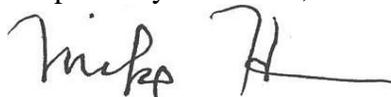
Basis of Accounting

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 May 3, 2017 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,



Mike Harmon
Auditor of Public Accounts

May 3, 2017

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, 2016

Revenues:

Hunting and Fishing Licenses	\$ 29,634,200
Motor Boat Registration Fees and Dealer Licenses	3,390,312
Interest Income	264,010
Fines, Fees, Rentals and General Sales	1,181,059
Fish and Game Law Enforcement Fines	90,606
Fish and Wildlife Educational Program	8,381
Private Grants, Donations, and Gifts	118,544
Proceeds From Asset Disposition	187,490
Fish and Wildlife Hunter for the Hungry	203
Loss Claim Proceeds	44,248
Program Income	395,776
Miscellaneous Revenues	810,632
Total Revenues	36,125,461

Transfers From Other Funds:

Transfer from Capital Project Fund	460,907
Transfer from Federal Fund	19,529
Transfer from Agency Revenue Fund	1,428,970
Total Transfers	1,909,406

Total Revenues and Transfers From Other Funds	\$ 38,034,867
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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, 2016

Revenues:	
Interest Income	\$ 40,596
Total Revenues	<u>40,596</u>
Expenditures:	
Other Expenditures	<u>350</u>
Total Expenditures	<u>350</u>
Transfers to Other Funds:	
Transfer to Capital Projects Fund	3,973,739
Transfer to Agency Revenue Fund	<u>428,970</u>
Total Transfers	<u>4,402,709</u>
Net Change in Fund Balance	(4,362,463)
Fund Balance - July 1, 2015	<u>4,989,509</u>
Fund Balance - June 30, 2016	<u>\$ 627,046</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, 2016

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 accompanying 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 interest income for the Program Income Fund.

In fiscal year (FY) 2016 the Program Income Fund received only interest off the cash balance of the fund; no other revenues were recorded. KDFWR previously "banked" program income. Program income is "banked" when a State (grantee) does not spend program income prior to drawing additional funds from the same financial assistance grant program or delays applying it to another grant in the same grant program. KDFWR primarily used program income for land acquisition. Guidance from the U.S. Fish and Wildlife Service stated that program income earned on a grant must be spent within the grant period it was earned prior to making requests for payments. Thus, KDFWR no longer utilizes the Program Income Fund (134T) for program income banking.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(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. In FY 2016 the program income fund balance was restricted for land acquisition. Reported Program Income Fund expenditures are related to the refund of prior year revenues.

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 \$36,125,461 and transfers in from other funds of \$1,909,406 for total revenues and transfers in of \$38,034,867 during FY 2016.

Program Income Fund

During FY 2016, KDFWR transferred \$428,970 from the Program Income Fund to the Fish and Game Fund as reimbursement for Reesor Property (\$70,000), Forestland Group Property (\$60,000), Marion County Property (\$98,043), Ikerd Property (\$81,375), Gill's Branch Property (\$20,000), Deer Valley Property (\$2,763), Stone Wall Farm Property (\$35,486), Val-You Added Property (\$4,237), Lake Beshear Property (\$48,172), and O'Conner Property (\$8,894).

During FY 2016, KDFWR transferred \$3,973,739 from the Program Income Fund to KDFWR capital projects. These included Forestland Group Property (\$523,025), Ikerd Property (\$1,579,100), Reesor Property (\$1,444,975), House Property (\$231,565), Jones Property (\$174,037), and Gill's Branch Property (\$21,037).

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:

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 3 - Financial Reporting (Continued)

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.

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, 2016, the fair market value of KDFWR's pooled deposits with the Commonwealth totaled \$639,909 for the Program Income Fund.

Note 5 – Risk Management

KDFWR is exposed to various risks to loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. KDFWR utilized the Commonwealth of Kentucky's Risk Management Funds to cover exposure to these potential losses. The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Risk Management Fund.

