

**EXAMINATION OF THE ACCURACY OF THE
DEPARTMENT OF FISH AND WILDLIFE'S
ASSESSMENT OF ITS FINANCIAL CONDITION**

FEBRUARY 16, 2000



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS**

The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

February 16, 2000

C. Tom Bennett, Commissioner
Kentucky Department of Fish & Wildlife
#1 Game Farm Road
Frankfort, KY 40601

RE: Report of the Task Force on Funding for Wildlife Conservation Issued October, 1997

Dear Commissioner Bennett:

This letter transmits the results of our examination of the validity of the Department's evaluation of its financial condition. Our examination was based on the House Concurrent Resolution 76 Report entitled "Report of the Task Force on Funding for Wildlife Conservation" issued October 1997 (HCR 76 Report). We also examined updated financial information provided by your staff. We appreciate the professionalism and helpfulness of your staff during this process.

As stated in our February 9, 2000 letter listing agreed upon procedures, we did not conduct a financial or performance audit of the Department's financial statements or programs.

We compared expenditure and revenue projections for FYE 97 through FYE 99 with actuals from those years. We also identified and explained variables that affect the Department's revenue projections. Finally, we commented on the assumptions and principles used by the Department to draw conclusions based on its revenue and expenditure data.

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Although we did not conduct a financial or performance audit, my office followed applicable auditing standards during our examination. We conducted testing on expenditure and revenue data provided by the Department to ensure that the data was valid and reliable. We also considered information from a 1998 audit conducted by my office that examined the computer controls for the Kentucky Direct Sales System (KDSS) of the Department of Fish and Wildlife Resources. The scope of our examination consisted of personnel interviews and analytical procedures. The conclusions, applicable comments, and recommendations of our examination are addressed in the attached document.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Examination of the Accuracy of the Department of Fish and Wildlife’s Assessment of its Financial Condition

Scope and Methodology

We reviewed projected revenue and expenditure data (FYE97 through FYE99) provided by the Department of Fish and Wildlife (Department) in the House Concurrent Resolution 76 Report entitled “Report of the Task Force on Funding for Wildlife Conservation” (HCR 76 Report). We then compared this data to actual revenues and expenditures provided by the Department for the same fiscal years. Finally, we compared the actual revenues and expenditures for FYE97 through FYE99 with projected figures for FYE00 through FYE05.

Before we compared projected and actual data, we tested the actual FYE97 through FYE99 revenue and expenditure data to determine validity and reliability. We tested revenue data related to license sales, boat registrations, miscellaneous receipts, interest income, federal revenues, non-game revenues, and various transfers to the Statewide Accounting and Reporting System (STARS). We also tested overall expenditures for FYE97 through FYE99 to STARS and consulted a 1998 audit conducted by our office that examined the computer controls for the Kentucky Direct Sales System (KDSS) of the Department. Based on our testing, we found that the revenue and expenditure data provided by the Department was reliable and valid for making future projections.

FYE97 Through FYE99 Department Projections

The Department’s projections for FYE97 through FYE99 for license sales, boat registrations, federal excise taxes, and overall revenues were conservative. According to the Department, the approach used to project revenues into future years is based on more conservative numbers and averages. Although the actual revenues for FYE97 through FYE99 were higher than projected, Department officials stated that there is still a dramatic need for additional revenues in the future. The following tables provide additional information on the projected and actual figures.

FYE97 Through FYE99 Projected Revenues			
Revenue Type	FYE97	FYE98	FYE99
License Sales	\$16,000,000	\$16,000,000	\$16,000,000
Boat Registrations	2,000,000	2,000,000	2,000,000
Miscellaneous Receipts	1,505,000	1,555,000	1,450,000
Interest Income	1,100,000	600,000	900,000
Federal Revenues	6,746,118	6,500,000	7,000,000
Non-Game Revenues	50,000	50,000	40,000
Transfers	999,522	2,009,118	245,000
Total	\$28,400,640	\$28,714,118	\$27,635,000

Source: Auditor of Public Accounts, from information provided by the Department of Fish and Wildlife.

