

**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, 2017**



**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
Frank Jemley, Acting 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, 2017, 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, 2017, on the basis of accounting described in Note 2.

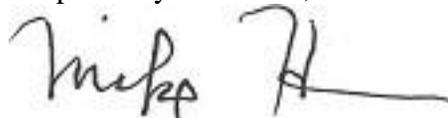
Basis of Accounting

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 October 2, 2018 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

October 2, 2018

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, 2017

Revenues:

Hunting and Fishing Licenses	\$ 28,532,003
Motor Boat Registration Fees and Dealer Licenses	3,431,378
Interest Income	120,970
Fines, Fees, Rentals and General Sales	1,523,116
Fish and Game Law Enforcement Fines	43,076
Fish and Wildlife Educational Program	11,341
Private Grants, Donations, and Gifts	558,670
Proceeds From Asset Disposition	240,751
Fish and Wildlife Hunter for the Hungry Program Income	230 461,901
Miscellaneous Revenues	583,051
Total Revenues	<u>35,506,487</u>

Transfers From Other Funds:

Transfer from Capital Project Fund	106,035
Transfer from Agency Revenue Fund	1,265,450
Total Transfers From Other Funds	<u>1,371,485</u>

Total Revenues and Transfers From Other Funds	<u><u>\$ 36,877,972</u></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, 2017

Revenues:	
Interest Income	\$ 365
Total Revenues	365
Expenditures:	
Total Expenditures	
Excess of Revenues Over Expenditures	365
Other Financing Sources (Uses)	
Transfer to Capital Projects Fund	(372,022)
Transfer to Agency Revenue Fund	(265,450)
Transfer from Capital Project Fund	11,789
Transfer from Agency Revenue Fund	1,479
Total Other Financing Sources (Uses)	(624,204)
Net Change in Fund Balance	(623,839)
Fund Balance - July 1, 2016	627,046
Fund Balance - June 30, 2017	\$ 3,207

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, 2017

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 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 FY 2017 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, 2017
(Continued)

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

Functional Expenditures and Fund Balance of the Program Income Fund

KRS 150.152 requires a disaggregation of revenues and expenditures for the Program Income Fund. During FY 2017, there were no expenditures reported in the Program Income Fund. The Program Income Fund balance was restricted for land acquisition.

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 \$35,506,487 and transfers in from other funds of \$1,371,485 for total revenues and transfers in of \$36,877,972 during FY 2017. Agency revenue fund transfers into the Fish and Game Fund included \$1,000,000 from the Kentucky Wetland and Stream Mitigation Fund for the administration and utilization of the Fee In-Lieu Of (FILO) program and \$265,450 as reimbursement from the Program Income Fund as disclosed below.

Program Income Fund

During FY 2017, KDFWR transferred \$11,789 from the Capital Projects Fund to the Program Income Fund for the closing of the Ikerd Property (\$3,175), Reesor Property (\$182), Jones Property (\$2,918), and House Property (\$5,514).

During FY 2017, KDFWR transferred \$1,479 from the Fish and Game fund to the Program Income Fund as a correction on the closing of the Forestland Group Property.

During FY 2017, KDFWR transferred \$372,022 from the Program Income Fund to the KDFWR Capital Projects Fund for the Gills Branch Property.

During FY 2017, KDFWR transferred \$265,450 from the Program Income Fund to the Fish and Game Fund as reimbursement for the Smith Property (\$65,127), House Property (\$2,377), Jones Property (\$2,913), and Gill's Branch (\$195,033)

Note 3 - Financial Reporting

KRS 150.152 requires 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, 2017
(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, 2017, the fair market value of KDFWR's pooled deposits with the Commonwealth totaled \$3,207 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
Frank Jemley, Acting 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, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2018.

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 opinion 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness 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 the deficiency described in the accompanying Schedule of Findings and Recommendations to be a material weakness: 2017-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: 2017-FW-02, 2017-FW-03, and 2017-FW-04.

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 responses as item 2017-FW-01.

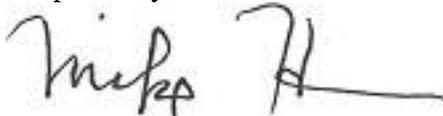
KDFWR's Response to Findings

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.