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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, 2016, and the related notes to the financial statements, and have issued our report thereon dated May 3, 2017.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On 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)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies: 2016-FW-01, 2016-FW-02, 2016-FW-03, 2016-FW-04 and 2016-FW-05.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

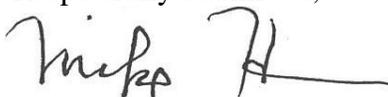
KDFWR's Response to Findings

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.

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,



Mike Harmon
Auditor of Public Accounts

May 3, 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016

2016-FW-01: The Kentucky Department Of Fish And Wildlife Resources Failed To Maintain Adequate Internal Controls Resulting In The Misappropriation Of Receipts

This is a repeat of finding 2015-FW-01 as reported in the fiscal year 2015 audit of the Kentucky Department of Fish and Wildlife Resources (KDFWR). KDFWR derives revenue through the sale of licenses and permits for recreational, commercial, scientific, and educational activities related to fish and wildlife. In January 2016, an internal investigation by KDFWR management revealed a suspected misappropriation of cash received at the KDFWR central office located in Frankfort. KDFWR's internal examination revealed a potential \$3,980 of misappropriated assets during fiscal year 2016 related to licenses and permits sold. Upon detection in January 2016, KDFWR implemented additional internal controls to further safeguard agency assets. The prior year finding was formally referred to the Kentucky Executive Branch Ethics Commission and Kentucky State Police.

KDFWR failed to implement adequate internal controls to safeguard agency assets at the Frankfort central office. Additionally, KDFWR did not have uniform procedures in place for the various divisions receiving funds to ensure licenses and permits sales were consistently handled and tracked. As a result, funds received by KDFWR for various licenses and permits were not deposited with Treasury into the Fish and Game Fund, and therefore, appear to have been misappropriated. KDFWR's internal investigation identified a potential \$90,635 in suspected misappropriations dating back to 2007.

KRS 41.070(1) 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 the Enhanced Management Administrative and Reporting System (eMARS).

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-01: The Kentucky Department Of Fish And Wildlife Resources Failed To Maintain Adequate Internal Controls Resulting In The Misappropriation Of Receipts (Continued)

Recommendation

KDFWR took 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 continue to evaluate and 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 2016-FW-02, KDFWR should implement policies and procedures requiring the reconciliation of receipts between the various systems and eMARS to confirm all funds are 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.

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.

Since the discovery of the misappropriation, the KDFWR requires that, all receipts be delivered to the Accounting 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 is in the process of implementing further verification of receipts to ensure they are recorded into the eMARS accounting system and deposited at Treasury.

On December 21, 2016 the department employee dismissed for misappropriation of funds was charged by the grand jury with two counts of Abuse of Public Trust <\$10,000. These charges are Class C felonies. The former employee was due to go to trial on April 12, 2017 but that is rescheduled to a later date.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-02: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems To eMARS

This is a repeat of finding 2015-FW-02 as reported in the fiscal year 2015 audit of the Kentucky Department of Fish and Wildlife Resources (KDFWR). The greatest source of funding for KDFWR is the sale of licenses and permits related to recreational and commercial hunting and fishing activities. KDFWR utilizes the Kentucky Direct Sales System (KDSS) to process and track the issuance and sale of all licenses and the KDFWR Permit System (Permit System) to track the issuance and sale of all permits. Permit fees are received at the KDFWR headquarters and deposited with Treasury manually. License fees are received through multiple mechanisms including licensed retail agents, KDFWR's website, and KDFWR's headquarters. A significant portion of license sales and all sales from the KDFWR website are processed and deposited through the Commonwealth's electronic payment system. In January 2016, the Commonwealth's electronic payment system changed from the ePAY Gateway to the NIC Payment Engine.

