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**STATE OF ILLINOIS**

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**OFFICE OF THE AUDITOR GENERAL**

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**MANAGEMENT AND PROGRAM AUDIT  
REND LAKE CONSERVANCY DISTRICT**

**SEPTEMBER 2004**

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**WILLIAM G. HOLLAND**

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**AUDITOR GENERAL**

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

*To the Legislative Audit Commission, the Speaker  
and Minority Leader of the House of  
Representatives, the President and Minority Leader  
of the Senate, the members of the General  
Assembly, and the Governor:*

This is our report of the Management and Program Audit of the Rend Lake Conservancy District.

The audit was conducted pursuant to Public Act 93-0275, which became effective July 22, 2003. The audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

A handwritten signature in blue ink, appearing to read "William G. Holland".

WILLIAM G. HOLLAND  
Auditor General

Springfield, Illinois  
September 2004



# REPORT DIGEST

## MANAGEMENT AND PROGRAM AUDIT

FINANCIAL AUDIT  
For the Year Ended:  
April 30, 2004

## REND LAKE CONSERVANCY DISTRICT

### Summary of Findings:

Management and Program Audit: 16  
Financial Audit: 15

Released: September 2004



State of Illinois  
Office of the Auditor General  
**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## SYNOPSIS

The management and program audit, and the financial audit, which were conducted pursuant to Public Act 93-0275, concluded that the Rend Lake Conservancy District has significant deficiencies in virtually all aspects of its management, including: planning; water and sewage operations; personnel; contract management; property and equipment management; performance monitoring; and internal controls.

The management and program audit, which identified deficiencies in 16 areas and recommended more than 70 specific actions, concluded the following:

- **Board.** The Board of Trustees needs to fulfill its fiduciary responsibility over the Rend Lake Conservancy District (District).
- **Budget.** The District lacked a proper budget for FY04; revenues were over \$12 million but the Board authorized \$25 million in expenditures.
- **Losses.** The District's recreational businesses lost \$900,000 in FY04.
- **Consultants.** Outside engineering and legal consultants were paid more than \$500,000 in FY04 when a Board ordinance called for internal engineering and legal departments.
- **Personnel.** There was no written staffing plan that analyzed staffing needs and the District lacked an adequate number of managers with a business background.
- **Planning.** The District lacked a mission statement, goals and objectives, and a strategic or business plan. The District's operations did not collect adequate performance data.
- **Contracts.** Contracts were not bid as required by the River Conservancy Districts Act, there was no list of contracts, and tenants were not monitored. The District lacked basic information, such as acres of farmland leased or number of oil wells on District property.
- **Water.** The water billing system made errors; no supervisory reviews were performed to verify the accuracy of bills. Residential customers were on self-determined billing cycles – some paid monthly, some annually, and some in between.
- **Expenditures.** Some expenditures sampled did not appear to benefit the District. The General Fund (which obtains revenues from taxes) was used to make charitable donations and to buy turkeys at Thanksgiving for employees, trustees, and consultants.

The financial statement audit contained 15 findings which included the following:

- **Controls.** Internal controls were materially deficient and included:
  - Weaknesses in segregation of duties.
  - Lack of evidence of supervisory review and approval in 35 of 40 employee timesheets used to prepare payroll.
  - Inadequate controls over cash disbursements.
- **Policies.** The policies and procedures manual was incomplete.
- **Pension Plan.** The District failed to enroll employees in the Illinois Municipal Retirement Fund (IMRF) in accordance with IMRF rules and regulations. We noted 23 of 51 employees tested who should have been enrolled into IMRF were not for FY04.
- **Purchases.** The District did not use purchase orders for non-water purchases and did not use receiving reports for purchases.

**REND LAKE CONSERVANCY DISTRICT  
FINANCIAL AUDIT  
For The Year Ended April 30, 2004**

SUMMARY OF ACTIVITIES	Total	General Government	Water	Land in Development	Recreation	Sewage
<b>General Revenues:</b>						
Taxes:						
Property .....	573,529					
Personal replacement	55,883					
Investment earnings .....	77,656					
Miscellaneous .....	(2,358)					
Transfers	-					
<b>Total General Revenues and Transfers .....</b>	<b>704,710</b>					
<b>Net Program (Expense) Revenue.....</b>	<b>1,345,236</b>					
<b>Change in Net Assets.....</b>	<b>2,049,946</b>					
Net Assets, Beginning .....	20,783,455					
Cumulative Effect of Accounting Change .....	1,084,381					
<b>Net Assets, Ending</b>	<b>\$23,917,782</b>					
<b>Program Revenues:</b>						
Charges for Services.....	\$11,528,421	\$ 6,848	\$ 7,916,910	\$ 149,240	\$ 3,245,838	\$ 209,585
Operating Grants and Contributions .....	36,270	18,135	-	-	18,135	-
Capital Grants and Contributions .....	96,000	-	96,000	-	-	-
<b>Total Program Revenues</b>	<b>11,660,691</b>	<b>24,983</b>	<b>8,012,910</b>	<b>149,240</b>	<b>3,263,973</b>	<b>209,585</b>
<b>Expenses:</b>						
Governmental activities:						
General government ....	781,935	781,935	-	-	-	-
Business-type activities:						
Water .....	5,228,577	-	5,228,577	-	-	-
Land in Development ..	57,465	-	-	57,465	-	-
Recreation .....	3,891,833	-	-	-	3,891,833	-
Sewage .....	355,645	-	-	-	-	355,645
<b>Indirect Expense Allocation:</b>						
Governmental activities:						
General Government	(477,357)	(477,357)	-	-	-	-
Business-type activities:						
Water .....	211,597	-	211,597	-	-	-
Land in Development ..	-	-	-	-	-	-
Recreation .....	265,760	-	-	-	265,760	-
Sewage .....	-	-	-	-	-	-
<b>Total Expenses .....</b>	<b>10,315,455</b>	<b>304,578</b>	<b>5,440,174</b>	<b>57,465</b>	<b>4,157,593</b>	<b>355,645</b>
<b>Net Program (Expense) Revenue .....</b>	<b>\$ 1,345,236</b>	<b>\$ (279,595)</b>	<b>\$ 2,572,736</b>	<b>\$ 91,775</b>	<b>\$ (893,620)</b>	<b>\$ (146,060)</b>

**SELECTED ASSET AND LIABILITY ACCOUNT BALANCES**

Cash and Investments .....	\$5,564,349
Capital Assets, Net of Accumulated Depreciation.....	\$23,050,479
Notes Payable .....	\$5,635,316
Net Assets.....	\$23,917,782

**GENERAL MANAGER**

During the Audit Period: Mr. Terry Black (Interim) through 6/3/03; Mr. Gary May, 6/4/03 through 6/30/04  
Currently: Mr. Glenn Poshard (Interim), beginning 7/6/04

## INTRODUCTION

Pursuant to Public Act 93-0275, the Office of the Auditor General conducted the management and program audit, and the financial audit of the Rend Lake Conservancy District (District).

The audits concluded that the District has significant deficiencies in virtually all aspects of its management, including: planning; water and sewage operations; personnel; contract management; property and equipment management; performance monitoring; and internal controls. The financial statement audit contains 15 findings and recommendations. The management and program audit identified deficiencies in 16 areas and recommended 70 specific actions that the District needed to take. This Report Digest summarizes the findings of both the management and program audit and the financial audit.

## MANAGEMENT AND PROGRAM AUDIT

The management and program audit of the Rend Lake Conservancy District reported many findings in the areas that were audited. These findings indicate that the Board of Trustees (Board) needs to fulfill its fiduciary responsibility over the Rend Lake Conservancy District.

- There was no proper budget for the District, the Expense Committee was not functioning, tenants and contractors were not being monitored, and outside engineering and legal consultants were paid more than \$500,000 in fiscal year 2004 when a Board ordinance called for internal engineering and legal departments.
- The District's recreational businesses (e.g., golf, restaurant, and shooting) lacked a business plan and lost approximately \$900,000 after depreciation in fiscal year 2004.
- The District did not have a written mission statement, goals and objectives, or complete written policies and procedures.
- The District lacked an adequate number of professional managers with a business background.
- The District did not comply with several requirements that have been established by the River Conservancy Districts Act. (Management and program audit, pages 1-6)

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**The Board needs to fulfill its fiduciary responsibility over the Rend Lake Conservancy District.**

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## BOARD OF TRUSTEES

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The Rend Lake Conservancy District's Board of Trustees has been ineffective in carrying out its oversight responsibilities considering the past problems and the additional problems identified in this audit.

**The Board did not follow some policies it created by ordinance and did not always provide adequate guidance.**

- The Board did not follow some of its ordinances, including electing a trustee to serve as treasurer, establishing an Expense Committee to review certain expenses prior to approval by the full Board, and requiring prior approval from the Board for expenses.
- Governing boards are typically responsible for determining an organization’s mission and purpose, providing proper financial oversight, and monitoring program operations.

The Board did not always provide adequate guidance to the District. For example, it rescinded personnel policies for non-union employees (Ordinances Nos. 122 and 183) without replacing them for several years (1987-1990 and 2001-2004).

<b>RECENT ACCOMPLISHMENTS</b>	
✓	The Board is receiving more financial information about the operations of the District and plans to establish a budget by operational area.
✓	The Board is in the process of approving a policy and procedures manual.
✓	The Board has recently established finance, promotional, and insurance committees.

**The District did not have an in-house legal counsel or engineer but paid more than \$500,000 in FY 2004 to these outside consultants.**

Ordinance No. 1 established a chief legal counsel and a legal department, along with a chief engineer and an engineering department. These departments did not exist during the audit period. Outside consultants provided legal and engineering services without written contracts to show responsibilities or billing rates. The District paid \$247,270 for engineering consultants and \$286,098 for legal consultants in fiscal year 2004 (see Digest Exhibits 1 and 2).

Digest Exhibit 1 <b>ENGINEERING CONSULTANTS' BILLS</b> Fiscal Year 2004		
<b>Firm</b>	<b>Charge</b>	<b>Service Provided</b>
Lawrence A. Lipe and Associates	\$243,907	District’s outside engineering consultant
Other firm	3,363	
<b>TOTAL</b>	<b>\$247,270</b>	

Source: Rend Lake Conservancy District FY 2004 General Ledger.

Digest Exhibit 2 <b>LEGAL CONSULTANTS' BILLS</b> Fiscal Year 2004		
<b>Firm</b>	<b>Charge</b>	<b>Service Provided</b>
Campbell, Black, Carnine, Hedin, Ballard & McDonald	\$165,569	District’s outside legal counsel
McMahon, Berger, Hanna, Linihan, Cody & McCarthy	92,549	Labor and employment law (e.g., representing District against litigation by prior General Manager)
The Stolar Partnership	9,694	Tax issues
Winston and Strawn	7,500	Legislative relief for payoff of bonds
Other firms	10,786	Various
<b>TOTAL</b>	<b>\$286,098</b>	

Source: Rend Lake Conservancy District FY 2004 General Ledger.