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 KDFWR'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

October 2, 2018

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017

2017-FW-01: The Kentucky Department Of Fish And Wildlife Resources Improperly Commingled Funds Within The Fish And Game Fund

The Kentucky Department of Fish and Wildlife Resources (KDFWR) improperly commingled funds within the Fish and Game Fund with other restricted funds intended to be used in accordance with a Fee In-Lieu Of (FILO) program agreement between the U.S. Army Corps of Engineers (Corps) and KDFWR. This resulted in more than \$2 million in FILO funds that did not appear to be transferred or expended in accordance to the agreement. The Kentucky Wetland and Stream Mitigation Fund (Mitigation Fund) was established per Kentucky Revised Statute (KRS) 150.255 for the purpose of the administration and utilization of the FILO program. FILO is funded through the sale of mitigation credits associated with the Clean Water Act, with funds restricted per statute for the purpose to restore, enhance, establish, and preserve aquatic resources in Kentucky. The agreement between KDFWR and the Corps dictates interest and earnings shall remain in the Mitigation Fund for use solely by and for the purposes of the FILO program and should not be diverted for other uses or mixed with other funding sources.

In June 2017, KDFWR processed a journal voucher (JV) to transfer \$1,000,000 from the Mitigation Fund to the Fish and Game Fund. The JV was a prepayment for approximated budgeted expenditures that KDFWR anticipates disbursing for FILO administration activities. While KDFWR tracks FILO expenses in the Fish and Game Fund based on activity and functions codes, funds are being transferred from the Mitigation Fund before any charges have been incurred. The amount transferred since inception of the program in fiscal year 2002 through June 30, 2017, exceeded the tracked FILO administrative expenses by \$1,379,965. Significant transfers from the Mitigation Fund to the Fish and Game Fund began in fiscal year 2007, with \$1,000,000 being transferred annually during fiscal years 2013 through 2017.

Additionally, \$777,646 in indirect costs were charged against FILO in error from fiscal year 2007 to fiscal year 2013. KDFWR personnel stated, "From what I could tell FILO was being charged federal indirect on personnel charges. There was NO federal reimbursement for this indirect, as would be the case in charging indirect on a federal grant, since this is not federal grant funded. It was determined to have been charged in error and ceased in FY2013." By including these indirect costs, the excess transfer amount of administrative fees would be \$2,157,611 as of June 30, 2017.

KDFWR does not expend FILO administration costs straight from the Mitigation Fund. Instead, they are expensed through the Fish and Game Fund and tracked by function and activity codes within the accounting system and internally maintained spreadsheets. KDFWR is administering restricted funds improperly as Mitigation Fund activity is being diverted to and commingled within the Fish and Game Fund. Additionally, monitoring activities failed to identify that transfers exceeded actual expenses, and excess funds were never returned back to the Mitigation Fund.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-01: The Kentucky Department Of Fish And Wildlife Resources Improperly Commingled Funds Within The Fish And Game Fund (Continued)

Failure to properly administer the Mitigation Fund has allowed for monies received and interest earned for FILO purposes to be comingled within the Fish and Game Fund. Once transferred, FILO funds lose their identity and could be utilized for purposes other than those established per KRS 150.255. As a result, KDFWR was non-compliant with KRS 150.255 and the agreement between KDFWR and the Corps.

KRS 150.255 Wetland or stream compensatory mitigation projects - Mitigation Fund - Purposes, states, in part,

(3) There is established and created in the State Treasury the "Kentucky Wetland and Stream Mitigation Fund" for the purpose of restoring, creating, enhancing, or preserving the Commonwealth's wetlands or streams that may be damaged or destroyed due to any project, recovering costs associated with performing these projects, and administering these programs. The fund shall be deemed a trust and agency fund account and made available solely for the purposes and benefits of the Kentucky wetland and stream mitigation projects. The fund may receive state appropriations, gifts, grants, federal funds, revolving funds, and any other funds both public and private. Money deposited in the fund shall be disbursed by the State Treasurer upon the request of the commissioner with the approval of the commission. Any unallocated or unencumbered balance in the fund shall be invested as provided in KRS 42.500(9), and any income earned from the investments, along with the unallocated or unencumbered balance in the fund, shall not lapse.