During fiscal year (FY) 2016, KDFWR failed to reconcile sales data from KDFWR's systems to data recorded in the Enhanced Management Administrative & Reporting System (eMARS), the statewide accounting system. This has been a repeat finding since FY 2013. When the NIC Payment Engine was implemented statewide, KDFWR changed policies and procedures for posting and reconciling sales processed electronically to sales recorded in eMARS; however, reconciliation between eMARS and license and permit sales recorded in KDSS and the Permit System were not performed. This reconciliation would ensure all fees for licenses and permits 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 and eMARS were not established and implemented during FY 2016. 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 2016-FW-01, failure to complete accurate and timely reconciliations could lead to KDFWR failing to detect loss from the misappropriation of assets.

Sound internal controls dictate that underlying accounting records, in the form of sales data from the KDFWR website, KDSS, and the Permit System, 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 to ensure information reported is complete and accurate.

Recommendation

We recommend KDFWR develop policies and procedures to reconcile sales data from KDFWR system records to receipts recorded in eMARS.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-02: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems To eMARS (Continued)

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 developed a standard operating procedure (SOP) to reconcile all transactions received in the Kentucky Interactive Mall website to the eMARS system. The SOP for that reconciliation process is attached. Every transaction is kept in the online database and staff run reports and process the receipt transactions in eMARS in a timely manner. KDFWR is developing a verification process to include the web-based sales system and the permit system. This process will verify receipts received by multiple divisions in the department to ensure funds are deposited into the eMARS accounting 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, 2016
(Continued)

2016-FW-03: The Kentucky Department Of Fish And Wildlife Resources Improperly Utilized Travel Vouchers As A Mechanism To Pay Non-Travel Related Expenditures

The Kentucky Department of Fish and Wildlife Resources (KDFWR) utilizes standardized travel vouchers to process the reimbursement of employee travel costs in accordance with 200 KAR 2:006. Review of ten travel vouchers revealed the following deficiencies:

- In one instance, an employee voluntarily paid a KDFWR invoice related to a Chronic Wasting Disease (CWD) study in the amount of \$449. The employee was subsequently reimbursed by KDFWR through the submission of a travel voucher. KDFWR utilized the incorrect mechanism to pay the invoice which circumvented established regulations and internal controls over procurement. The additional \$449 would have caused total expenditures to exceed the contracted amount.
- Becoming an Outdoors Woman (BOW) was an external program sponsored by KDFWR. In response to prior year finding 2015-FW-03, KDFWR resumed administration of BOW in fiscal year 2016. In one instance, KDFWR purchased \$1,597 of sweatshirts from the former BOW coordinator, who was not an employee of KDFWR. The payment was authorized through a KDFWR employee travel voucher, which is the incorrect mechanism for payment of non-travel related merchandise.

KDFWR incorrectly utilized employee travel vouchers as a mechanism for paying invoices. For the CWD contract payment, KDFWR indicated additional expenses had occurred near the end of the fiscal period. As a result, it was too late to amend the current contract. A decision was made to utilize and reimburse an employee through a travel voucher to ensure timely payment of the outstanding balance.

Processing payments through the travel reimbursement process limits the transparency of the purchases since the payment in the accounting system looks no different than an ordinary mileage, parking, or other actual travel-related expenditures. Additionally, failure to utilize the correct payment mechanism allowed KDFWR to exceed established contract amounts, resulting in noncompliance with state laws and regulations.

The Kentucky Model Procurement Code, as outlined in Kentucky Revised Statute (KRS) Chapter 45A, establishes the requirements that executive and legislative branch entities must follow to ensure the fair and equitable handling of the Commonwealth's procurement of goods and services. It provides the foundation of the procurement policy, which is further promulgated in Kentucky Administrative Regulations (KAR) and Finance and Administration Cabinet Policies and Procedures (FAP).