FYE97 Through FYE99 Actual Revenues			
Revenue Type	FYE97	FYE98	FYE99
License Sales	\$17,269,188	\$16,765,066	\$18,226,464
Boat Registrations	2,308,793	2,491,484	2,523,153
Miscellaneous Receipts	1,967,408	2,158,839	1,808,814
Interest Income	828,530	1,987,338	1,465,821
Federal Revenues	8,552,942	7,073,204	8,089,011
Non-Game Revenues	48,813	46,942	44,705
Transfers	143,959	2,883,912	655,715
KDSS	44,223	(214,840)	(38,605)
Total	\$31,163,856	\$33,191,945	\$32,775,078

Source: Auditor of Public Accounts, from information provided by the Department of Fish and Wildlife.

FYE97 Through FYE99 Total Revenues and Percentage Change				
Revenue Type	Projected Revenues	Actual Revenues	Difference	Percentage Change
License Sales	\$48,000,000	\$52,260,718	\$4,260,718	8.9%
Boat Registrations	6,000,000	7,323,430	1,323,430	22.1
Miscellaneous Receipts	4,510,000	5,935,061	1,425,061	31.6
Interest Income	2,600,000	4,281,689	1,681,689	64.7
Federal Revenues	20,246,118	23,715,157	3,469,039	17.1
Non-Game Revenues	140,000	140,460	460	.3
Transfers	3,253,640	3,683,586	429,946	13.2
KDSS	0	(209,222)	(209,222)	(100)
Total	\$84,749,758	\$97,130,879	\$12,381,121	14.6%

Source: Auditor of Public Accounts, from information provided by the Department of Fish and Wildlife.

Likewise, Department officials stated that expenditure projections are conservatively figured. The following table provides additional information about projected and actual expenditures for FYE97 through FYE99.

FYE97 Through FYE99 Total Expenditures and Percentage Change			
Expenditures	FYE97	FYE98	FYE99
Projected	\$28,085,500	\$33,175,317	\$30,285,834
Actual	28,060,017	29,735,957	32,208,802
Difference	(\$25,483)	(\$3,439,360)	\$1,922,968
Percentage Changed	.09%	(10.4%)	6.3%

Source: Auditor of Public Accounts, from information provided by the Department of Fish and Wildlife.

FYE00 Through FYE05 Department Revenue Projections

Projections for FYE00 through FYE05 for license sales, boat registrations, federal excise taxes, and overall revenues include proposed license fee increases and adjustments to federal revenues. As shown below, actual revenues for FYE00 through FYE05 may be higher as a result of the license fee increase and adjustment to federal revenues. However, there will still be a substantial need for additional revenues in the future, according to Department officials. Based on the results of data we tested and

statements made by the Department related to proposed license fee increases and federal revenue adjustments, the following table provides a reasonable scenario of future revenues for the Department:

FYE00 Through FYE05 Projected Revenues						
Revenue Type	FYE00	FYE01	FYE02	FYE03	FYE04	FYE05
License Sales	\$17,000,000	\$17,000,000	\$17,000,000	\$17,000,000	\$17,000,000	\$17,000,000
<i>Proposed Increase</i>		1,800,000	3,000,000	4,800,000	6,000,000	6,000,000
Boat Registrations	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
<i>Proposed Increase</i>		750,000	750,000	750,000	750,000	750,000
Miscellaneous Receipts	1,630,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000
Interest Income	1,000,000	750,000	650,000	550,000	550,000	550,000
Federal Revenues	10,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
<i>Proposed Adjustment</i>		750,000	750,000	750,000	750,000	750,000
Non-Game Revenues	50,000	50,000	50,000	50,000	50,000	50,000
Transfers	1,349,000	570,000	570,000	570,000	570,000	570,000
Total (With Increases)	\$33,329,000	\$32,720,000	\$33,820,000	\$35,520,000	\$36,720,000	\$36,720,000
Total (Without Increases)	\$33,329,000	\$29,420,000	\$29,320,000	\$29,220,000	\$29,220,000	\$29,220,000

Source: Auditor of Public Accounts, from information provided by the Department of Fish and Wildlife.

Basic Assumptions and Guiding Principles

We also reviewed and commented on the basic assumptions and principles of the Department related to revenue and expenditure projections. Our comments are based primarily on the results of our testing, which showed that the revenue and expenditure data provided by the Department are valid and reliable. Overall, we found that the following assumptions and guiding principles used by the Department when discussing future revenue and expenditure projections are reasonable:

1. Hunting, fishing, and boating licenses will continue as the primary funding sources.

This basic assumption is reasonable. As long as the Department's funding environment remains relatively the same, hunting, fishing, and boating licenses will continue as the primary funding sources. License sales and boat registration were 63%, 58%, and 63% of total revenue in FYE97, FYE98, and FYE99 respectively.