KRS 150.150 Game and fish fund - Funds for hunger relief - Accounting and report - Contribution to Becoming an Outdoors-Woman Program states, in part,

(1) 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.

The agreement between KDFWR and the Corps concerning the Mitigation Program, states, in part,

Interest and earnings shall remain in the Mitigation Fund for use solely by and for the purposes of the Mitigation Program and providing compensatory mitigation for DA permits. Monies in the Mitigation Fund shall not be diverted for other uses or mixed with other funding sources.

The following activities shall be tracked or accounted for separately in the Mitigation Fund:

- a. Administration
- b. Service Areas (in-lieu fee project funds)
- c. Reserve

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-01: The Kentucky Department Of Fish And Wildlife Resources Improperly Commingled Funds Within The Fish And Game Fund (Continued)

Recommendation

We recommend KDFWR implement adequate policies and procedures to ensure compliance with KRS 150.150, KRS 150.255, and the agreement between KDFWR and the Corps pertaining to FILO funds. KDFWR should expend FILO administration expenses directly from the Mitigation Fund in order to provide a clear and transparent trail of the associated expenditure activity. KDFWR should also evaluate the indirect costs used to offset the FILO administrative transfer into the Fish and Game Fund to determine if these funds are due back to the Mitigation Fund. Any excess Mitigation Fund amounts held within the Fish and Game Fund should be immediately reverted back to the Mitigation Fund to be utilized only for the intended purpose as established by statute.

Management's Response and Corrective Action Plan

We agree that Fees in-Lieu Of (FILO) administrative costs should be charged directly to the FILO fund instead of tracking them within another fund. The only cash transfers that should occur from the FILO fund to the Fish & Game fund are those for indirect costs related to that program and to zero out the running balance. Our calculations indicate that FILO owes the Fish & Game fund \$941,997 when using the APA's methodology of a running balance for FILO transfers since fiscal year 2002.

The indirect charges that were not included in your calculations for fiscal years 2002 – 2006 total \$64,584, indirect charges for fiscal years 2014 – 2018 total \$1,147,178. The 2002 agreement with the US Army Corp of Engineers section VIII A states, "The Administrative Fund is used for expenses associated with activities to operate the program and to identify new projects: including feasibility studies, consultant contracts for site searches, outreach and property work, staff salaries, equipment, and other indirect expenses such as travel and training." Section VIII B states, "Individual projects shall be charged for indirect costs based on KDFWR's cost plan as submitted to and approved by the US Department of Interior". Also, KDFWR's indirect cost plans state, "The indirect cost rate contained herein is for use on grants, contracts, and other agreements with the Federal Government". Copies of the US Army Corp of Engineer's agreement and indirect cost plans are attached. In addition to these agreements, the cited authority for indirect allowablility is as follows:

Cited Authority

OMB A-87 (for periods before December 26, 2014)

State vs. Federal treatment:

Attachment A, Section C (e): "Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit."

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-01: The Kentucky Department Of Fish And Wildlife Resources Improperly Commingled Funds Within The Fish And Game Fund (Continued)

Management's Response and Corrective Action Plan (Continued)

Indirect Defined

Section F: "1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived."

2 CFR Section 200.403 (for periods after December 25, 2014)

Allowability of Costs

(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

KDFWR corrective action:

- 1. FILO program costs will be paid directly from the FILO fund (134S) or capital project funds established for the FILO program.*
- 2. Transfers will no longer be made to any funds not related to the FILO program except for indirect costs or direct costs attributed to the FILO program (example: statewide defined calculations).*
- 3. In order to correct prior errors, any fiscal year 2019 costs charged to other funds will be corrected with a journal voucher. Any balances from prior year cash transfers will be corrected.*

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-01: The Kentucky Department Of Fish And Wildlife Resources Improperly Commingled Funds Within The Fish And Game Fund (Continued)

Auditor's Reply

Data used in assessing this noncompliance was provided directly from KDFWR, and was not derived from an APA calculation. KDFWR provided a tracking spreadsheet that indicated excess transfers from the Mitigation Fund to the Fish and Game Fund in the amount of \$1,379,965 as of fiscal year end 2017, which is the period under audit. KDFWR personnel indicated the indirect costs used to offset transfers in the amount of \$777,646 between 2007 and 2013 were charged in error. There were no other indirect costs identified on the tracking spreadsheet.