## Budget

The District did not have a specific line-item budget for each operational division. The District had an appropriation ordinance that capped total expenditures, however, funds could be moved among areas and there was no written policy on how funds could be used. The District's appropriation ordinance authorized nearly \$25 million in expenditures when the total revenues approximated \$12 million, and total expenditures approximated \$10 million in fiscal year 2004.

Rates and charges for many of the revenue producing recreational and other activities have not been sufficient to defray all fixed, maintenance, and operating expenses. Over the years, the water plant has subsidized these other activities. For many years the District has been transferring money from the Intercity Water System Fund to pay for its recreation and other activities for a total exceeding \$10 million – funds that could have been used to pay for upgrading the water plant. The River Conservancy Districts Act (70 ILCS 2105/11) states that *“If the board determines to operate any such recreational facilities, it shall establish for the revenue-producing facilities rates and charges which at least defray all fixed, maintenance, and operating expenses.”*

## Conflict of Interest Disclosure

The District needs to improve its reporting of potential conflicts of interest. The River Conservancy Districts Act states that no trustee or employee shall have a financial interest in any business with the District. Specifically, the Act states in Section 4b that *“No trustee or employee of such district shall be directly or indirectly interested financially in any contract work or business or the sale of any article, the expense, price or consideration of which is paid by said district.”*

While trustees and some District employees filed an annual conflict of interest disclosure with the county, they were not required to file an economic interest or disclosure statement with the District. We identified relationships that could, at a minimum, create an appearance of possible conflicts of interest. Finding 2 in the financial audit also noted the need for the District to address conflict of interest disclosure.

## Mission and Goals

The District did not have a written vision or mission statement, goals and objectives, or complete written policies and procedures for its operations. The District also did not have a strategic, business, or operational plan. These are basic planning documents that should be established by the District on a priority basis as they can be used to guide performance and measure progress.

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**For FY 2004, the Board authorized \$25 million in expenditures when total revenues were approximately \$12 million.**

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**The District did not have a mission statement, goals and objectives, or a strategic plan.**

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- Without proper planning, employees lack guidance that is needed to ensure consistency and uniformity. A lack of planning may make the District dependent on employees and outside consultants with experience and institutional knowledge since there is a lack of documentation to assist any new personnel.
- The District did not have a formal reporting process that required programs to collect data to assess performance, including comparing rates and costs with other entities to identify areas where revenues could be increased or where costs could be decreased.

### **Staffing Plan**

The District lacks an adequate number of professional managers with a business background for an organization with more than \$12 million in annual revenues, diverse recreational assets, and a water plant that serves 160,000 people in Southern Illinois. There was no written staffing plan that analyzed staffing needs; this creates a risk that the District lacks the optimal number and type of employees for its complex operations. For example, there was no deputy director, chief financial officer, legal counsel, chief engineer, or internal auditor. (Management and program audit, pages 13-26)

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## **FINANCIAL MANAGEMENT**

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In fiscal year 2004, the Rend Lake Conservancy District's income after expenses was nearly \$2 million, mainly due to the water plant. Although the District as a whole had positive income, the recreational areas lost over \$450,000 before depreciation and approximately \$900,000 after depreciation in fiscal year 2004.

The District did not have written policies and procedures for the accounting and approval of expenditures. This could result in a lack of uniformity in procedures and could result in expenses that lack proper management or Board approval. Written procedures, along with a line-item budget approved by the Board, could provide trustees with more information and control.

Contrary to the requirements of the River Conservancy Districts Act, the District has not been charging rates for its sewage and recreational facilities that have been sufficient to cover their operating expenses. For many years the District has been transferring money from the Intercity Water System Fund to pay for its recreation and other activities. As shown in Digest Exhibit 3, the total amount has generally been growing and exceeded \$10 million at the end of fiscal year 2003.

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**The District has not been charging rates for sewage and recreation that cover their operating expenses.**

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Digest Exhibit 3 YEAR-END BALANCES OF INTERFUND TRANSFERS FROM THE INTERCITY WATER SYSTEM FUND Fiscal Years 2001-2003			
Funds that Received Money from the Intercity Water System Fund	2001	2002	2003
General Fund	\$1,424,000	\$2,140,292	\$2,502,277
Land Improvement and Development Fund	856,402	996,191	1,089,238
Recreation Fund	5,066,169	6,524,009	6,717,165
Sewage Treatment System Fund	260,983	289,660	303,284
<b>CUMULATIVE END OF YEAR TOTALS</b>	<b>\$7,607,554</b>	<b>\$9,950,152</b>	<b>\$10,611,964</b>

Source: Rend Lake Conservancy District's FY01, FY02, and FY03 audited financial statements.

In 50 of the 100 expenditures we sampled, there was a lack of supervisory review. Supervisory review can assist the District in assuring that purchases are for authorized purposes, necessary, and beneficial to the District's programs.

Some of the expenditures in our sample did not appear to benefit the programs and functions of the District. For example, expenditures in our sample from the General Fund (which obtains revenues from the collection of taxes) included purchasing turkeys at Thanksgiving for employees, trustees, and consultants, as well as charitable donations.

The District has made changes in an effort to reduce expenses. In fiscal year 2004, the District paid off its revenue bonds and golf cart loan; changed insurance companies and telephone carriers; and made other operational changes, such as reducing travel, using District employees for mowing, and contracting District security. (Management and program audit, pages 27-38)

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**Some of the expenditures did not appear to benefit the programs and functions of the District.**

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## WATER AND SEWAGE

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The Rend Lake Conservancy District, which is located in Franklin and Jefferson Counties, was created in 1955 to supply water to Southern Illinois. The plant provides water to approximately 160,000 people in Southern Illinois.

The Rend Lake Intercity Water System earned \$7.9 million in operating revenue and incurred \$5 million in operating expenses. In addition, the Intercity Water System had \$333,696 in non-operating expenses that resulted in income before capital contributions and transfers of \$2.6 million for fiscal year 2004. The District paid off \$13.65 million in outstanding revenue bonds earlier in the fiscal year that were related to the water plant.

According to District personnel, the 30-year old water plant needs to be upgraded. The District had varying construction cost estimates for

individual projects associated with upgrading the plant, but they were not linked. There was no single comprehensive capital plan which would demonstrate the need for the projects, detail the costs, provide timelines, and specify revenue sources to pay for them.

The residential billing system for water made errors in calculating the bill amount and required manual checks. Our review of the water and sewage billing systems found a number of problems:

- No supervisory review was performed to verify the accuracy of the work of the employee who performed the billing function.
- Residential water customers were on self-determined billing cycles -- some paid monthly, some paid annually, and some paid in between.
- There was no tracking system for delinquent accounts other than what is done manually. No delinquent charge had been imposed on any customers although Ordinance No. 46 established late fees. One municipal customer that was late on several occasions should have been assessed approximately \$46,000 in late charges according to their contract.
- Some customers did not pay the established sewage rate of \$2.80 per 1,000 gallons that was set by Ordinance No. 112. New apartments that were opened in 2001 were never billed for sewage services, according to District personnel.
- Not all water customers had their own meter, which made it difficult to determine the exact amount that should be charged to each customer.
- The District was unable to provide us with maps detailing the locations of the approximate 1,200 residential meters.
- The District lacked internal reporting to show whether its water plant was performing satisfactorily. (Management and program audit, pages 39-64; Financial audit finding 12, pages 23-24)

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**The District was unable to provide us with maps detailing the locations of the approximate 1,200 residential meters.**

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## PERSONNEL

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The Rend Lake Conservancy District did not have job descriptions (prior to August 2003), a pay plan for non-union employees, a formal staffing plan, or written personnel policies and procedures. The District had been following personnel policies and procedures that were established by the Board of Trustees in 1990 but rescinded in 2001.

- The District's personnel files were incomplete and more than one-half of the 30 personnel files we sampled did not have complete job application forms. One-third of the files sampled lacked salary data; in fact, there was no written pay plan for non-union employees that would show the minimum and maximum salaries for each position.
- There was little documentation related to recruitment that could demonstrate that the best candidates were selected, such as job postings, required and desired skills, interview records, internal recommendations, reference checks, and decision memos. (Management and program audit, pages 65-72)

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**The District's personnel files were incomplete.**

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## CONTRACTS AND ASSETS

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There were significant weaknesses in the District's administration of contracts and assets. In addition, the District lacked formal written policies and procedures to guide its operations in these areas.

The District did not have a system to monitor the performance of contractors and lessees. There was no list of all the contracts that the District had entered into and was legally bound to honor, including basic information such as the number of oil wells on the District's property or the number of acres of farmland that were leased. No employee was assigned to monitor contracts, such as to ensure the oil wells or farmers were paying the District the correct amount. Without adequate controls over contracts and leases, the District cannot ensure that the services for which it is paying are being provided according to the obligations that have been set forth in the contract agreement.

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**No employee was assigned to monitor contracts, such as to ensure oil wells and farmers were paying the District the correct amount.**

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- The District did not follow the bidding requirement of the River Conservancy Districts Act which states that contracts for work other than professional services exceeding \$2,500 be let to the lowest responsible bidder. In numerous instances, goods and services exceeding \$2,500 were purchased without entering into a contract with the vendor. The financial audit identified 25 purchases totaling \$1,011,704 that required competitive bidding

and were not competitively procured. (Financial audit finding 3, pages 11-12)

- The District did not have written policies and procedures for the acquisition, usage, and disposal of property and equipment. There was no complete, accurate, and comprehensive physical inventory of fixed assets and the District did not

utilize a tagging system to track assets. The District did not know the total number of vehicles it owned, did not have titles for all its vehicles, and was not able to locate two vehicles that it had “given” to the Benton airport. (Management and program audit, pages 73-92; Financial audit finding 5, page 14, and finding 7, page 17)

Digest Exhibit 4 <b>FARM LEASE SHORTCOMINGS</b>
<ul style="list-style-type: none"> <li>• The District was unable to provide the total number of acres currently leased to each farmer.</li> <li>• There was no documentation to show the basis for the District receiving 1/3 of the profits from the sale of grain. Comparatively, the Illinois Department of Natural Resources (IDNR) requires lessees to pay a certain amount per acre.</li> <li>• The District paid all real estate taxes for farmland. Comparatively, IDNR requires lessees to pay all taxes on the leased lands.</li> </ul>
Source: Auditors’ review of District contracts and information from IDNR.

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## GOLF, SHOOTING, AND HUNTING

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In fiscal year 2004, the Golf Course and Pro Shop lost \$62,600 before depreciation on revenues of over \$1 million. The Shooting Complex had a greater loss of over \$165,000 before depreciation on revenues of \$460,000; in fact, personnel costs alone were more than 50 percent of revenues for the Shooting Complex.