FAP 111-45-00 regarding payment documents, states, in part:

- (5) An agency shall ensure that adequate funds are available within its budget for immediate payment before placing an order.
- (7) An agency shall select the appropriate payment method for all goods and services.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-03: The Kentucky Department Of Fish And Wildlife Resources Improperly Utilized Travel Vouchers As A Mechanism To Pay Non-Travel Related Expenditures (Continued)

200 KAR 2:006 Section 2(3) states, in part:

Eligibility. Except as provided by state law or by this administrative regulation, reimbursement shall not be claimed for expenses of any person other than state officers, members of boards and commissions, employees, bona fide wards, or other persons in the official service of the commonwealth. Only necessary expenses of official travel authorized by an agency head or designee shall be reimbursed.

Recommendation

We recommend KDFWR comply with applicable laws and policies pertaining the procurement of goods and services. KDFWR should ensure that the proper mechanism is utilized for the payment of goods and services and cease the practice of using travel vouchers to pay for non-travel related activities. KDFWR should consult with the Kentucky Finance and Administration Cabinet in unfamiliar situations to ensure decisions are compliant with state laws and regulations.

Management's Response and Corrective Action Plan

The Kentucky Department of Fish and Wildlife accepts the Finding. The incidents cited in the Findings were isolated occurrences where there was no mechanism to pay for services that were needed immediately. KDFWR will consult with FAC to determine appropriate methods in the future. KDFWR will only use travel vouchers to reimburse travel costs in accordance with 200 KAR 2:006.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-04: The Kentucky Department Of Fish And Wildlife Resources Failed To Establish A Nongame Fish And Wildlife Fund Pursuant To KRS 150.165

The Kentucky Department of Fish and Wildlife Resources (KDFWR) improperly commingled funds within the Fish and Game Fund. In accordance with KRS 141.460, taxpayers of the Commonwealth are provided the opportunity to make a contribution to the Kentucky Nature and Wildlife Fund from their income tax refund. KRS 141.465 prescribes that the Kentucky Department of Revenue transfer 50% of the funds designated in KRS 141.460 to the Nongame Fish and Wildlife Fund.

KDFWR failed to establish a Nongame Fish and Wildlife Fund pursuant to KRS 150.165. As such, taxpayer donations were transferred to the Fish and Game Fund, which does not properly restrict the revenue for its intended purpose. KRS 150.165 specifies the Nongame Fish and Wildlife Fund be used for the purpose of protecting and preserving nongame fish and wildlife and their habitat.

KDFWR utilizes a separate sub-function and revenue source code within the Fish and Game Fund to track nongame fish and wildlife activity. KDFWR also maintains a budget for the nongame fish and wildlife program, which accounts for both state and federal expenditures. Although these mechanisms provide oversight and a degree of separation when accounting for these funds, they do not ensure appropriate fund accounting per the requirements established in KRS 150.165. Failure to establish the Nongame Fish and Wildlife Fund has allowed for monies received and any interest earned for nongame fish and wildlife purposes to be comingled within the Fish and Game Fund in violation of KRS 150.150.

KRS 150.150(1) states:

Except as provided in this chapter, all moneys derived from the sale of licenses or from any other source connected with the administration of this chapter shall be promptly paid over to the State Treasurer, who shall deposit such moneys in a special fund, known as the game and fish fund, except that the moneys shall be entered under separate restricted fund accounts, not comingled, and maintained according to generally accepted accounting principles. Moneys derived from the sale of licenses issued under this chapter shall be under separate restricted fund account from any other proceeds derived from this chapter or from proceeds obtained under any other chapter. The game and fish fund shall be used to carry out the purposes of this chapter and any law or regulation for the protection of wildlife and for no other purpose.