Even though the department's 2002 agreement with the U.S. Army Corps of Engineers (Corps) permits the recoupment of indirect costs, it does not authorize the carry forward of indirect costs not recouped in any given year. Additionally, the 2011 amended agreement between KDFWR and the Corps that is currently in place does not address indirect costs. It's important to note that because each year stands alone, the finding does not present a "running balance," but merely presents the cumulative total of excess transfers to the Fish and Game Fund over the amount of recorded allowable administrative expenses for each year presented. Also, even utilizing KDFWR's second methodology noted in its response, the transfers to the Fish and Game Fund still exceeded reported costs by \$444,242 as of the end of FY 2017.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-02: 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 Kentucky Revised Statute (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 Game and fish fund -- Funds for hunger relief -- Accounting and report -- Contribution to Becoming and Outdoors-Woman Program, states, in part,

(1) 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 commingled, 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.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-02: The Kentucky Department Of Fish And Wildlife Resources Failed To Establish A Nongame Fish And Wildlife Fund Pursuant To KRS 150.165 (Continued)

KRS 150.165 Nongame fish and wildlife fund, states,

- (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.
- (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 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 set-up a “Nongame Fish and Wildlife Fund” (13NY) separate from the Fish and Game Fund for receipt of any contributions by taxpayers of the Commonwealth in June 2016. KDFWR has worked with the Department of Revenue to update the transfers for FY18 to make sure the newly created fund is used for contributions made to the Kentucky Nature and Wildlife Fund per KRS 141.465.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-03: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems To eMARS

This is a repeat of finding 2016-FW-02 as reported in the fiscal year 2016 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 NIC Payment Engine.

During fiscal year 2017, 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. 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, reconciliations between eMARS and license and permit sales recorded in KDSS and the Permit System were not adequately performed. A proper reconciliation would ensure all fees for licenses and permits sold would have been correctly accounted for and recorded in eMARS.

KDFWR has a partial reconciliation process in place for a portion of license sales collected by licensed retail agents as transferred to KDFWR through an Automated Clearing House (ACH) transaction. Variances are identified between KDSS and collected receipts; however, there was no documentation included supporting the resolution of the identified variances. KDFWR provided a tracking spreadsheet that identified a \$50,895 shortage in collected receipts when compared to sales per KDSS in fiscal year 2017.

During fiscal year 2018, KDFWR began developing a verification process to include the reconciliation of 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 and recorded in eMARS.

Policies and procedures to ensure the timely reconciliation of all revenue data between KDFWR systems and eMARS were not in place during fiscal year 2017. Without a timely reconciliation between revenues recorded in eMARS and internal KDFWR tracking and sales systems, there is an increased risk that errors and omissions may not be detected and corrected in a timely manner resulting in inaccurate information for financial reporting and decision making purposes.

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 eMARS. Reconciliations should be completed timely as an essential part of the agency's internal control structure to ensure financial data is complete and accurate.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-03: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems To eMARS (Continued)

Recommendation

We recommend KDFWR develop and improve on policies and procedures requiring the reconciliation of sales data between KDFWR system records and receipts recorded in eMARS. Due to the magnitude to which the department is dependent upon license and permit fees, additional emphasis should be placed on the timely reconciliation of KDSS and the Permit System sales data to eMARS. In completing reconciliation procedures, KDFWR should follow up on and document the outcome of identified variances

Management's Response and Corrective Action Plan

KDFWR agrees that comprehensive, monthly reconciliations should include all data sources to ensure all items/sources are included. The new controls established reduce the opportunity for misappropriations; however, a concise reconciliation will ensure all receipts are recorded accurately. Administrative Services is working with our technology staff to develop reports to provide easier reconciliation with the statewide accounting system.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-04: The Kentucky Department Of Fish And Wildlife Resources Failed To Transfer Funds From Outside Bank Accounts To The State Treasury In A Timely Manner