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**The Shooting Complex did not have a written plan to eliminate its losses.**

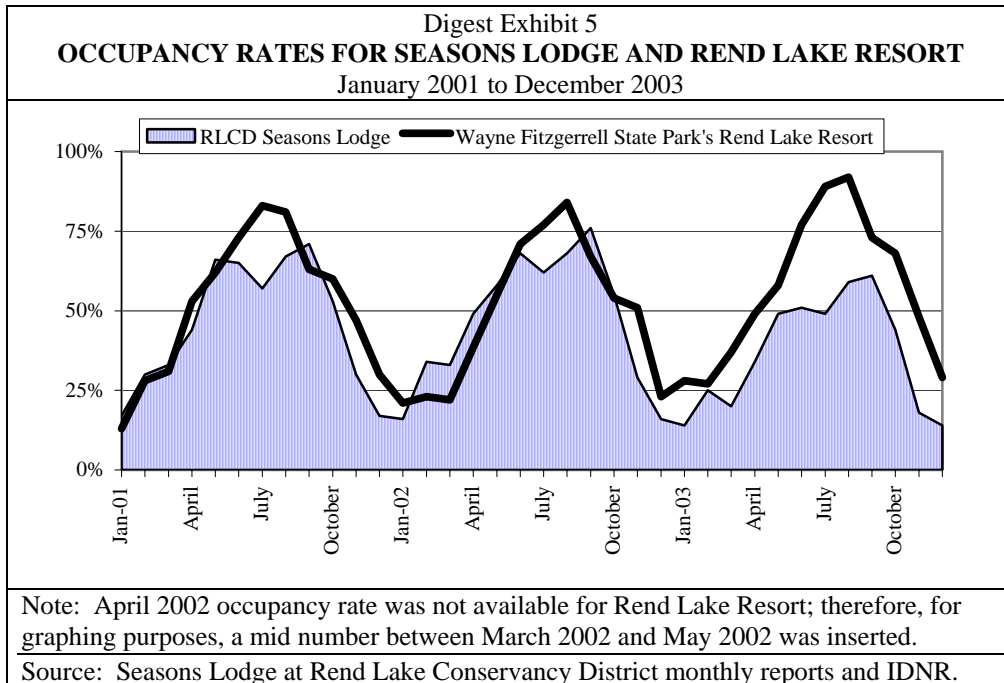
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- The Golf Course established a plan to increase revenues but the Shooting Complex did not have a written plan to eliminate its losses.
- The Shooting Complex lacked a marketing plan with specific goals or timetables.
- The Shooting Complex lacked written policies and procedures that could have established requirements to collect, maintain, and evaluate performance data that could be useful in gauging the operations of the complex and in benchmarking to comparative complexes, especially since District officials indicated the complex was not likely to make a profit in the near future. (Management and program audit, pages 93-109)

**LODGING AND RESTAURANT**

The Rend Lake Seasons Lodge had income of \$45,935 before depreciation for fiscal year 2004. However, trends indicated that the Lodge’s occupancy rates have been declining. Digest Exhibit 5 shows a comparison of occupancy rates between the Seasons Lodge operated by the Rend Lake Conservancy District and the neighboring Rend Lake Resort located in the Wayne Fitzgerald State Park that is privately operated. The Seasons Lodge has frequently had a lower occupancy rate than the Rend Lake Resort.

**The Rend Lake Seasons Lodge had income of \$45,935 before depreciation for fiscal year 2004.**



The Seasons Restaurant lost more than \$250,000 before depreciation in fiscal year 2004. In addition, few controls were in place, such as over inventory, which may also be contributing to the loss. The District retained a consultant to review the restaurant’s operations who made suggestions to enhance controls and reduce costs in order to improve operations. Seasons Restaurant’s personnel costs appeared to be higher than industry averages.

- Food costs were 43 percent of the revenues from food sales (not including beverage sales, other sales, and miscellaneous income), based on the audited financial statements for fiscal year 2004.
- Restaurants with an average check per person of under \$15 have a median food cost of 33 percent, according to the 2003 Restaurant Industry Operations Report by the National Restaurant Association and Deloitte & Touche. According to data provided by Seasons

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**The District formulated a marketing plan but it lacked specific, measurable, and achievable goals.**

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Restaurant, the average check per person was less than \$13 for August 2003 through April 2004.

The District formulated a marketing plan but it lacked specific, measurable, and achievable goals (e.g., with dollars, numbers, and timetables). (Management and program audit, pages 111-124)

## FINANCIAL AUDIT

The financial statement audit of the Rend Lake Conservancy District for fiscal year 2004 contains 15 findings and recommendations.

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## INADEQUATE INTERNAL CONTROLS

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Internal controls were materially deficient. We noted several accounting areas where the District had an inadequate segregation of duties without adequate compensating controls. We noted the following control weaknesses during our testing:

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**The District does not have adequate segregation of duties in processing revenues, cash receipts, payables, cash disbursements, payroll and general accounting.**

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- **Revenue and Cash Receipts:** For the residential and commercial water system, shooting complex, hotel, restaurant, and pro shop, we noted a lack of segregation of duties in the collection of cash receipts and recording of revenue.
- **Payables and Cash Disbursements:** The same person who enters accounts payable into the computer system, mails the vendor checks and reconciles the vendor statements to the bills.
- **Payroll Transactions:** The same employee who enters timekeeping and payroll changes into the payroll system has access to the general ledger, reviews and prints the payroll checks, and receives returned payroll checks.
- **Inventory:** Inventory counts are performed by personnel who are also the custodian of the inventory.
- **General Accounting:** The person who maintains or has access to subsidiary ledgers such as commercial receivables, accounts payable, and fixed assets also has access to the general ledger.
- **Compensating Control Weaknesses:** Bank reconciliations, payroll and non-cash journal entries are not reviewed by independent management personnel.

Good business practices require a proper segregation of duties in all accounting functions or the presence of adequate compensating controls to help mitigate the risks of fraud or misappropriation of assets from occurring. District personnel stated that the above deficiencies have occurred due to the lack of personnel available to obtain an adequate



segregation of duties and the lack of understanding of what encompasses a proper segregation of duties. (Financial audit finding 1, pages 7-8)

We recommended that the District review the assigned duties of its personnel to achieve an adequate segregation of duties, and when proper segregation of duties cannot be obtained, that compensating management oversight controls be developed. The District concurred with the our recommendation and indicated that they had begun to review duties performed, provide training for segregation of duties in each identified area, and implement more controls over the accounting process.

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### **POLICY AND PROCEDURE MANUAL INCOMPLETE**

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The District had not completed its policy and procedure manual as of April 30, 2004. Two of the six chapters were not complete. The uncompleted chapters address personnel matters and the budget process. Furthermore, the manual does not include accounting policies and procedures, a fraud risk management program, or employee job descriptions. While the manual has a conflict of interest policy, it does not include any reference as to whether it applied to District employees.

We noted that the conflict of interest policy adopted by the District did not include any reference as to whether it applied to District employees. Further, we noted two matters that involve a potential conflict of interest.

According to District personnel the policies and procedures manual was not completed due to time constraints and the other issues noted were not addressed due to oversight. (Financial audit finding 2, pages 9-10)

We recommended that the District complete its policy and procedures manual, develop fraud risk management policies and job descriptions to be included in the manual, update their current conflict of interest policy to be in compliance with the River Conservancy Districts Act, and address the potential conflict of interest issues identified. We further recommended that they develop accounting policies and procedures that address:

- Payroll processing
- Receipts, revenue and receivables
- Property and equipment
- Purchasing and contracting
- Expenditure controls
- Inventories
- Electronic data processing

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**The District's policy and procedures manual does not include accounting policies and procedures.**

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The District concurred with our recommendation and indicated that the Board of Trustees approved the chapter on personnel matters and that they will include accounting procedures, fraud risk management policies and job descriptions in the policies and procedures manual that they expect to complete by the end of the calendar year.

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### **DEFICIENT PENSION PLAN ENROLLMENT PRACTICES**

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Pension plan enrollment practices were deficient. The District is not enrolling its employees into the Illinois Municipal Retirement Fund (IMRF) pension plan in accordance with the regulations established by IMRF.

In 2003, the District began a process of reviewing employees' payroll records for the nine calendar years prior to and including calendar year 2003 to identify employees who potentially should have been enrolled in the IMRF plan but who were not enrolled. The District identified 34 current employees who had not been properly enrolled in the plan. From these 34 employees, 25 were subsequently enrolled. District personnel stated that they intend to attempt to contact the 113 former employees that they identified in their review who were entitled to participate in IMRF but were not enrolled. During our current year testing, we noted 23 exceptions (45%) out of 51 employees tested who should have been enrolled into the IMRF plan. According to District personnel, these employees were not enrolled due to oversight.

---

**45% of employees tested in the current year were not properly enrolled in the pension plan.**

---

According to the IMRF handbook, an IMRF position is any position where the employee is expected to work 600 hours or more in a year. The District's current policy is to enroll an employee once they have worked 600 hours for the District in a year if the position is a part-time position. (Financial audit finding 6, pages 15-16)

We recommended the District establish policies and procedures to more accurately identify employees eligible for enrollment into the IMRF plan in accordance with the IMRF rules and that they enroll those employees at the time they are identified. Further, we recommended the District continue in its efforts to contact and enroll former District employees who are eligible for past service credits in IMRF.

The District concurred with our recommendation and stated that it would establish policies and procedures for identifying eligible employees in a more timely manner and would continue in its efforts to complete omitted service forms for those employees who have past service credits.

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**PAYROLL TIMESHEET APPROVAL DOCUMENTATION  
ABSENT**

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Internal control documentation regarding timesheet approval was absent in most cases tested. The District is not adequately documenting its supervisory review of timesheets used to prepare payroll. A total of 40 employee timesheets were tested and 35 did not include written evidence of the supervisor's review and approval of the time sheet.

Good internal control procedures would require that supervisors approve time sheets in writing to verify the time worked by employees before they are submitted for entry into the payroll system. Payroll related expenses totaled \$3.1 million for the year ended April 30, 2004. According to District personnel, lack of supervisory approval occurred due to oversight. (Financial audit finding 4, page 13)

The District concurred with the findings and stated that they had implemented our recommendation that supervisors approve all timesheets in writing before they are submitted for payment.

---

**INTERNAL CONTROL OVER CASH DISBURSEMENTS**

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The District has failed to establish proper internal controls over cash disbursements. The following exceptions were noted in our testing of 159 invoices:

- There was no evidence of a supervisor's approval on 81 of 159 invoices (51%) tested totaling \$2,185,084.
- On all invoices tested totaling \$3,136,019, there was no documentation by accounts payable personnel to evidence that clerical accuracy was checked.
- In two instances, invoices totaling \$9,473 were paid twice; the District later discovered the error and received credit from the vendor.
- In six instances, invoices totaling \$54,299 were not paid within 60 days of receipt of the invoice or goods and services.

We also noted internal control deficiencies in the cash disbursements system. No District employee matches the invoices to a computer check run edit report after they are entered into the system to ensure the that the invoices were correctly entered. In addition, when the Finance Committee of the Board receives the checks for signature they do not receive the invoice or other supporting documentation for review before signing the checks.

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**35 of 40 employee timesheets tested did not include written evidence of the supervisor's review.**

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**81 of 159 invoices tested (51%) did not include evidence of a supervisor's approval.**

**No evidence that 159 invoices were reviewed for clerical accuracy.**

---

According to District personnel, these weaknesses and exceptions occurred due to oversight. (Financial audit finding 10, pages 20-21)

We recommended that the District take the appropriate steps to strengthen controls over cash disbursements. The District concurred with our recommendation and indicated that they will develop and implement new policies and procedures to strengthen control over cash disbursements.

