

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

**Made Pursuant To
KRS 150.152**

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



**MIKE HARMON
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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
Rich Storm, 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 of the Kentucky Department of Fish and Wildlife Resources (KDFWR) for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise KDFWR's basic financial statements as listed in the table of contents.

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 for the year ended June 30, 2019, 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 13, 2020 on our consideration of KDFWR's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the KDFWR's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

May 13, 2020

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, 2019

Revenues:

Hunting and Fishing Licenses	\$ 30,442,134
Motor Boat Registration Fees and Dealer Licenses	5,936,436
Interest Income	949,809
Fines, Fees, Rentals and General Sales	1,037,054
Fish and Game Law Enforcement Fines	145,357
Fish and Wildlife Educational Program	18,454
Private Grants, Donations, and Gifts	25,387
Proceeds From Asset Disposition	201,655
Fish and Wildlife Hunter for the Hungry Program Income	121 289,846
Miscellaneous Revenues	1,359,983
Total Revenues	40,406,236

Transfers From Other Funds:

Transfer from Federal Fund	12,647,837
Transfer from Agency Revenue Fund	429,769
Total Transfers	13,077,606

Total Revenues and Transfers From Other Funds	\$ 53,483,842
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NOTES TO THE FINANCIAL STATEMENT

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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.

The Program Income Fund was closed in fiscal year 2018; 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, 2019
(Continued)

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

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. Operating transfers are also used to reimburse entities for indirect costs.

Fish and Game Fund

Total revenues were \$40,406,236 in fiscal year 2019. The Fish and Game Fund was reimbursed for indirect costs totaling \$13,077,606. The federal portion of the indirect costs were \$12,647,837 and because these funds represent the federal share of administrative and overhead costs they are reflected as both a revenue and expenditure of the federal fund. Of the federal reimbursement, \$9,160,475 represents transfers for money originally received in the federal fund in fiscal years 2007 through 2018, but the cash had not been transferred to reimburse the Fish and Game Fund. There were also \$429,769 in transfers from the agency revenue fund in fiscal year 2019.

Financial Reporting

The Statement of Revenue Sources – Modified Cash Basis for the Fish and Game Fund 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.

Note 3 - 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.

Note 4 - 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.

**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
Rich Storm, 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 of the Kentucky Department of Fish and Wildlife Resources (KDFWR) for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated May 13, 2020.

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.

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: 2019-FW-01 and 2019-FW-02.

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 response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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

May 13, 2020

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2019

2019-FW-01: The Kentucky Department Of Fish And Wildlife Resources Failed To Transfer Funds From Outside Bank Accounts To The State Treasury Timely

This is a repeat of finding 2018-FW-01 as reported in the fiscal year 2018 audit of the Kentucky Department of Fish and Wildlife Resources (KDFWR). KDFWR maintains multiple bank accounts outside of the Kentucky State Treasury (Treasury) to temporarily hold funds associated with camp fees (Camp Webb, Camp Currie and Camp Wallace), receipts from the Otter Creek Outdoor Recreation Area (Otter Creek), and receipts from Ballard Quota Hunt Fees. For all five outside bank accounts reviewed, KDFWR failed to transfer funds to Treasury within 30 days in accordance with KRS (Kentucky Revised Statute) 41.070. Of the noted exceptions, the numbers of days between collection and transfer to Treasury ranged from 47 days up to 191 days, with the impacted deposits totaling \$75,491.

KDFWR failed to adhere to established policy and State statute requiring receipts held in temporary deposit accounts be transferred into Treasury timely. Maintaining funds outside Treasury for extended periods of time increases the risk of fraud, waste, and abuse which could occur undetected.

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.

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.

Management's Response and Planned Corrective Action

The procedures for future deposits associated with camp receipts will be a monthly sweep. The reconciliation, previously performed before the sweep, will follow with any corrections made after-the-fact.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2019
(Continued)

2019-FW-02: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems to eMARS

This is a repeat of finding 2018-FW-02 as reported in the fiscal year 2018 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 2019, KDFWR failed to timely reconcile sales data from KDFWR's systems to data recorded in the Enhanced Management Administrative & Reporting System (eMARS), the statewide accounting system. KDFWR was unable to provide a completed reconciliation for fiscal year 2019, more than nine months after the end of the fiscal year. A proper reconciliation will ensure all fees for licenses and permits sold have been correctly accounted for and recorded in eMARS. KDFWR is in the early stages of implementing a total reconciliation to include the web-based sales system and the Permit System. This process, when fully developed will verify receipts received by multiple divisions in the department monthly 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 fully developed during fiscal year 2019. 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. Reconciliations should be completed in a timely fashion as an essential part of the agency's internal control structure to ensure financial data is complete and accurate.

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.

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2019
(Continued)

2019-FW-02: The Kentucky Department Of Fish And Wildlife Resources Failed To Reconcile Internal Systems To eMARS (Continued)

Management's Response and Planned Corrective Action

This is a repeat comment because of the sheer volume of license data made it difficult to reconcile and it was a long process. License receipts are received by the department in a number of ways dependent upon the type of vendor and the receiving agent. The majority of online credit card sales can be reconciled 100% to the Commonwealth's payment engine, the difficulty was determining if a fishing license within 930,000+ lines of license holder data was processed in one of the following ways:

- 1. As part of the online credit card sales*
- 2. Unique batch by vendor/vendor type*
- 3. As part of the check/cash transactions processed in manual batches by the department*

The auditors were given an SOP that segregated the data into these segments using unique attributes in order to ensure that each type was counted or reconciled in the correct way. Now that the attributes that separate the groups are known, the reconciliation for next year (Fiscal Year 2021) will be at a much higher level; the detailed reconciliation is current through March 2020 and will be finalized at the end of the current fiscal year.

The automated, online sales are easy for reconciliation, but the manual batches are the most vulnerable to human error. The manual batches have been reconciled for the last several years. The batches are reconciled as each cash receipt document is finalized into eMARS and a running log of reconciling items (often due to timing or errors by agents) are followed up timely. KDFWR agrees that a concise, timely reconciliation of all methods must be generated monthly. KDFWR will be updating the procedure for fiscal year 2021.