STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF NATURAL RESOURCES

FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2012

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

Release Date: April 4, 2013

Summary of Findings:	
Total this audit:	**13**
Total last audit:	**17**
Repeated from last audit:	**7**

SYNOPSIS

- The Department did not accurately report indirect cost in the Schedule of Expenditures of Federal Awards.
- The Department failed to enforce concessionaire lease agreements regarding rental and reserve payments.
- The Department lacked documentation to provide evidence that certain mandated duties were performed.
- The Department did not comply with duties mandated by State law.

{Expenditures and Activity Measures are summarized on the reverse page.}

DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT for the Year Ended June 30, 2012
COMPLIANCE EXAMINATION for the Two Years Ended June 30, 2012

EXPENDITURE STATISTICS	**2012**	**2011**	**2010**
Total Appropriated Expenditures	**$ 210,039,314**	**$ 231,154,546**	**$ 220,237,981**
OPERATIONS TOTAL	$ 167,136,077	$ 176,705,511	$ 167,574,058
% of Total Expenditures	79.6%	76.4%	76.1%
Personal Services	68,095,524	39,591,692	72,607,331
Other Payroll Costs (FICA, Retirement)	26,570,975	23,909,692	23,668,132
All Other Operating Expenditures	72,469,578	113,204,127	71,298,595
AWARDS AND GRANTS	$ 33,445,234	$ 39,373,046	$ 41,172,305
% of Total Expenditures	15.9%	17.0%	18.7%
HIGHWAY/WATERWAY CONSTRUCTION	$ 2,076,529	$ 2,686,663	$ 2,144,343
% of Total Expendiutres	1.0%	1.2%	1.0%
PERMANENT IMPROVEMENTS,LUMP SUM AND OTHER PURPOSES	$ 6,848,855	$ 12,036,418	$ 8,675,546
% of Total Expenditures	3.3%	5.2%	3.9%
REFUNDS	$ 532,619	$ 352,908	$ 671,729
% of Total Expenditures	0.2%	0.2%	0.3%
Total Non-Appropriated Expenditures	$ 13,771,894	$ 4,313,674	$ 2,274,787
Total Receipts	$ 132,721,000	$ 128,406,000	$ 108,723,000
Average Number of Employees (Not examined)	**1,418**	**1,612**	**1,646**

SELECTED ACTIVITY MEASURES (Not Examined)	**2012**	**2011**	**2010**
Site Attendance	40,603,635	39,302,498	36,100,000
Protected Natural Area Acreage	99,866	96,255	93,662
Number of Deer Harvested	181,451	182,270	189,634
Hunting Licenses Issued	188,576	197,978	194,576
Fishing Licenses Issued	627,201	557,939	627,189

AGENCY DIRECTOR
During Examination Period: Marc Miller
Currently: Marc Miller

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE REPORTING OF INDIRECT COST

The Department did not accurately report indirect cost in the Schedule of Expenditures of Federal Awards (SEFA).

Indirect cost, totaling $853,000, not properly reported

During our testing of the SEFA, we noted the Department did not properly report $853,000 in indirect cost as part of the federal expenditures. Upon notification, the Department corrected the expenditures reported in the SEFA. (Finding 12-1, page 14)

We recommended the Department develop controls to ensure the accurate reporting of indirect cost on the SEFA.

Department agrees with auditors

Department officials agreed with our recommendation and stated they would include indirect costs in future preparations.

NEED TO ENFORCE CONCESSIONAIRE LEASE AGREEMENTS

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

Concessionaires located at State parks

During the engagement period, the Department had approximately 90 concessionaires located at State parks throughout Illinois. The Department's concession coordinators are responsible for negotiating and enforcing lease terms, overseeing the site, approving rates charged, and collecting rental payments.

Rental payments were remitted late

During our testing of 66 rental payments for concessionaires, we noted 38 (58%) of the rental payments were remitted in an untimely manner, ranging from four to 249 days late.

We also noted, the largest four concessionaires, as measured by rental payments/deposits, did not properly adhere to the terms and conditions stated in the lease agreement. Specifically, these concessionaires did not submit, or submitted late, the required documents as set forth in the lease agreements. Some of the conditions noted follow:

Concessionaire reserve deposits remitted late

- Two concessionaires remitted reserve deposit slips, totaling $108,993, two and 46 days late, respectively.

Concessionaire financial information remitted late

- Two concessionaires submitted their 2010 Schedule of Gross Revenues and the Statement of Income 45 days late.

Payments were not reconciled to financial information

- One concessionaire's file did not contain reconciliation between the 2010 and 2011 Profit and Loss Statement and the monthly rental payments received. Also, the 2010 Profit and Loss Statement was submitted 22 days late.