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**PURCHASE ORDERS AND RECEIVING REPORT USAGE  
NEEDS TO BE EXPANDED**

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Practices for using purchase orders and receiving reports need to be expanded. Specifically, we noted the District does not use purchase orders for non-water department purchases and does not use receiving reports for any type of purchase.

---

**Reports are not  
used to verify the  
receipt of goods  
and services.**

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The District has no form or procedure to acknowledge the receipt of goods and services when they are delivered. This function should be performed by someone independent of the purchasing function. Also, the District does not use purchase orders for significant non-water purchases, such as for the Golf Course, the Pro Shop, the Shooting Range and the Restaurant to establish that purchases were properly authorized. The District's total expenses in fiscal year 2004 were \$5,591,595 excluding payroll and depreciation. The District's total non-water expenses for fiscal year 2004 were \$2,442,261, excluding payroll and depreciation.

According to District personnel this occurred due to oversight and the limited number of personnel. (Financial audit finding 11, page 22)

We recommended the District use purchase orders to document authorization of all significant non-water purchases and that the District use a receiving report to document the verification of receipt of goods and services. The District concurred with our recommendation and stated that they would evaluate and implement a purchase order system for the entire District.

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**OTHER FINDINGS**

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The remaining financial audit findings are less significant and are reportedly being given attention by the District.

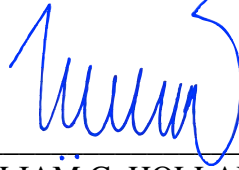
**RECOMMENDATIONS**

The financial audit contains 15 findings and recommendations while the management and program audit identified deficiencies in 16 areas and recommended more than 70 specific actions that the District needed to take. The District agreed with the recommendations. The District's responses are provided after each recommendation in the respective reports.

After the end of the audit period, the District appointed an interim General Manager to lead the District for the remainder of calendar year 2004. The interim General Manager has publicly announced plans to begin the process of making changes related to several areas (e.g., mission statement, long-term planning, water plant upgrade, marketing) that are addressed by recommendations within this audit report.

**AUDITORS' OPINION**

Our auditors state the District's financial statements as of and for the year ended April 30, 2004 were fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH:AD:JF  
September 2004

**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for the financial audit were Doehring, Winders, and Company, LLP.



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## Chapter One

# INTRODUCTION

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The General Assembly enacted Public Act 93-0275 directing the Auditor General to conduct financial, management, and program audits of the Rend Lake Conservancy District (District). This is our report of the management and program audit that primarily reviewed the District's recently completed fiscal year 2004 (ended April 30, 2004). The financial audit was conducted by our special assistant auditors and is being issued as a separate report.

The Rend Lake Conservancy District was created in 1955 to provide water to Southern Illinois. A water plant became operational in the early 1970s and the District estimates it provides water to 160,000 people. The District also provides recreational activities, such as golfing, shooting, hunting, lodging, and dining, which are important tourism assets for the region.

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## REPORT CONCLUSIONS

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The Rend Lake Conservancy District has significant deficiencies in virtually all aspects of its management, including: planning, water and sewage operations, personnel, contract management, property and equipment management, and performance monitoring.

The Board of Trustees (Board) needs to fulfill its fiduciary responsibility over the Rend Lake Conservancy District. The District's recreational businesses were losing money, there was no proper budget for the District, the Expense Committee was not functioning, tenants and contractors were not being monitored, and engineering and legal consultants were paid more than \$500,000 in fiscal year 2004 when a Board ordinance called for internal engineering and legal departments. The recreational businesses of the District (e.g., golf, lodging, dining, and trap shooting) lacked a business plan and lost approximately \$900,000 in fiscal year 2004.

The District has few written policies and procedures in place. In addition, the absence of performance data leaves the District vulnerable to the potential for fraud, waste, and abuse. The billing system for water made errors, lacked supervisory review, and failed to collect delinquent charges. Rates for sewage varied and not all customers paid the established sewage rate. Services and equipment were routinely acquired without formal contracts and a complete list of current contracts was not maintained or known. The District also did not comply with several requirements that have been established by State law.

Below is a more detailed analysis of the 10 areas that had significant deficiencies:

1. **BOARD OF TRUSTEES.** A seven-member Board of Trustees appointed by local officials has overseen the District under bylaws that were established in 1955 (Ordinance No. 1). Governing boards are typically responsible for determining an organization's mission and purpose, providing proper financial oversight, and monitoring program operations. Considering the past problems experienced by the District, and the additional problems identified in this audit, the Board has not been effective in carrying out its oversight responsibilities.
  - The Board did not follow some of its ordinances, including electing a Board member to serve as treasurer, establishing an Expense Committee to review certain expenses prior to approval by the full Board, and requiring prior approval from the Board for the expenses. In addition, the Board did not establish a legal department and an engineering department pursuant to Ordinance No. 1. Instead, outside consultants were paid more than \$500,000 in fiscal year 2004 to provide legal and engineering services without written contracts.
  - The Board did not always provide adequate guidance to the District. The Board rescinded personnel policies for non-union employees (Ordinances Nos. 122 and 183) without replacing them for several years (1987-1990 and 2001-2004).
  - During the past year, the Board has moved to establish several committees including a finance committee, a promotional committee, and an insurance committee. Reporting to the Board has increased with division supervisors and contractors attending Board meetings to present information regarding their areas.
  
2. **PLANNING.** The District failed to fulfill a key management responsibility, namely to establish and implement formal planning, such as short-term and long-term plans.
  - The District had no formal mission statement, no written goals and objectives, no strategic or operational plan, and few written policies and procedures. Without such documents, employees lack the guidance that is needed to ensure consistency and uniformity.
  - There was no single comprehensive capital plan which would demonstrate the need for the projects, detail the costs, provide timelines, and specify revenue sources to pay for them. The District had cost estimates for individual projects associated with upgrading the water plant, but they were not linked and seemed to have different priorities.
  - The District's recreational units again lost money this year (discussed below); however, there was no marketing plan that had specific, measurable, and achievable goals that specified dollars, numbers, and timetables.
  
3. **FINANCIAL MANAGEMENT.** In fiscal year 2004, the District's income was nearly \$2 million, mainly due to the water plant's earnings of \$2.6 million. The recreational areas lost money. Sales of water have subsidized the recreational and other activities over the years by more than \$10 million – funds that could have been used to pay for upgrading the aging water plant.
  - The District did not have a specific line-item budget for each operational division to ensure the recreational activities cover the cost of operations. In fact, the District's appropriation ordinance authorized approximately \$25 million in expenditures when the total revenues were approximately \$12 million.



- In fiscal year 2004, the recreational areas lost approximately \$900,000 after depreciation. The District did not allocate depreciation to each recreational area although this information would show the full cost of operating an activity. Before depreciation, only the lodge had positive income, which was less than \$50,000. The other recreational assets lost the following amount of money before depreciation:
  - Restaurant lost more than \$250,000
  - Shooting complex lost more than \$150,000; and
  - Golf lost more than \$60,000.

4. **WATER AND SEWAGE.** The residential billing system for water made errors and required manual checks and corrections. No supervisor was assigned to review the accuracy of the bills.

- Few operational reports on water and sewage billing (e.g., revenues, costs, number of users, number delinquent, amount delinquent, aging schedules) existed to inform management of problems.
- Residential customers were on self-determined billing cycles in which some paid monthly, some paid annually, and some paid in between these time frames.
- The District was unable to provide the total number of water customers whose payment of bills was in arrears although some customers had more than \$1,000 in unpaid water bills.
  - No delinquent charge had been imposed on any customers although Ordinance No. 46 has established late fees.
  - One municipal customer that was late on several occasions should have been assessed approximately \$46,000 in late charges according to their contract.
- Some customers did not pay the established sewage rate of \$2.80 per 1,000 gallons that was set by Ordinance No. 112. New apartments that were opened in 2001 were never billed for sewage services, according to District personnel.
- We compared the water rates charged to residential customers by the Rend Lake Conservancy District to those charged in nine other Southern Illinois communities as of July 2003. Water costs for residential customers ranged from \$15.84 in Carbondale (which does not buy its water from the District) to \$28.35 in Mt. Vernon (which does buy its water from the District) based on average monthly water usage of 6,000 gallons. The District charged \$26.75 for 6,000 gallons of water for residential customers living in Franklin and Jefferson Counties. The water cost data was collected as part of a survey conducted by the City of Carbondale.

ACCOMPLISHMENTS	
✓	The District earned income of \$2 million in fiscal year 2004, mainly from the sale of water.
✓	The District repaid its \$13.65 million in outstanding revenue bonds.
✓	The Board is receiving more financial information about the operations of the District and plans to establish a budget by operational area.
✓	The Board is in the process of approving a policy and procedures manual.

5. **PERSONNEL.** The Rend Lake Conservancy District did not have job descriptions (prior to August 2003), a pay plan for non-union employees, a formal staffing plan, or written personnel policies and procedures.

- The District's personnel files were incomplete and more than one-half of the 30 personnel files we sampled did not have complete job application forms. One-third of the files sampled even lacked salary data; in fact, there was no written pay plan for non-union employees that would show the minimum and maximum salaries for each position.
  - There was little documentation related to recruitment that could demonstrate that the best candidates were selected (e.g., job postings, required and desired skills, interview records, internal recommendations, reference checks, and decision memos).
  - The job descriptions created by supervisors did not encompass all of a position's responsibilities or requirements. For example, while a few job descriptions listed education (such as a bachelor's degree) as a desired qualification, none contained any required education qualifications.
6. **CONTRACTS.** There was no list of all the contracts that the District had entered into and was legally bound to honor, including basic information such as the number of oil wells on the District's property or the number of acres of farmland that were leased.
- Farmers were not required to submit financial records to the District as required by their lease.
  - The District was unable to provide a list of expenses reimbursed to each tenant and did not conduct analyses to ensure revenues from tenants were greater than the expenses that the District reimbursed.
  - No employee was assigned to monitor contracts, such as to ensure the oil wells or farmers were paying the District the correct amount. Without adequate controls over contracts and leases, the District cannot ensure that the services for which it is paying are being provided according to the obligations that have been set forth in the contract agreement. Employees said the former General Manager handled contracts through the outside legal counsel and, therefore, no current employee knows much about contracts. A clear assignment of responsibilities needs to be established by the District for contracts.
7. **PROPERTY AND EQUIPMENT.** The District's list of assets was incomplete, assets were not tagged, and an independent inventory was not conducted. The District did not know the total number of vehicles it owned, did not have titles for all its vehicles, and was not able to locate two vehicles that it had loaned.
- We sampled 30 items from the District's fixed asset inventory list but could not locate 9 of the items (30%). Another six items (20%) sampled were found in a different location than what was on the inventory list, or were incorrectly categorized.
  - To verify that all the assets were recorded on the District's inventory list, we checked to see if 20 selected assets (e.g., computer, printer, TV, VCR, camcorder, scanner) were on the inventory list. Sixty percent of the assets sampled were not clearly identifiable on the District's inventory list because the serial number or model number was not listed.