KRS 150.165states:

- (1) There is established a special fund to be known as the “Nongame Fish and Wildlife Fund” which shall be under the control of the Department of Fish and Wildlife Resources Commission for the purpose of protecting and preserving nongame fish and wildlife and their habitat.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-04: The Kentucky Department Of Fish And Wildlife Resources Failed To Establish A Nongame Fish And Wildlife Fund Pursuant To KRS 150.165 (Continued)

- (2) The nongame fish and wildlife fund shall consist of all moneys transferred to it under KRS 141.465, appropriations, donations, federal funds, other revenues designated for the fund from any source whatever, and all interest earned thereon.
- (3) Moneys contained in the nongame fish and wildlife fund shall be deemed a trust and agency account and shall not lapse and moneys contained in the fund shall be continuously appropriated for the purpose specified in this section.
- (4) The Department of Fish and Wildlife Resources Commission shall have access to and control of the moneys held in the nongame fish and wildlife fund, but shall expend such moneys only to protect and preserve nongame fish and wildlife and their habitat.

Recommendation

We recommend KDFWR comply with KRS 150.165 and establish the Nongame Fish and Wildlife Fund. Monies contained within the fund shall be deemed a trust and agency account, shall not lapse, and should be continually appropriated for the purpose of protecting and preserving nongame fish and wildlife and their habitat.

Management's Response and Corrective Action Plan

The Kentucky Department of Fish and Wildlife accepts the Finding. Taxpayers are provided the opportunity to contribute to the Kentucky Nature and Wildlife Fund from their income tax refund. The Department will set-up a "Nongame Fish and Wildlife Fund" separate from the Fish and Game Fund for receipt of any contributions by taxpayers of the Commonwealth. These funds will be transferred annually to reimburse the Fish and Game Fund for expenditures used in the Nongame Fish and Wildlife Program budget.

Auditor's Reply

Management's response indicated a Nongame Fish and Wildlife Fund will be established and funds will be transferred annually to reimburse the Fish and Game Fund for expenditures used in the Nongame Fish and Wildlife Program budget. KDFWR should ensure it is meeting the objective of KRS 150.165. By only recording the transfer of funds to the Fish and Game fund, the underlying expenditure is not clearly identified and therefore it may not be evident that funds are being used for purposes restricted by statute.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-05: The Kentucky Department Of Fish And Wildlife Resources Failed To Adequately Define The Terms And Conditions Of Contracts With The Kentucky Fish And Wildlife Foundation

The Kentucky Fish and Wildlife Foundation (KFWF) is a non-profit organization that works in conjunction with the Kentucky Department of Fish and Wildlife Resources (KDFWR) to support the efforts of the Salato Wildlife Education Center, conservation education programs for Kentucky youth, and the acquisition of land and wetlands for wildlife habitat. In April 2016, KDFWR and KFWF entered into a contractual agreement covering May 1, 2016 through June 30, 2016 whereby KDFWR would provide \$13,750 to KFWF. The scope of services within the contract stated “[t]he Foundation will provide technical and administrative support between the KDFWR and the Kentucky Fish and Wildlife Foundation for fundraising for various wildlife related projects, wildlife recreation and wildlife education, to promote mutual goals.” A second contract was enacted for an additional \$132,000 covering July 1, 2016 through June 30, 2018, which incorporated the same scope of services as the fiscal year 2016 contract. Analysis of these contracts and related supporting documentation revealed the following:

- The defined scope of services was general in nature and did not establish a delivery of value to KDFWR as the terms of the contracts were more closely related to a donation of funds. While the contracts do stipulate KFWF will provide summary reports and presentations of the activities and accomplishments, KDFWR failed to acquire and review this information as part of its contract monitoring as required per Finance and Administration Policy (FAP) 111-51-00.
- Additional documentation identified the purpose of the contracts was to fund and manage an Executive Director position within KFWF, which would provide a primary liaison between KDFWR and KFWF. While the contracts did state funding provided by KDFWR may be used for administrative and operational costs such as salary, benefits, travel, utilities, or other operational costs associated with the Salato Wildlife Education Center, the true intent of the agreement was not fully documented within the contract as required per FAP 111-44-00.
- KDFWR’s justification for entering into an agreement with KFWF stated, “[b]y using the foundation, the department saves money by not having to hire a full time employee” and “[t]he Kentucky Department of Fish and Wildlife Resources does not have the manpower or the resources to complete this project.” The justification provided contradicts other documentation which stated, “KDFWR has previously employed a liaison as a full time employee. This contract will allow the KDFWR to replace and eliminate that position.” With KDFWR providing the majority of the funding for the KFWF position, it is inaccurate to state KDFWR lacks the necessary resources to complete the project.

