



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF NATURAL RESOURCES

Financial Audit of the Capital Asset Account
 For the Year Ended June 30, 2016

Release Date: October 12, 2017

Compliance Examination
 For the Two Years Ended June 30, 2016

FINDINGS THIS AUDIT: 17				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	3	3				
Category 2:	4	10	14	2014	16-1, 16-2, 16-3	16-4, 16-10, 16-12, 16-14, 16-16	
Category 3:	0	0	0				
TOTAL	4	13	17	2012		16-6, 16-8, 16-15	
FINDINGS LAST AUDIT: 16				2010		16-13	
				2006		16-5	

SYNOPSIS

- (16-1) The Department did not exercise adequate controls over operations of its World Shooting and Recreational Complex.
- (16-2) The Department did not exercise adequate controls over its reporting of accounts receivable.
- (16-5) The Department did not monitor and enforce concessionaire lease agreements.
- (16-9) The Department did not maintain adequate controls over its cash receipts.
- (16-10) The Department's internal audit function failed to comply with the Fiscal Control and Internal Auditing Act and the State Finance Act.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

DEPARTMENT OF NATURAL RESOURCES

FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT

Year Ended June 30, 2017

COMPLIANCE EXAMINATION

Two Years Ended June 30, 2017

EXPENDITURE STATISTICS	2016	2015	2014
Total Expenditures.....	\$ 175,976,726	\$ 312,167,470	\$ 278,801,400
OPERATIONS TOTAL.....	\$ 174,796,007	\$ 214,022,043	\$ 213,914,675
% of Total Expenditures.....	99.3%	68.5%	76.6%
Personal Services.....	62,847,169	65,512,361	69,748,081
Other Payroll Costs (FICA, Retirement).....	25,724,949	27,219,633	31,105,751
All Other Operating Expenditures.....	86,223,889	121,290,049	113,060,843
AWARDS AND GRANTS.....	\$ 25,082	\$ 60,654,835	\$ 43,459,918
% of Total Expenditures.....	0.0%	19.4%	15.7%
HIGHWAY/WATERWAY CONSTRUCTION.....	\$ -	\$ 12,378,235	\$ 7,059,795
% of Total Expenditures.....	0.0%	4.0%	2.5%
REFUNDS.....	\$ 245,162	\$ 281,813	\$ 266,885
% of Total Expenditures.....	0.1%	0.1%	0.1%
PERMANENT IMPROVEMENTS.....	\$ 910,475	\$ 24,830,544	\$ 14,100,127
% of Total Expenditures.....	0.6%	8.0%	5.1%
Total Receipts (in thousands).....	\$ 112,183,000	\$ 141,417,000	\$ 135,504,000
Average Number of Employees (not examined)...	1,302	1,407	1,381

SELECTED ACTIVITY MEASURES (Not Examined)	2016	2015	2014
Site Attendance	37,040,330	38,760,153	39,511,182
Acreage Owned and Managed	478,832	475,304	469,870
Protected Natural Area Acreage	108,880	108,343	106,741
Hunting Licenses Issued	208,420	214,631	197,625
Fishing Licenses Issued	566,055	560,498	567,577

DEPARTMENT DIRECTOR	
During Examination Period:	Mr. Marc Miller (7/1/2014 through 1/19/2015) Mr. Wayne Rosenthal (effective 1/20/2015)
Currently:	Mr. Wayne Rosenthal

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**INADEQUATE CONTROLS OVER THE WORLD
SHOOTING AND RECREATIONAL COMPLEX'S
OPERATIONS**

The Department did not exercise adequate controls over operations of its World Shooting and Recreational Complex (WSRC) in Sparta, Illinois. The Department opened the WSRC in 2006 and it consists of over 1,500 acres of land devoted to shooting and outdoor recreation, including 1,000 camp sites, areas for trap, skeet, and sporting clay shooting, a cowboy action/pistol berm, a vendor mall, and an event center.

During testing, some of the more significant exceptions noted include:

Lack of records for events held at the WSRC

- We requested the Department and WSRC provide the population of events and related facility use agreements entered into during the examination period. In response to this request, the Department provided a listing of events held at the WSRC. We noted the population provided by the WSRC was derived from a separated employee's archived electronic calendar, which we were unable to reconcile to the Department's facility use agreement population or to any other information source or calendar.

Unable to reconcile WSRC events to the Department's facility use agreement population

Accountants unable to conclude the Department's records were sufficiently precise and detailed

Due to these conditions, we were unable to conclude whether the Department's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Department's compliance with its facility use agreements.

Although the population limitations noted above hindered the ability of the accountants to conclude whether selected samples were representative of the population as a whole, the accountants selected a sample of 60 events from the listing provided by the Department and performed testing:

Facility use agreements could not be located

- Facility use agreements were not provided by WSRC staff for 10 of 60 (17%) events selected for testing. Therefore, we were unable to determine if a reservation deposit was paid, the WSRC paid for event awards, extra amenities were requested, insurance information was obtained prior to the event, or if a comprehensive vendor list was received.