8. **MONITORING.** The District lacked internal reporting to show whether its water plant and recreational activities were performing satisfactorily. A lack of goals, objectives, and performance statistics hinders the ability of the District to determine the efficiency and effectiveness of its operations.
- The water plant did not keep important information, such as performance indicators or benchmarking statistics to monitor its operations (e.g., number of main breaks, average customer outage time).
  - The District’s recreational activities lacked regular reports that showed their operational performance. Such information could help direct and monitor the District’s operations and could be used to compare planned levels of performance (goals or targets) with actual outputs and outcomes (results), and also benchmark to other comparable entities. It could also be used to evaluate managers’ work performance and reward them as appropriate.
9. **NON-COMPLIANCE.** The District did not comply with several requirements that have been established by State law:
- Section 11 of the River Conservancy Districts Act (70 ILCS 2105) states that if the Board decides to operate recreational facilities, it shall establish rates and charges that at least defray all fixed, maintenance, and operating expenses. However, the District’s recreational activities (golf, restaurant, shooting) did not cover the cost of their operations and had a loss in fiscal year 2004.
  - Section 16 of the River Conservancy Districts Act states that contracts, other than for professional services, that exceed \$2,500 be let to the lowest responsible bidder. However, the District did not seek competitive bids for some contracts over \$2,500, such as for computer services and shooting supplies.
  - Section 4b of the River Conservancy Districts Act states that no trustee or employee may be directly or indirectly interested financially in any contract work or business of the District. However, the District did not receive full information on potential conflicts of interest by trustees, employees, or outside consultants. For example, one trustee was serving on the Board of a bank where the District had an account and loans. One employee was leasing farmland from the District.
10. **MANAGEMENT STRUCTURE.** The District lacks an adequate number of professional managers with a business background for an organization with over \$12 million in annual revenues, diverse recreational assets, a water plant that helps to serve 160,000 people in Southern Illinois, and nearly 150 employees during the peak summer months. The District has been losing money on its recreational assets but continued to lack a business plan.
- The only salaried employee in the District’s administrative office had been a Managing Director (previously called General Manager). The District’s Comptroller was an hourly employee, as was the Director of Human Resources.
  - There was no written staffing plan that analyzed staffing needs; this creates a risk that the District lacks the optimal number and type of employees for its complex operations. For example, there was no deputy director, chief financial officer, legal counsel, chief engineer, or internal auditor.

After the end of the audit period, the District appointed an interim General Manager to lead the District for the remainder of calendar year 2004. The interim General Manager (who declined a permanent position and a salary) has publicly announced plans to begin the process of making changes related to several areas (e.g., mission statement, long-term planning, water plant upgrade, marketing) that are addressed by recommendations within this audit report.

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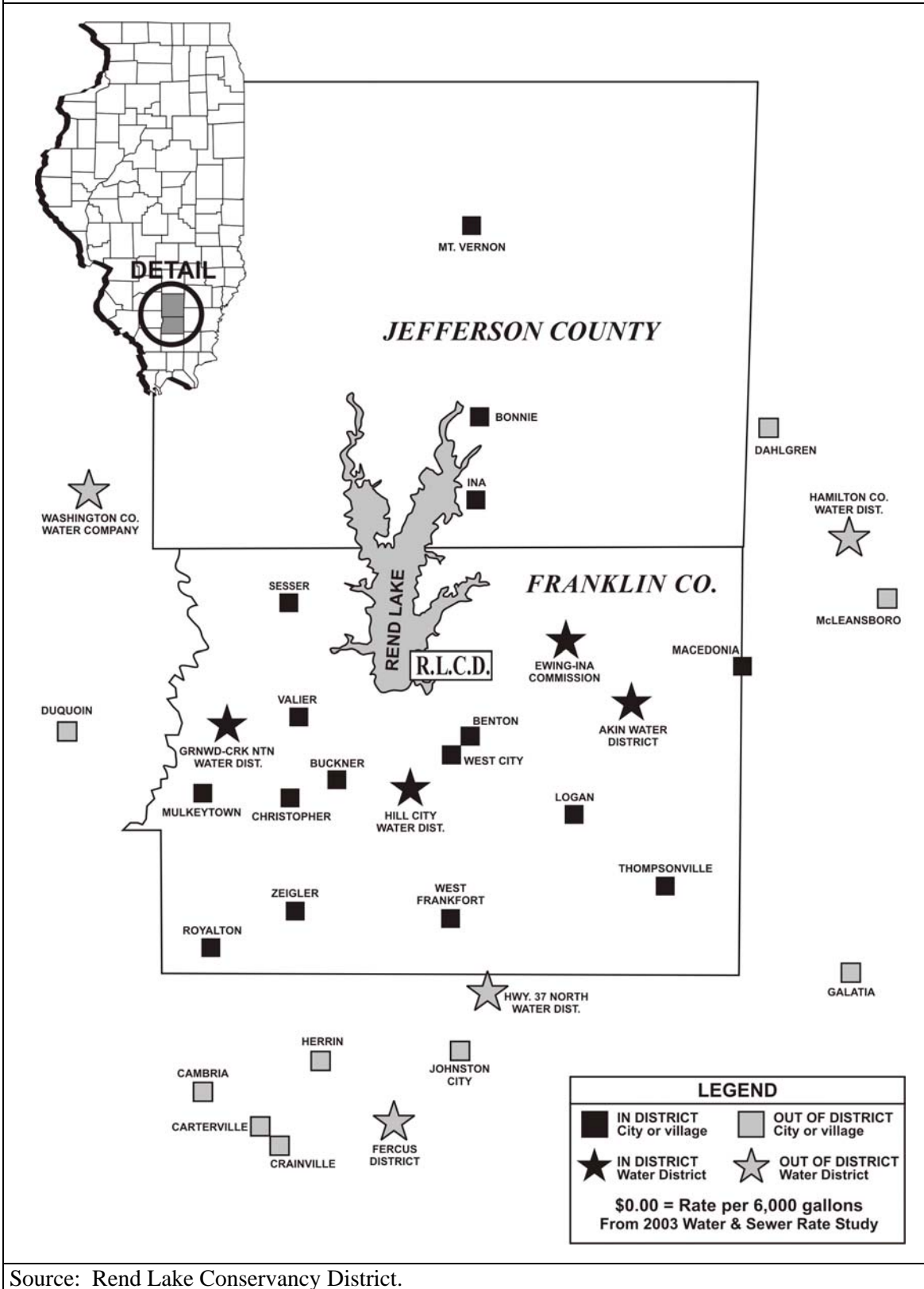
## **CREATION OF REND LAKE**

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The Rend Lake Conservancy District was created in 1955 to provide a dependable supply of water to Franklin and Jefferson counties in Southern Illinois. The District is located in Southern Illinois between the towns of Benton (in the south) and Mt. Vernon (in the north) on interstate highway I-57. Exhibit 1-1 shows on a map that the District includes Franklin and Jefferson counties. It also shows entities outside the District that receive water from the Rend Lake Conservancy District.

The River Conservancy Districts Act (Act) of 1925 (70 ILCS 2105 et seq.) was used to help create Rend Lake. Under this Act, a conservancy district is to have a board of trustees that is authorized to pass ordinances, rules and regulations, and make appointments. The Act authorizes a conservancy district to acquire, construct, and operate the facilities at rates that cover all fixed, maintenance, and operating costs (Section 11).

Exhibit 1-1  
**COMMUNITIES RECEIVING WATER FROM REND LAKE**



Source: Rend Lake Conservancy District.

On October 23, 1962, Public Law 87-874 authorized the Rend Lake project in accordance with the recommendations of the United States Corps of Engineers (see Exhibit 1-2). According to the Corps, the authorized purposes of Rend Lake included flood control on the Big Muddy and Mississippi Rivers, water supply, water quality control, fish and wildlife conservation, recreation, and area redevelopment.

Rend Lake was built as a joint project by the Illinois Department of Conservation, the Rend Lake Conservancy District, and the U.S. Army Corps of Engineers. Construction of the 18,900 acre reservoir cost \$60 million and took five years to complete.

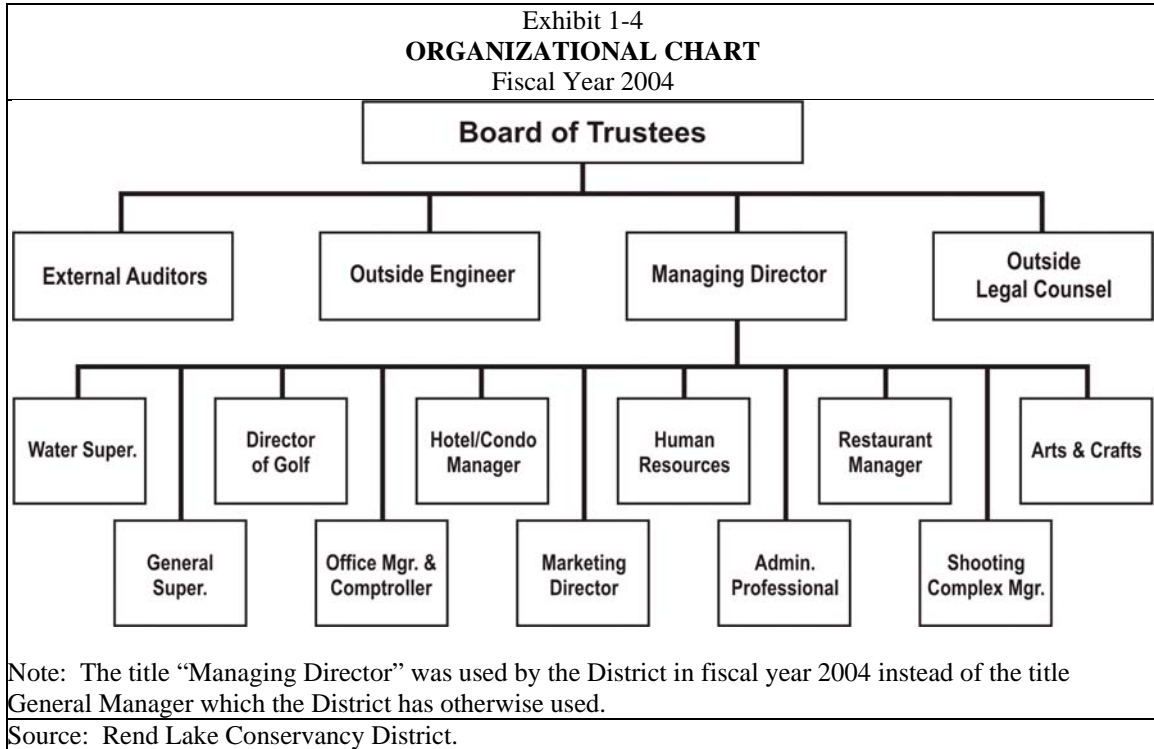
Exhibit 1-2 HISTORY OF REND LAKE	
Year	Event
1955	Rend Lake Conservancy District formed.
1962	On October 23, 1962, Public Law 87-874 authorized construction.
1965	Rend Lake construction authorized by federal government as a US Corps of Engineers project.
1971	Construction of lake and dam completed.
1976	18-hole golf course was constructed.
1979	Trap shooting facility was completed.
1994	Golf course was expanded to 27 holes. Seasons resort hotel was constructed at the golf course.
1995	Shooting complex added sporting clays to skeet and trap shooting facilities.
1996	500 acre hunting complex opened near shooting complex.
Shoreline length.....162 miles	
Pool Width.....3 miles	
Maximum depth.....35 feet	
Source: www.RendLake.com.	