Further review of the relationship between KDFWR and KFWF identified KDFWR failed to enter into agreements with KFWF establishing the terms and conditions surrounding KFWF fundraising events held at KDFWR. Events include the Running Wild Trail Run, Salato Sampler, and Halloween Walk with the Animals. Formal agreements were not established as necessary to define responsibilities over revenue collection, access and use of resources, and other pertinent details surrounding the collaboration of event operations.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)

2016-FW-05: The Kentucky Department Of Fish And Wildlife Resources Failed To Adequately Define The Terms And Conditions Of Contracts With The Kentucky Fish And Wildlife Foundation (Continued)

KDFWR failed to evaluate and adequately define the terms of the contract to justify how the agreement to fund a position within KDFWR would provide measurable value to KDFWR. Additionally, KDFWR failed to identify the need to enter into contractual agreements related to joint partnerships for fundraising activities held by KFWF using KDFWR resources.

Poorly defined contracts and agreements leave KDFWR vulnerable to receiving substandard services in relation to the expectations for funding provided. Failure to enter into formal contracts for related fundraising activities could result in legal disputes if disagreements on the handling and use of collected revenues are unresolved.

Additionally, KDFWR funding a personnel position at KFWF, when combined with the issues identified above in this particular instance, opens the possibility of KFWF being a controlled organization going forward under 9 KAR 1:060, which could have further implications.

Sound internal controls dictate contractual agreements be well defined, establish the rights and responsibilities of all parties involved, and adequately delineate expectations for contract fulfillment. FAP 111-44-00(2), states, “[a]ll MOA’s shall be created in the state’s eProcurement system. The Contract shall include all terms and conditions agreed upon[.]”

FAP 111-51-00(3), states,

It is essential that the contract manager verifies that the contractor complies with all contractual requirements. Factors to be considered in the management of a contractor’s performance are:

- a. Deliverables (milestones);
- b. Quantity of goods to be delivered and/or services to be performed;
- c. meets required specifications;
- d. Schedule: Completion of project and implementation[.]

Recommendation

We recommend KDFWR strengthen its controls over procurement by ensuring contracts are well defined and completely describe all terms and conditions agreed upon. KDFWR should ensure compliance with FAP requirements and consult the Finance and Administration Cabinet for further guidance as necessary. KDFWR should also ensure formalized agreements are in place with KFWF for joint fundraising projects.

**KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016
(Continued)**

2016-FW-05: The Kentucky Department Of Fish And Wildlife Resources Failed To Adequately Define The Terms And Conditions Of Contracts With The Kentucky Fish And Wildlife Foundation (Continued)

Management's Response and Corrective Action Plan

The Kentucky Department of Fish and Wildlife accepts the Finding. While no future contracts of this nature are currently anticipated, KDFWR will follow the suggested guidelines for any future contracts with the Foundation. The Department will work with KFWF to develop Memorandum of Understandings in the future to outline events involving the Department and KFWF.

The auditor's concern that it was incorrect to state in the contract justification that the KDFWR did not have the resources to complete the project requires explanation. Previously, the KDFWR employed a full time liaison to coordinate efforts with the Foundation. It was thought that the Foundation should be responsible for this position. This contract allowed a smooth transition between those two situations. This contract did in fact save the Department money. When considering the previous full-time Liaison position's salary, fringe and benefits, the amount paid through this contract was much less. This allowed the non-merit position to be eliminated and the savings spent on the Department's core mission.