- One concessionaire's file did not have supporting documentation identifying the concessionaire budgeted for a minimum of 2% of gross revenues for marketing the lodge complex, as stated in lease.

- One concessionaire's budget of capital expenditures for real and personal property was not prospective for a three-year period. Further, only one marketing plan was submitted. (Finding 12-2, pages 15-22) **This finding was first reported in 2006.**

We recommended the Department ensure adequate controls are in place to monitor compliance with contracts and lease agreements.

Department agrees with auditors

The Department officials agreed with our recommendation and stated they were taking steps towards a more focused response to late payments by concessionaires and other lessees. A revised policy will simplify and increase the efficiency of the process for collection of outstanding payments and other deliverables by establishing clear threshold time frames for a several step process designed to subject non-paying lessees to legal processes for collection and eviction. The Department will also review boilerplate lease agreement language for revisions requiring additional penalties if payments are late. *(For the previous Department response, See Digest Footnote #1)*

IMPROVEMENTS NEEDED TO ENSURE COMPLIANCE WITH MANDATES

The Department did not have an adequate system in place to ensure compliance with its mandated duties.

Documentation

During our testing, we noted the Department:

- Failed to maintain evidence of submission of annual reports filed with the Governor and General Assembly in accordance with the Open Space Lands Acquisition and Development (OSLAD) Act (525 ILCS 35/11)

- Failed to maintain proper documentation on its obligation to file consent to the issuance of a license to sell alcoholic liquors in retail buildings located in State Parks under the Liquor Control Act (235 ILCS 5/6-15). (Finding 12-7, page 25)

We recommended the Department ensure its compliance with statutory mandates and maintain documentation.

Department agrees with auditors

The Department officials agreed with our recommendation and stated in the case of reports to the General Assembly and the Governor, that they now have a form and a defined process for compliance. In the case of the Liquor Control Commission, a letter has already been sent.

NON-COMPLIANCE WITH MANDATED DUTIES

The Department did not comply with duties mandated by the State law. Some of the conditions noted follow:

Policies/procedures not established

- The Department's Office of Mines and Minerals had not established policies or procedures to comply with the Coal Mining Act (225 ILCS 705/2.15)

- The Department did not comply with provisions of the Fluorspar and Underground Limestone Mines Act (225 ILCS 710). Specifically, the Department failed to: 1) appoint inspectors of mines; 2) maintain records of mines; and 3) submit required reports to the Governor and General Assembly.

Reports not submitted

- The Department's Miners' Examining Board failed to submit required reports to the Director for fiscal years 2011 and 2012 as required by the Coal Mining Act (225 ILCS 705/8.14).

- The Department did not employ the appropriate number of State Mine Inspectors as required by the Coal Mining Act (225 ILCS 705/4.23). During fiscal years 2011 and 2012, we noted 44 and 47 operational mines in the State, respectively, for which the Department only employed 10 inspectors; however, the Act requires no fewer than 16 inspectors.

- The Department failed to submit annual financial reports to the Oil and Gas Board as required by the Oil and Gas Act (225 ILCS 725/1.2). (Finding 12-10, pages 28-31)

We recommended the Department establish policies and procedures to track all mandated duties and identify responsible parties to ensure compliance.

Department agree with auditors

Department officials agreed with our recommendation and stated they would address statutory compliance.

OTHER FINDINGS

With regard to the other findings noted in our report, Department management indicated they are being given attention. We will review the progress towards the implementation of our recommendations during our next engagement.

AUDITOR'S OPINION

Our auditors stated at June 30, 2012 the Department of Natural Resource's Schedules of Capital Assets and Intangible Assets are fairly presented.

WILLIAM G. HOLLAND
Auditor General

WGH:MKL:rt

AUDITORS ASSIGNED

Washington, Pittman & McKeever, LLC were our special assistant auditors for this audit.

DIGEST FOOTNOTES

#1 - NEED TO ENFORCE CONCESSIONAIRE LEASE AGREEMENTS

2010 - The Department agreed with the recommendation and stated that although the Department established and maintained a system of internal fiscal and administrative controls which provides assurances that revenues, expenditures, resources and funds applicable to concession operations are properly recorded and accounted for, the Department also exercises administrative authority to provide continuity of services for visitors of the Illinois Department of Natural Resources sites. The Department will continue to track the late payments, reports, and schedules and work with concessionaires to ensure collection of tardy contractual obligations. Also, all pages of documents received will be date-stamped to document exact submission of deliverables. Additionally, a new policy has been developed which will restrict future oral lease agreements and will reduce to writing any existing oral agreements.