## BACKGROUND

The Rend Lake Conservancy District provides water, sewage collection, and recreation facilities such as golfing, trap shooting, lodging, and dining. The District's annual revenues exceeded \$12 million and were deposited in the General Fund, Intercity Water System Fund, Land in Development Fund, Sewage Treatment Fund, and Recreation Fund (golf, restaurant, lodge, trap and field). Exhibit 1-3 shows the revenues and expenses for fiscal year 2004.

Exhibit 1-3 REVENUES AND EXPENSES Fiscal Year 2004									
	General	Land In Development	Intercity Water System	Sewage Treatment Fund	Recreation Fund				TOTAL
					Golf	Restaurant	Lodge	Shooting & Hunting	
Revenues	\$649,583	\$149,268	\$8,006,806	\$ 210,276	\$1,080,859	\$862,087	\$866,323	\$460,064	\$12,285,266
Expenses	(256,978)	(57,465)	(4,084,843)	(151,371)	(1,073,956)	(1,130,931)	(658,971)	(625,307)	(8,039,822)
Interest Expense	-	-	(423,592)	(54,323)	(69,503)	-	(161,417)	-	(708,835)
Depreciation	(47,600)	-	(931,739)	(149,951)					(1,129,290)
<b>Income (loss)</b>	<b>\$345,005</b>	<b>\$91,803</b>	<b>\$2,566,632</b>	<b>(\$145,369)</b>	<b>(\$62,600)</b>	<b>(\$268,844)</b>	<b>\$45,935</b>	<b>(\$165,243)</b>	<b>\$2,407,319</b>
Recreation Fund Depreciation									(451,815)
Other Recreation Fund Adjustments									(1,559)
<b>District-Wide Income</b>									<b>\$1,953,945</b>
Note: The Recreation Fund activities had additional adjustments that were made for hospitalization insurance and a loss on the sale of assets. The District did not allocate these adjustments, along with depreciation, to the individual activities. Income (loss) total does not include \$96,000 capital grant.									
Source: Rend Lake Conservancy District FY2004 audited financial statements.									

Exhibit 1-4 shows the District’s recreational divisions, activities, and organizational units for fiscal year 2004. On the next page, Exhibit 1-5 contains names of some of the District’s principal officers, consultants, and auditors.



The Rend Lake Conservancy District has had management and financial problems that have been publicly reported during the past two years. District trustees became concerned about the management of the District’s operations in late 2002. Trustees said that financial information provided to them was lumped in categories making it difficult to discern the necessity of expenditures. In a January 25, 2003 letter to the former General Manager, the Board’s outside legal counsel stated that he was writing the letter at the direction of the trustees to document points based on a January 23<sup>rd</sup> meeting, including the following:

- The Board has been trying to get information over the past 4-5 months regarding the District’s cash flow, budget, and ability to pay bills. The Board feels the information provided has changed versions and has not been backed up by documentation.
- Contact with the Board by the former General Manager should be through the outside legal counsel. The Board does not wish to be visited or “worked” with regard to District issues.
- The Board desires to be dealt with in a forthright manner, hear the good or bad news as it exists, and does not wish to hear a favorable version.

- The Board was displeased with the former General Manager’s letter of January 21, 2003 to the legal counsel because it did not provide direct answers – *“a dissertation was given on accounting principles. The answer should have been a simple ‘yes’ or ‘no.’”*

In February 2003, the Board directed the District’s Comptroller to prepare a detailed, line item, accounting system that was separated by funds and specific operations.

The District also decided to seek a forensic investigation by the firm of Brown Smith Wallace (BSW) Litigation and Valuation Services, LLC of St. Louis. BSW provided a report on March 31, 2003 that alleged unauthorized allowances and potential mismanagement of funds. This investigation questioned expenses that had been paid by checks signed by Trustees.

One former trustee of the Board told us that trustees were generally aware of the former General Manager’s expenditures and had authorized the expenditures. He said that BSW prepared its report without meeting with any of the trustees. We also provided the former General Manager an opportunity to

Exhibit 1-5 <b>GENERAL MANAGERS, CONSULTANTS, AND AUDITORS</b>	
Glenn Poshard	Interim General Manager of the Rend Lake Conservancy District from July 2004 (declined a permanent position and salary and agreed to serve only until December 2004).
Gary May	Hired in June 2003 to fill the position of General Manager (the position was renamed to Managing Director). His contract was not renewed when it expired in June 2004.
Terry Black	Outside legal counsel for the District who was Acting General Manager from February 2003 to June 2003. Mr. Black is a partner in the firm of Campbell, Black, Carnine, Hedin, Ballard & McDonald
Kevin Davis	General Manager of the District from 1994 until February 2003 when he was placed on administrative leave; the District terminated his employment contract on April 28, 2003.
PRINCIPAL CONSULTANTS	
Brown Smith and Wallace Litigation and Valuation Services, LLC	Conducted forensic investigation for the District in 2003 that was referenced in the termination of the former General Manager.
Campbell, Black, Carnine, Hedin, Ballard & McDonald, PC	Outside attorneys for the District.
Lawrence A. Lipe & Associates	Outside engineers for the District.
McMahon, Berger, Hanna, Linihan, Cody & McCarthy	Labor and employment law (e.g., representing District against litigation by prior General Manager)
Weilmuenster & Wigginton, PC	Legal consultant for the District, which is investigating a potential legal malpractice claim against a St. Louis firm that gave the District advice concerning terminating the former General Manager.
Williams, Venker and Sanders, LLC	Law firm retained by the District with respect to the termination of the former General Manager.
EXTERNAL AUDITORS	
Doehring, Winders, and Company, LLP	Firm retained by the Office of the Auditor General to conduct the financial audit of the District in fiscal year 2004 (pursuant to Public Act 93-0275).
Clifton Gunderson, LLP	Firm retained by the District to audit the District in fiscal year 2003.
Gaither, Rutherford, LLP	Firm retained by the District to audit the District in fiscal year 2002 (and prior years).



meet with us but he declined through his attorney.

On April 28, 2003, the District’s Board of Trustees terminated the employment of the General Manager in a 6-1 vote for alleged unauthorized allowances, along with his secretary. They had been suspended since February 2003. Later, the District reached a settlement which paid the General Manager \$250,000 and his secretary \$35,000.

The District publicly disclosed in July 2004 that they were unsatisfied with the firm that advised the District to terminate the employment of the General Manager in 2003 and is pursuing legal remedies to recoup the payment. In July 2004, the District retained an interim General Manager who declined a salary and a permanent position; he agreed to serve only until December 31, 2004.

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## SCOPE AND METHODOLOGY

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This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310. Public Act 93-0275 requires a management and program audit of the Rend Lake Conservancy District (see Appendix A). The Public Act also calls on the Auditor General to perform a financial audit; that audit is being issued as a separate report alongside this audit.

To address the directives of the Public Act, the audit’s objectives included examining the District’s planning function, organizational structure, operations, and controlling functions. We reviewed the District’s operations primarily for fiscal year 2004 which ended April 30, 2004 and gathered information by using the following methods (also see Appendix B):

- § Reviewed applicable State statutes and administrative rules.
- § Examined the District’s policies, procedures, and processes.
- § Examined the District’s operational reports and records.
- § Visited the District’s water plant, golf course, hotel, restaurant, lodge, shooting and hunting facilities, and other buildings.
- § Interviewed the District’s trustees and managers.
- § Tested for compliance with applicable legal requirements.
- § Tested the District’s internal controls.
- § Reviewed the District’s expenditures, contracts, property, and equipment on a sample basis.
- § Reviewed the District’s information systems.
- § Reviewed relevant findings in the prior financial audits.

We also obtained information from other organizations that included the Illinois Department of Natural Resources, the Illinois Environmental Protection Agency, the Illinois Rural Water Association, and the Illinois Association of Park Districts.

The criteria used in this audit came from State statutes, District policies and procedures, prudent business practices, and comparisons with other entities.

Since this was both a management and program audit, we reviewed the District's mission, goals, and objectives to the extent that they were available to determine the District's success in achieving them. We also examined performance measures to review outputs and outcomes when available. However, as reported in the audit, the District lacked an adequate mission statement, goals, objectives, performance measures, and performance reporting.

The remaining chapters of this audit report address subjects such as the Board of Trustees, financial management, water plant, personnel, contracts, property, equipment, vehicles, information systems, golf, hotel, restaurant, shooting, and hunting.

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## Chapter Two

# BOARD OF TRUSTEES

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## CHAPTER CONCLUSIONS

The seven-member Board of Trustees that governs the Rend Lake Conservancy District has operated under bylaws that were established in 1955. Governing boards are typically responsible for determining an organization's mission and purpose, providing proper financial oversight, and monitoring program operations. The Board has not been effective in carrying out its oversight responsibilities considering the past problems experienced by the District, and the additional problems identified in this audit. The Board of Trustees needs to fulfill its fiduciary responsibility over the Rend Lake Conservancy District.

- Ordinance No. 1 established a legal department and an engineering department but these departments did not exist. Instead, outside consultants were paid more than \$500,000 in fiscal year 2004 to provide legal and engineering services without written contracts that would have documented their responsibilities and billing rates.
- The Board did not follow some policies it created by ordinance, including electing a Board member to serve as treasurer, establishing an Expense Committee to review certain expenses prior to approval by the full Board, and requiring prior approval from the Board for the expenses.
- The Board did not always provide adequate guidance to the District. It rescinded personnel policies for non-union employees (Ordinances Nos. 122 and 183) without replacing them for several years (1987-1990 and 2001-2004).
- The Board did not establish a specific budget for each operational area of the District although State law requires the water plant and the recreational activities to cover the cost of their operations. In fact, the District's appropriation ordinance authorized nearly \$25 million in expenditures when the total revenues were more than \$12 million in fiscal year 2004.
- For many years the District has been transferring money from the Intercity Water System Fund to pay for its recreation (\$6.7 million) and other activities for a total of more than \$10 million – funds that could have been used to pay for upgrading the water plant.
- To ensure compliance with the River Conservancy Districts Act, the District's process for reporting potential conflicts of interest needs to be strengthened, not only for Board members but also for District employees and outside consultants.

- The District failed to fulfill a key management responsibility, namely to establish and implement formal planning, such as written short-term and long-term plans. The District had no vision or mission statement, no written goals and objectives, no strategic or operational plan, and few written policies and procedures.

During the past year, the Board has moved to establish several committees including a finance committee, a promotional committee, and an insurance committee. According to District personnel and Board meeting minutes, reporting to the Board has increased. Division supervisors and District contractors have begun attending Board meetings to present information regarding their areas of operation.

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## RIVER CONSERVANCY DISTRICTS ACT

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The River Conservancy Districts Act (70 ILCS 2105) requires that a board of trustees govern every conservancy district that is established. The board must have at least five trustees but can have more depending upon the number of municipalities with a population of 5,000 or more and the number of counties. The county board(s) or municipalities appoint the board members to five-year terms. The Act also requires that three of these members serve as the president, vice president, and secretary of the board.