2. Primary duties of the Department include activities related to hunting, fishing, boating, and nature related recreation.

This assumption is reasonable in light of the fact that operating disbursements for the Wildlife Division, the Fisheries Division, and Law Enforcement accounted for 72%, 71%, and 71% of total operating disbursements for FYE97, FYE98, and FYE99 respectively. The remaining operating disbursements were for Administration & Support and Information and Education.

3. The Department's important biological, law enforcement, and education programs should continue or increase when possible.

This assumption is reasonable. Absent such programs or such program increases, the citizens of Kentucky will not experience the benefits of well-managed natural resources.

It should be noted, however, that any organization concerned about future revenues and expenditures should engage in a formalized strategic planning process to identify overlap, duplication, or ineffective programs.

4. Absent new revenues some programs may be reduced or eliminated.

Based on revenue and expenditure data provided, this assumption is reasonable. Total revenues increased approximately 9.2% from FYE96 through FYE99. Total expenditures increased approximately 14.6% from FYE96 through FYE99. As mentioned previously, strategic planning may help to identify programs that are overlapping, duplicative, or not effective.

5. There are no guaranteed new sources of revenue in the immediate foreseeable future.

Based on the revenue information provided, this assumption is reasonable. From the documentation we received from the Department, no new sources of revenue have been implemented. However, the Department is discussing possible options such as increased sales taxes, gasoline taxes, excise taxes, and general fund appropriations.

6. Costs will increase.

Based on expenditure data provided, this assumption is reasonable. If the Department's expenditure environment does not change, costs will continue to increase. Operating costs and total expenditures both increased approximately 20% and 14.6% respectively from FYE96 through FYE99.

7. Federal funds are projected to decline.

Based on historical data, federal revenue increased approximately 28% from FYE96 through FYE99. However, projected revenues show a decrease of 4.2% from FYE99 through FYE05 (includes proposed license fee increases and federal adjustments). A Department official noted that Kentucky incorrectly booked indirect allowable costs for FYE95 and FYE96. After adjustments, the lost revenue from

previous years was reported in FYE97 and FYE98, which caused an increase for both years. Further, federal funds for FYE99 included funds for a special project in Lincoln County, which caused an increase for that year.

Department officials also projected that for FYE01 through FYE05 federal excise taxes will increase as a result of additional handicapped and retired license holders in the state. During the 1998 legislative session, a law was passed that required disabled individuals and senior citizens over age 65 to purchase combination licenses for \$5.00 each. This increase in license holders will yield additional revenues as a result of a federal formula based on license holders to decide how much excise tax on hunting and fishing equipment will be disbursed to each state.

Therefore, in light of the revenue increases mentioned above and using agency information, we expect federal revenues to remain fairly constant.

8. Department employees will be asked to assume increasingly diverse duties.

This assumption is reasonable. In order to conserve expenditures, employees may be asked to assume increasingly diverse duties. In addition, employees may be asked to accept duties and responsibilities not necessarily associated with hunting and fishing. Examples of these additional duties and responsibilities could include education programs, wildlife centers, etc.

9. Urbanization of Kentucky will further limit opportunity for recreation uses and decreased license sales will likely continue.

The Auditor of Public Accounts does not have sufficient information to conclude that this assumption is reasonable. According to a Department official, one study done by the Kentucky State Data Center concluded that Kentucky is becoming more urbanized.

Guiding Principles

1. Put the resource first.

This principle is reasonable. The Department's mission is consistent with providing direction for the enhancement of Kentucky's natural resources for public use.

2. The primary duty of Department employees is to support activities related to hunting, fishing, boating, and nature-related recreation.

This principle is reasonable. Operating disbursements for the Wildlife Division, the Fisheries Division, and Law Enforcement accounted for 72%, 71%, and 71% of total operating disbursements for FYE97, FYE98, and FYE99 respectively. Thus, one can logically conclude that the primary duty of Department employees is to support such activities.

3. All Department staff is important to the success of our mission and will support inter-division and Commission initiatives.

This principle is reasonable. A guiding principle for any productive agency should include the importance of staff input when meeting a Department's mission.

4. Without new revenues, the future workforce of the Department will be smaller.

This principle is reasonable. If expenditures and revenues continue in their present path, it can be assumed that in order to save money the Department may decrease the number of staff through attrition.