The Kentucky Department of Fish and Wildlife Resources (KDFWR) receives revenue through the sale of licenses and permits for recreational, commercial, scientific, and educational activities related to fish and wildlife. During fiscal year 2017, instances were noted where receipts were not deposited timely in accordance with established policy and Kentucky Revised Statute (KRS) 41.070. The following exceptions were noted for checks received by the Law Enforcement Division for Commercial Guide Licenses:

- One check totaling \$150 was received on April 24, 2017 and was not deposited for 36 days; and
- One check totaling \$420 was received on June 6, 2017 and was not deposited for 16 days.

Additionally, KDFWR maintains multiple bank accounts outside of the Kentucky State Treasury (Treasury) to temporarily hold funds associated with camp fees, receipts from the Otter Creek Outdoor Recreation Area (Otter Creek), and Ballard Quota Hunt Fees (Ballard). The following delays in depositing receipts in Treasury were noted:

- Otter Creek collected \$23,485 during October 2016, \$7,762 during November 2016, and \$1,791 during December 2016. These funds were not deposited into Treasury until February 21, 2017. October receipts were held in the outside account for 113 days.
- Otter Creek collected \$4,317 during February 2017, \$9,734 during March 2017, and \$10,157 during April 2017. These funds were not deposited into Treasury until June 29, 2017. February receipts were held in the outside account for 120 days.
- Otter Creek collected \$13,880 during June 2017. These funds were not deposited into Treasury until September 9, 2017, 70 days after receipt.
- Ballard collected \$6,240 during December 2016, \$11,260 during January 2017, and \$3,760 during February 2017. These funds were not deposited in Treasury until June 16, 2017. December receipts were held in the outside bank account for 167 days.

KDFWR failed to adhere to established policy and State statute requiring receipts held in temporary deposit accounts be transferred into Treasury timely. Additionally, inquiry identified checks were held by the Law Enforcement Division for commercial guide licenses until the entire application process is complete which includes a background check. If an application was denied, the check would be returned rather than funds being deposited and a refund issued. Maintaining funds outside Treasury for extended periods of time increases the risk of fraud, waste, and abuse which could occur undetected.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017
(Continued)

2017-FW-04: The Kentucky Department Of Fish And Wildlife Resources Failed To Transfer Funds From Outside Bank Accounts To The State Treasury In A Timely Manner (Continued)

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. However in the case of state departments or agencies located outside Frankfort, and all state institutions, the Finance and Administration Cabinet may permit temporary deposits to be made to the accounts maintained by the agency, department, or institution in a bank which has been designated as a depository for state funds for a period not to exceed thirty (30) days, and may require that the money be forwarded to the State Treasury at the time and in the manner and form prescribed by the cabinet.

The Finance and Administration Cabinet Agency Guidance For Cash Handling requires that all monies received by agencies, departments, and institutions be promptly transmitted to Treasury for deposit or promptly deposited in a state depository bank account per KRS 41.070.

KDFWR's policy and procedure for Otter Creek Bank deposits states "Once reconciled, the monthly bank statement amount will be drawn by the Accounting Branch through the EPAY system within 45 days of the initial deposit."

Recommendation

We recommend KDFWR strengthen internal controls to safeguard assets and ensure all collected revenue is deposited into Treasury in a timely manner in accordance with KRS 41.070. KDFWR should also revisit established internal policy to ensure it conforms to KRS 41.070.

Management's Response and Corrective Action Plan

KDFWR agrees that receipts for all applications fees should be deposited timely, regardless of background check requirements.

The delay in processing receipts for Otter Creek was due to severely limited staff resources at Otter Creek and lack of cross training as retirements/leave of absences occurred. The issue was compounded with staffing loss in Administrative Services. Based upon the cash handling policy, an exception from the Finance and Administration Cabinet and/or Kentucky State Treasury should have been requested and a more timely resolution been placed. The updated procedure for Otter Creek conforms to KRS 41.070.