The Act gives a board of trustees extensive power to manage the conservancy district, including acquiring real and personal property, operating a water treatment facility, fixing compensation for district employees, establishing rates and charges, entering into lease agreements, and issuing revenue bonds (see Exhibit 2-1). It also states that the board may pass all necessary ordinances, rules, and regulations. Exhibit 2-2 shows a list of the current and previous Board of Trustees.

Governing boards are typically responsible for determining an organization’s mission and purpose, providing proper financial oversight, and monitoring program operations. A vigilant board of directors is often the first line of defense against misguided, apathetic, or entrenched management. To be successful, a board must undertake certain practices that enable them to fulfill their duty with care. Members should:

- Attend meetings;
- Review information provided to them;

Exhibit 2-1 <b>BOARD POWERS</b>
<ul style="list-style-type: none"> <li>• Fix the compensation of all the officers and employees of the district</li> <li>• Concentrate, divert or divide the flow of water in or out of the district</li> <li>• Construct or elevate roadways and streets</li> <li>• Acquire real and personal property</li> <li>• Supervise, regulate, and control the flow within the boundaries of the District of the waters of any river, stream, or water course</li> <li>• Acquire land for the establishment of recreational grounds and to construct buildings for recreational purposes</li> <li>• Build, maintain, and operate water facilities</li> <li>• Establish rates and charges for services</li> <li>• Enter into lease agreements</li> <li>• Reject or accept bids</li> <li>• Levy and collect taxes</li> <li>• Appoint and support a police force</li> <li>• Contract with sanitary districts</li> <li>• Issue bonds</li> <li>• Enter into intergovernmental agreements</li> </ul>
Source: River Conservancy Districts Act.

Exhibit 2-2 <b>BOARD OF TRUSTEES – REND LAKE CONSERVANCY DISTRICT</b>				
Fiscal Year begins May 1	Officers	Appointed	Resigned	Area Represented
<b>FY 2001</b>				
Kenneth Martin, Jr. <sup>A</sup>	President	01-26-82	01-25-02	Mt. Vernon
Allen Keith Ward	Vice President	02-01-99	Present	Franklin County
Curtis Cockrum	Secretary	01-26-00	12-15-03	Benton
Gilbert (Gib) Coleman		01-26-99	01-25-04	Jefferson County
Mike Davidson		01-26-01	Present	Jefferson County
Kenneth Gray		08-13-90	05-27-03	West Frankfort
Pete Micheletto		01-26-81	Present	Franklin County
<b>FY 2002</b>				
Gilbert (Gib) Coleman <sup>B</sup>	President	01-26-99	01-25-04	Jefferson County
Allen Keith Ward	Vice President	02-01-99	Present	Franklin County
Curtis Cockrum	Secretary	01-26-00	12-15-03	Benton
Kenneth Gray		08-13-90	05-27-03	West Frankfort
Pete Micheletto		01-26-81	Present	Franklin County
Mike Davidson		01-26-01	Present	Jefferson County
Kenneth Martin, Jr.		01-26-82	01-25-02	Mt. Vernon
Robert (Bob) Steffy		01-25-02	Present	Mt. Vernon
<b>FY 2003</b>				
Pete Micheletto	President	01-26-81	Present	Franklin County
Allen Keith Ward	Vice President	02-01-99	Present	Franklin County
Mike Davidson	Secretary	01-26-01	Present	Jefferson County
Curtis Cockrum <sup>C</sup>		01-26-00	12-15-03	Benton
Gilbert (Gib) Coleman <sup>E</sup>		01-26-99	01-25-04	Jefferson County
Kenneth Gray <sup>D</sup>		08-13-90	05-27-03	West Frankfort
Robert (Bob) Steffy		01-25-02	Present	Mt. Vernon
<b>FY 2004</b>				
Pete Micheletto	President	01-26-81	Present	Franklin County
Allen Keith Ward	Vice President	02-01-99	Present	Franklin County
Mike Davidson	Secretary	01-26-01	Present	Jefferson County
Buddy Allen		01-26-04	Present	Jefferson County
Rev. Dale Carson		12-15-03	Present	Benton
Robert (Bob) Steffy		01-25-02	Present	Mt. Vernon
Larry Warren		05-27-03	Present	West Frankfort
<b>FY 2005</b>				
Pete Micheletto	President	01-26-81	Present	Franklin County
Rev. Dale Carson	Vice President	12-15-03	Present	Benton
Mike Davidson	Secretary	01-26-01	Present	Jefferson County
Buddy Allen		01-26-04	Present	Jefferson County
Robert (Bob) Steffy		01-25-02	Present	Mt. Vernon
Allen Keith Ward		02-01-99	Present	Franklin County
Larry Warren		05-27-03	Present	West Frankfort

<sup>A</sup> Kenneth Martin was replaced by Robert (Bob) Steffy in January 2002  
<sup>B</sup> Gilbert Coleman became President in January 2002  
<sup>C</sup> Curtis Cockrum was replaced by Rev. Dale Carson in December 2003  
<sup>D</sup> Kenneth Gray was replaced by Larry Warren in May 2003  
<sup>E</sup> Gilbert Coleman was replaced by Buddy Allen in January 2004

Source: Rend Lake Conservancy District.

- Ask questions;
- Follow-up on problems;
- Provide training to new members; and
- Be independent (members should not have business or family ties to management).

### **Bylaws and Ordinances**

The Board of Trustees for the Rend Lake Conservancy District established bylaws in May 1955 to govern the District’s operations. The bylaws created by Ordinance No. 1 established officers including a president, vice president, secretary, and treasurer and the duties of each officer. Ordinance No. 1 also established the following:

- Regular meeting dates and rules of order;
- Election and appointment of officers;
- An administrator and the duties assigned to the administrator;
- A chief legal counsel and legal department;
- A chief engineer and engineering department; and
- Contracts that must be let for bid (if over \$500).

### **Outside Consultants**

Ordinance No. 1 established a chief legal counsel and a legal department, along with a chief engineer and an engineering department. These positions and departments did not exist during the audit period. Instead, outside consultants provided legal and engineering services but there were no written contracts to show the outside consultants’ responsibilities or their hourly billing rates.

The District paid \$247,270 for engineering consultants and \$286,098 for legal consultants in fiscal year 2004. The largest amount for engineering consulting services went to the firm of Lawrence Lipe and Associates (\$243,907) and the largest amount for outside legal counsel (\$165,569) went to the firm of Campbell, Black, Carnine, Hedin, Ballard & McDonald (see Exhibits 2-3 and 2-4).

<b>ORDINANCE NO. 1</b>
Section 1 states that the officers of the Board of Trustees shall be the President, Vice-President, Secretary, Treasurer, an Administrator, a Chief Counsel, an Engineer, and other officers appointed by the Board.
Section 7 specifies the duties of the Chief Counsel to include being in charge of the legal department, advising the Board, making recommendations on the legal aspects of proposed policies, and drafting contracts.
Section 8 specifies the duties of the Chief Engineer, including advising the Board on engineering matters, preparing an Official Plan, and preparing plans for the development and use of the recreational assets.

Exhibit 2-3 <b>ENGINEERING CONSULTANTS' BILLS</b> Fiscal Year 2004		
<b>Firm</b>	<b>Charge</b>	<b>Service Provided</b>
Lawrence A. Lipe and Associates	\$243,907	District's outside engineering consultant
Other firm	3,363	
<b>TOTAL</b>	<b>\$247,270</b>	
Source: Rend Lake Conservancy District FY 2004 General Ledger.		

Exhibit 2-4 <b>LEGAL CONSULTANTS' BILLS</b> Fiscal Year 2004		
<b>Firm</b>	<b>Charge</b>	<b>Service Provided</b>
Campbell, Black, Carnine, Hedin, Ballard & McDonald	\$165,569	District's outside legal counsel
McMahon, Berger, Hanna, Linihan, Cody & McCarthy	92,549	Labor and employment law (e.g., representing District against litigation by prior General Manager)
The Stolar Partnership	9,694	Tax Issues
Winston and Strawn	7,500	Legislative relief for payoff of bonds
Other firms	10,786	Various
<b>TOTAL</b>	<b>\$286,098</b>	
Source: Rend Lake Conservancy District FY 2004 General Ledger.		

It should be noted that the Board of Trustees appointed Terry Black, the outside legal counsel from the firm of Campbell, Black, Carnine, Hedin, Ballard & McDonald, to serve as the District's Acting General Manager from February 2003 to June 2003 (see Exhibit 2-5 for FY 2004 monthly payments).

Exhibit 2-5 <b>PAYMENTS TO THE OUTSIDE LEGAL COUNSEL</b> (Campbell, Black, Carnine, Hedin, Ballard & McDonald) Fiscal Year 2004 Payments <sup>A</sup>		
<b>Month</b>	<b>Amount</b>	<b>Hours Billed</b>
April 2003 <sup>B</sup>	\$19,385	140.60
May 2003	25,986	196.85
June 2003	20,285	152.85
July 2003	17,196	135.40
August 2003	16,855	136.80
September 2003	10,910	86.05
October 2003	13,629	128.60
November 2003	7,128	53.90
December 2003	9,348	72.70
January 2004	8,700	64.90
February 2004	8,036	68.40
March 2004	7,907	71.10
<b>TOTAL</b>	<b>\$165,365</b>	<b>1,308.15</b>
Note: Outside legal counsel was serving as Acting General Manager from February 2003 to June 2003. <sup>A</sup> Bills were paid the following month – e.g., April 2003 bills were paid in May 2003 (which would be fiscal year 2004) while April 2004 bills were paid in May 2004 (which would be fiscal year 2005). <sup>B</sup> Does not include \$203.55 payment made on an unpaid balance from March 2003.		
Source: Rend Lake Conservancy District.		

The District should either comply with Ordinance No. 1 and establish in-house engineering and legal positions, or rescind the provisions of the ordinance with which it decides not to comply. Given the issues raised in later chapters of the audit, pertaining to failure to bid contracts or enter into contracts for services exceeding \$2,500, problems with farm and oil lease monitoring, lack of policies and procedures, etc., it would be advantageous to the District to have on-site in-house legal assistance.

<b>LEGAL AND ENGINEERING DEPARTMENTS</b>	
<b>RECOMMENDATION NUMBER  1</b>	<i>The Board of Trustees for the Rend Lake Conservancy District should establish legal and engineering departments pursuant to Ordinance No. 1.</i>
<b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b>	The Board concurs with the findings and recommendations and will proceed with a search for competent on-site in-house legal and engineering assistance.  This activity will be completed by December 31, 2004.

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## BOARD MEETINGS

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At its regular meetings, the Board of Trustees approved the previous meeting's minutes, the treasurer's report, and the check register. The minutes also showed decisions regarding employees, amendments to water contracts with local communities, and contract awards.

We reviewed the meeting minutes to determine trustees' attendance, the information being received and reviewed by trustees, the types of motions made, and any other notable actions taken by the Board. At least five members are required for a quorum. Of the 36 regular meetings reviewed from January 2001 through December 2003, all seven members attended 23 meetings (64%). There was always a quorum at the Board meetings.