Facility use agreements not fully signed

- For 18 of 60 (30%) events tested, the facility use agreements were not signed by WSRC staff, the renter, or both parties.

Lack of documentation that deposits were received

- For two of 60 events tested (3%), WSRC staff did not provide support for payment of required reservation deposits.

No operations manual or procedures to guide operations

- The Department has not established an operations manual, administrative rules, or procedures to govern operations of the WSRC. While certain Department-wide procedures and rules guide some of the WSRC's operations and functions, such as camping and equipment, the Department has not established guidance for operational areas that are specific to the WSRC, such as event rentals, operations of the various shooting areas, handling of Department-owned firearms, and responsibility and recordkeeping for sponsorships and in-kind items received.

Unable to determine shooters present and what price shooters were charged

- We noted three of 17 (18%) instances tested where it could not be determined how many shooters were present and what price each shooter was charged in relation to cash deposits from the event as a whole. (Finding 1, pages 15-18)

We recommended the Department take action to establish internal controls over its operations at the WSRC.

Specifically, the Department should:

- 1) establish an operations manual for the specific operations of the WSRC;
- 2) maintain proper documentation of cash receipts for individual shooters;
- 3) ensure the WSRC has an accurate and complete listing of events held;
- 4) ensure the WSRC's facility use agreements received are properly filled out and submitted with all supporting documentation;
- 5) ensure the WSRC's facility use agreements are enforced; and,
- 6) implement adequate audit trails regarding the maintenance and retention of records at the WSRC.

Department agrees with auditors

Department officials agreed with this finding.

INADEQUATE CONTROLS OVER ACCOUNTS RECEIVABLE

The Department did not exercise adequate controls over its reporting of accounts receivable. We performed detail accounts receivable testing on the following funds: the State Boating Act Fund (039), the State Parks Fund (040), the Wildlife and Fish Fund (041), the Plugging and Restoration

Fund (137), and the Underground Resources Conservation Enforcement Fund (261). During testing, some of the weaknesses we noted included the following:

Cumbersome and outdated accounts receivable reporting process

- The Department's accounts receivable reporting process is cumbersome, relies on numerous subsystems, and requires manual entry. During testing of the Department's quarterly accounts receivable reporting, we noted these reports were manually compiled from multiple accounts receivable systems in order to issue a single report. For example, we identified reports for Funds 137 and 261 were compiled using an outdated computer code called Paradox; Fund 039 was comprised of Automated Clearing House (ACH) accounting reports, phone/internet deposit slip forms, fund transfer reports from the Comptroller, and returned check aging reports; and, Funds 040 and 041 lacked documentation for some large farm lease adjustments calculated by the Department, which were as much as \$3.3 million.

No detailed subsidiary ledger maintained

- The Department did not maintain a detailed accounts receivable subsidiary ledger to support the current quarter accounts receivable additions reported on the quarterly reports. Rather, the Department took the amount collected during the quarter, subtracted the beginning quarterly receivable balance, and added the ending quarterly gross receivable balance to calculate the accounts receivable additions for the quarter.

Description of what in-kind services were performed in lieu of cash were not provided

- The Department was unable to provide support for adjustments made to Funds 040, 041, and 261. Adjustments for Funds 040 and 041 were for in-kind services provided in lieu of cash; however, there was no description of what services were provided and how the value of those services was determined. The adjustment for Fund 261 was for write-offs that were not accounted for in prior periods. These adjustments occurred during the second quarter of Fiscal Year 2015 and the fourth quarter of Fiscal Year 2016 and ranged from \$24 thousand to \$3.3 million.

Determination of the value of in-kind services not provided to the auditors

No support for adjustments made between \$24 thousand to \$3.3 million

Department could not support its allowance for uncollectible amounts

- The Department was unable to provide support for estimated uncollectible amounts reported for Funds 137 and 261 in each quarter of the engagement period. The Department's reported estimated uncollectible balance for Fund 137 ranged between \$819 thousand and \$1.1 million and ranged between \$636 thousand and \$2 million for Fund 261 during the engagement period. (Finding 2, pages 19-24)

We recommended the Department implement the necessary internal controls to consistently and accurately report accounts receivable. We also recommended the Department ensure that accounts receivable are timely pursued for collection and, if not collectible, submitted for uncollectible certification and subsequently written off.

Department agrees with auditors

Department officials agreed with the finding.

FAILURE TO ENFORCE CONCESSIONAIRE LEASE AGREEMENTS

The Department failed to monitor and enforce concessionaire lease agreements regarding rental and reserve payments.

During the examination period, the Department had lease agreements with approximately 77 concessionaires located at State parks throughout the State. The Department's concession coordinators are responsible for negotiating and enforcing lease terms, overseeing the site, approving rates charged, and collecting rental payments. The Department received rental fees from concessionaires totaling \$612,310 and \$594,560 during Fiscal Years 2015 and 2016, respectively.

Concessionaires made rental payments late

During our sample testing of eight concession and lease agreements, we noted eight of 32 (25%) rental payments were remitted to the Department in an untimely manner, ranging from one to 87 days late.