5. As retirements occur, positions may be combined or abolished.

This principle is reasonable. See the statement for number 4 above.

6. Employees should be compensated at the most appropriate level in accordance with available resources.

This principle is reasonable. In order to retain employees, compensation should be at most appropriate levels in accordance with available resources.

7. Expenses must be contained or reduced unless new stable long-term revenues are found.

This principle is reasonable. Unless new long-term revenues are found, expenses will have to be contained or reduced. As mentioned previously, this containment or reduction could be accomplished through formalized strategic planning.

8. Expensive programs should be streamlined, reduced, or eliminated unless new long-term revenues are found.

This principle may be reasonable, if the Department finds that revenues are still not sufficient after formalized strategic planning. If this is the case, expensive programs may have to be modified. Periodically, all programs should be reviewed for effectiveness and efficiency.

9. New programs should be self-supporting or cause appropriate reductions elsewhere in the budget.

This principle is reasonable. If expenditures and revenues continue in their present path, new programs might stand a better chance if they are self-funded.

10. Programs that are duplicative should be combined or eliminated.

This principle is reasonable. In order to contain costs, any programs that are duplicative should be combined or eliminated. The advantage of strategic planning or performance audits would be the identification of overlapping and duplicative programs.

11. Agent commissions will increase.

The Auditor of Public Accounts does not have enough information to make a comment on this principle.

12. Accessibility to licenses through KDSS, Internet, and by phone is desired.

This principle is reasonable. Easier accessibility to licenses via KDSS, Internet, and by phone will help to make attaining a license easier and will maximize the number of licenses sold.

13. It is desirable to purchase land near existing Department facilities that can be maintained by current staff.

This principle is reasonable. If the decision to purchase land is made by the Department, it is desirable for it to purchase land near existing facilities, which can be maintained by current staff. This will help to decrease the number of new hires needed to maintain land purchased by the Department. See our comments related to the Department's 14th Guiding Principle discussed below, for additional information.

14. Other land acquisitions of significant resource values will be considered on a case-by-case basis.

This principle is reasonable. Any land acquisition of significant resource value should be considered on a case-by-case basis. This will help to prevent any bad purchasing decisions to be made. However, the Department could benefit from a study and analysis of the land acquisition program to assess the criteria used for purchasing land. For example, the number of staff required to maintain land and the distance to existing Department facilities could be used to make final decisions on land purchases.

15. It is desirable to use non-Department funds to purchase land where possible.

- Heritage Land Conservation Fund
- The Conservation Fund
- North American Wetlands Conservation Council

This principle is reasonable. If at all possible, non-Department funds should be used to purchase land. This will minimize the expenditures that come from the primary source of funding, which are license sales.

16. It is desirable to use the Federal "program income" option.

- Dr. James R. Rich WMA

The Auditor of Public Accounts does not have enough information to make a comment on this principle.

17. Develop a five-year revenue and expenditure plan (through FYE05).

This principle is reasonable. Developing a five-year revenue and expenditure plan will help the Department know where it stands financially.

18. Keep license fee increases to the sportsmen, sportswomen, and boaters to a minimum.

This principle is reasonable. The Department may not want to increase license fees too much, in order to prevent the decrease of license holders in the state. Minimizing license fee increases is always desirable, but increases may have to occur.

19. Aggressively pursue federal, state, or private revenues consistent with the Department's mission.

This principle is reasonable. The Department has already identified a need to explore other revenue sources.

20. Minimum fund balance for FYE05 should be \$10,000,000.

Minimum fund balances are a reasonable strategy. Fund balances for FYE97 through FYE99 were \$24,379,367, \$27,835,355, and \$28,401,630 respectively. However, Fund Balances projected through FYE05 are declining. According to a Department official, the Fish & Wildlife Commission agreed upon \$10,000,000 to prevent potential cash flow problems. In order to ensure ability to continue operations, the Department must maintain an adequate fund balance.

Conclusion

As previously stated, we tested Department revenue and expenditure data to determine validity and reliability. For the most part, we found that the revenue and expenditure data provided by the Department were reliable and valid for making future revenue and expenditure projections.

We recommend that the Department continue to explore other funding options and discuss these options with the General Assembly, Governor's Office for Planning and Management (GOPM), and the Auditor of Public Accounts. In addition, we believe the Department should formalize its strategic planning efforts to identify programs that may be overlapping, duplicative, or not effective.