We also tested the Department's four largest concessionaires, as measured by rental payments and/or deposits, and some of the conditions we noted follow:

Deposit slips submitted late

- Two of four (50%) concessionaires did not submit deposit slips for their respective reserve accounts in a timely manner, ranging from one to 18 days late. For most concessionaires, they are contractually required to deposit a specific amount into this account each month, which ensures money has been set aside to fund future repairs and improvements at their facility. The submission of the deposit slip indicates the monthly deposit was made.

Deposit slips not date stamped

- Two of four (50%) concessionaires' reserve deposit slips tested were not date stamped. As a result, we were unable to determine if these reserve deposit slips were remitted timely. (Finding 5, pages 28-30) **This finding has been repeated since 2006.**

We recommended the Department monitor concessionaires to enforce its contractual agreements and send concessionaires formal written communication when they fail to comply with

their contractual obligations to the Department.

Department agrees with auditors

Department officials agreed with the finding and reported they are now sending notices/letters to the lessee reminding them of the deadline when the reports are due and contacting the lessee to request items that are past due. *(For the previous Department response, see Digest Footnote #1.)*

INADEQUATE CONTROLS OVER RECEIPTS

The Department did not maintain adequate controls over its cash receipts.

During testing, some of the weaknesses we noted included the following:

Receipt and/or deposit dates not recorded

- Timeliness of deposit could not be determined for four of 40 (10%) hunting and fishing receipts tested, totaling \$2,472. The Department's support did not include the receipt date and/or deposit date for the receipts.

Refunds deposited late

- Three of 25 (12%) refunds tested, totaling \$96,567, were deposited from two to five days late.

Credits not carried forward

- One of 10 (10%) hunting and fishing paper product vendors tested had credits, totaling \$890, which were not carried forward from License Year 2015 and applied to License Year 2016.

Incorrect registration fee charged

- One of 40 (3%) boating registration applications tested was not charged the correct registration fee, resulting in a \$32 revenue loss to the Department.

Fee Imposition Reports filed with inaccurate information

- Amounts reported on the Fiscal Year 2015 Fee Imposition Report did not trace to Department records. Commercial permits, special wildlife licenses, and permit fees reported to the Office of the Comptroller were understated by \$44,208. (Finding 9, pages 37-39)

We recommended the Department ensure receipt and deposit dates are documented for all receipts, deposits are made in a timely manner with the State Treasurer, and hunting and fishing vendor file documentation is complete and that accounts are properly credited. We also recommended the Department verify the correct fee is paid before processing boat registrations. Finally, we recommended the Department remind employees of the need to maintain accurate and complete records, reconciliations, and fee databases.

Department agrees with auditors

Department officials agreed with the finding.

INTERNAL AUDIT DEFICIENCIES

The internal audit function at the Department failed to comply with the Fiscal Control and Internal Auditing Act and the State Finance Act.

During testing, we noted the following:

Changes to computerized systems not reviewed

- The Department's internal audit function did not conduct reviews of the design of major new electronic data processing (EDP) systems and major modifications to existing EDP systems.

Major control systems not reviewed

- The Department's internal auditing function did not audit the Department's major systems of internal accounting and administrative controls on a periodic basis so that all major systems are reviewed at least once every two years.
- The Department's internal audit staff did not perform audits of petty cash funds when reimbursements to the funds exceeded \$5,000 in a single fiscal year.

Failure to follow up on previous recommendations to determine if corrective action was taken

- The Department's internal audit staff did not follow up on previously issued reports to ensure the Department took appropriate corrective action. As such, the Department's internal audit function could not prepare a written report to the Department's Director on the extent the Department had implemented its recommendations. (Finding 10, pages 40-42)

We recommended the Department ensure its internal audit function complies with the provisions of the Fiscal Control and Internal Auditing Act and the State Finance Act.

Department officials agree

Department officials agreed with the finding.

OTHER FINDINGS

The remaining findings pertain to (1) inadequate controls over voucher processing, workforce reports, overtime, fuel reconciliations, financial reporting, property and fixed asset records and related reporting, and expenditure reconciliations; (2) noncompliance with mandated responsibilities, (3) a lack of contingency planning or testing to ensure recovery of computer systems, (4) weaknesses with payment card industry data security standards, and (5) weaknesses regarding the security and control of confidential information. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

AUDITOR’S OPINION

The auditors stated the Department’s Schedule of Capital Assets as of and for the year ended June 30, 2016, was fairly stated in all material respects.

ACCOUNTANT’S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Findings 2016-001, 2016-002, and 2016-003. Except for the noncompliance described in these findings, the accountants stated the Department complied, in all material respects, with the requirements described in the report.

This financial audit and compliance examination was conducted by the Office of the Auditor General’s staff.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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DIGEST FOOTNOTES

#1 – Failure to Enforce Concessionaire Lease Agreements – Previous Department Response

2014 – The Department agrees with the finding and is now sending notices/letters to the lessees reminding them of the deadline when these reports are due and contacts the lessee to request items that are past due.