<b>RECENT ACCOMPLISHMENTS</b>
✓ The Board is receiving more financial information about the operations of the District and plans to establish a budget by operational area.
✓ The Board is in the process of approving a policy and procedures manual.
✓ The Board has recently established finance, promotional, and insurance committees.

We reviewed ordinances and found the following:

- Personnel policies (Ordinances Nos. 122 and 183) for District non-union employees were rescinded on two occasions without replacing them for several years (no personnel policies were in effect from 1987-1990 and 2001 - May 2004).



- The Board had established Ordinance No. 54 (July 1971) and No. 55 (August 1971) about reviewing expenses but did not always monitor the operations effectively:
  - An Expense Committee (consisting of the District manager, Chairman of the Finance Committee, and Secretary of the Board) was not created as required by Ordinance No. 54 to review District expenses. The ordinance called for detailed reporting and prior approval for travel by the Expense Committee. It said that expense report forms which had been approved by the Expense Committee be submitted to the full Board for final review. We did not find evidence that travel was being approved in advance nor that expense reports were being submitted to an Expense Committee.
  - Trustees signed the District’s checks, including for expenses that were later questioned by a forensic investigation report (March 2003) prepared at the Board’s request. Trustees received a check register which listed these checks prior to their monthly Board meetings, indicating they were either aware of, or should have been aware of, the expenditures that were later questioned by their own forensic investigation.
  - The Board does not have an audit committee or an internal audit function. The premise of having a committee for the audit function is that if boards and their auditors accept clear responsibilities for financial reporting, and then act diligently, many problems will be corrected.

### **Organizational Changes**

During fiscal year 2004, the Board made several changes in its oversight and operations of the District. The Board established a Finance Committee in July 2003 to review invoices. The Board also established a Promotional Committee in June 2003 to set a policy regarding charitable or promotional expenses and established an Insurance Committee in October 2003 to review employee insurance.

The Board of Trustees hired a new Managing Director in June 2003 (and did not renew his contract when it expired in June 2004). The District began drafting policies and procedures for the operation of the District.

According to the trustees and District personnel, the Board now receives information sooner, has more time to review the information prior to meetings, and receives information in a different format that is easier to understand and is not as aggregated. Division supervisors now attend the Board meetings to provide information on their areas of operation. Some other noteworthy developments in 2004 were:

- At its January 20, 2004 Board of Trustees meeting, the Board directed that all invoices from Lipe and Associates (the District’s Engineer) include a breakdown of wages, including rates and hours charged. The outside engineer had billed \$186,853 in fiscal year 2004 until December 31, 2003.

- At the January 27, 2004 meeting, the Board advised the District's Managing Director that the Board was assuming the responsibility of hiring personnel.
- At the February 23, 2004 meeting, the District's Comptroller brought to the Board's attention that the District's second payroll in March could pose a temporary cash flow problem; a motion was passed to give authorization to draw upon a \$50,000 line of credit.
- In March 2004, a food service consultant reviewed menus, staffing, security, inventory control, purchasing, etc.
- In spring 2004, the Board of Trustees decided that for budgetary reasons they would bring back to the administrative office an employee who had been based at the nearby artisans' store for many years. She was providing information to visitors about the Rend Lake area that has recreational opportunities on federal, State, and District lands, such as at the Wayne Fitzgerald State Park. The store is operated by the Illinois Department of Natural Resources.
- The Board had approved four chapters of a policy and procedures manual in fiscal year 2004 (a Chapter 3 on Personnel was adopted in FY05 subject to legal and management approval):
  - Chapter 1: Organization (February 23<sup>rd</sup> Board meeting)
  - Chapter 2: District and Community Relations (February 23<sup>rd</sup> Board meeting)
  - Chapter 5: General Administration (March 9<sup>th</sup> Board meeting)
  - Chapter 6: Board of Trustees (March 9<sup>th</sup> Board meeting)

### **Budget**

The Board of Trustees did not establish a specific budget for each operational area of the District although State law requires the water plant and the recreational activities to cover the cost of their operations. In fact, the District's appropriation ordinance for fiscal year 2004 authorized nearly \$25 million in expenditures when the total revenues were more than \$12 million. The actual expenditures for the District totaled more than \$10 million in fiscal year 2004.

According to May 28, 2003 minutes of the Board of Trustees, the appropriation ordinance for fiscal year 2004 was passed by the Board with all seven trustees voting in favor of it. The minutes did not contain any other discussion of the appropriation ordinance (the minutes essentially contained only the motions and votes for all the items discussed).

The River Conservancy Districts Act (70 ILCS 2105) states that *"If the board determines to operate any such recreational facilities, it shall establish for the revenue-producing facilities rates and charges which at least defray all fixed, maintenance, and operating expenses."* (Section 11)

As discussed in this report, rates and charges for many of the revenue producing recreational facilities have not been sufficient to defray all fixed, maintenance, and operating expenses. The water plant has subsidized these other activities. For many years the District has been transferring money from the Intercity Water System Fund to pay for its recreation (\$6.7 million) and other activities for a total of more than \$10 million – funds that could have been used to pay for upgrading the water plant.

### **Trustee Compensation and Bonding**

The River Conservancy Districts Act allows trustees to be compensated up to \$3,000 per year and requires them to be bonded. The Board established the trustees' compensation at \$3,000 per annum with Ordinance No. 54. The District's Comptroller provided payroll and expense information that showed that no trustee received more than \$3,000 for 2001-2003.

The Act states that *“Each of the trustees shall enter into bond with security to be approved by the appointing authority in such sum as the appointing authority may determine.”* (70 ILCS 2105/4b) The District has an insurance policy with the Illinois Parks Association Risk Services (a local government risk pool) that includes a legal defense and claim payment agreement. The agreement provides for unlimited appeal bonds and bail bonds and up to \$10 million for legal liability for third party claims and coverage for wrongful acts.

### **Conflict of Interest Disclosure**

We obtained the economic interest statements that Board members submit to the county each year. Since this economic interest form is intended for the county and not the Rend Lake Conservancy District, it did not require disclosing all relationships with organizations that did business with the District, or ask for other affiliations (e.g., prior employment, family employment, consulting contracts, or close personal relations); it also did not require being updated during the year if circumstances changed. Furthermore, while trustees and some employees filed an annual conflict of interest disclosure with the county, trustees and District employees were not required to file an economic interest or disclosure statement with the District.

The River Conservancy Districts Act states that no trustee or employee shall have a financial interest in any business with the District. The Act states that *“No trustee or employee of such district shall be directly or indirectly interested financially in any contract work or business or the sale of any article, the expense, price or consideration of which is paid by said district.”* (70 ILCS 2105/4b)

When we compared the economic interest statements to the District's check registers, contracts, and other information available, we identified relationships which could, at a minimum, create an appearance of possible conflicts of interest. For example:

- Some trustees held common stock or were on the Board of Directors for banks with whom the District was doing business.
- A District employee also leases farmland from the District.
- Two District employees purchased equipment at a District auction.
- The District's outside legal counsel also represents other organizations that do business with the District. For example, the Internet home page of the outside legal counsel listed the following companies as his clients:
  - Freeman United and Consolidated Coal that were water customers of the District and made lease/rental payments to the District.
  - People's National Bank that held some of the funds used to pay off the District's revenue bonds.
  - First National Bank of Woodlawn that held some of the District's money market accounts.
  - First National Bank of Mt. Vernon that held a note payable.
- The engineering consultant provides services to several municipalities that buy water from the District.

To ensure that actual and potential conflicts are disclosed, a more detailed reporting mechanism needs to be established by the District for trustees, outside consultants, and employees.

<b>BOARD OF TRUSTEES</b>	
<p><b>RECOMMENDATION NUMBER</b></p> <p style="font-size: 2em;"><b>2</b></p>	<p><i>The Board of Trustees for the Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Abide by all policies that have been established by ordinances, such as those pertaining to having a treasurer and expense committee;</i></li> <li>• <i>Enter into contracts which specify billing rates, responsibilities, and services to be performed for all professional services;</i></li> <li>• <i>Establish a line-item budget for each operational division that ensures that revenue covers the associated costs;</i></li> <li>• <i>Prohibit trustees and employees from having a financial interest in the District’s business; and</i></li> <li>• <i>Establish its own conflict of interest disclosure form for all District trustees, employees, and outside consultants to complete.</i></li> </ul>
<p><b>REND LAKE CONSERVANCY DISTRICT’S RESPONSE</b></p>	<p>The Board concurs with the findings and recommendations and will abide by all policies that have been established by ordinances. The Board will review all ordinances and revise or repeal those that are no longer relevant or outdated.</p> <p>Furthermore, the District is preparing a Strategic Management Plan which will drive organizational strategy and focus management on priority goals and objectives which will be measurable and time specific. The plan will provide the basis for establishing accountability throughout the organization and meeting the business goals of the district.</p> <p>Fiscal Year 2004-05 provided the district’s first line item budget approved by the Board of Trustees. With this tool in place the District will be able to more accurately track expenditures and revenues for the individual operating units.</p> <p>The District will complete a policies and procedures manual for the purpose of establishing standards of acceptable conduct for all District employees. Included in these guidelines will be a process by which employees, Board members and/or contractors disclose any potential conflict of interest or involvement with the Rend Lake Conservancy District.</p> <p>These activities will be completed by December 31, 2004.</p>

**MISSION AND GOALS**

The District did not have a written vision or mission statement, goals or objectives, or complete written policies and procedures for the District’s operations; we also could not find a strategic, business, or operational plan for the District. These are basic planning documents that should be established by the District on a priority basis as they can be used to guide performance and measure progress.

Trustees of the Board that we interviewed identified many areas that need to be addressed by the District (see inset). These comments focus on specific areas, such as profitability, preserving capital assets, reviewing personnel, and regaining public trust, which would benefit from formal planning, including desired outcomes and methods to achieve the desired results.

There is a reference to the purpose of creating the District in the October 1990 policy and procedures that were established by Ordinance No. 132. However, this 1990 purpose statement does not address the primary purpose served by the District – that of providing water to various communities in Southern Illinois:

The Rend Lake Conservancy District was formed to serve the industrial and recreational needs of Southern Illinois. The District has established and operates those facilities which fulfill that goal and continues to make advances toward the development of the immediate Rend Lake Area by securing facilities according to the area needs and lake plan and to operate those facilities toward the optimum public benefit.

**Performance Reporting**

We were able to identify only a few performance reports at the District beyond the financial information submitted to the Board (e.g., Treasurer’s report, check register). The District did not have a formal reporting process that required programs to collect data to assess performance, including comparing rates and costs with other entities to identify areas where revenues could be increased or where costs may be decreased.

The only operational report we identified was a monthly water usage report. Other areas of operations may be producing reports, but for their own use. For example, after identifying a

<b>TRUSTEES’ COMMENTS TO AUDITORS</b>	
Current trustees who met with us indicated the following:	
1.	The District has considerable economic value to Southern Illinois.
2.	The District needs to regain the public’s trust.
3.	The District needs to improve planning and marketing.
4.	The District needs to be put on a sound financial footing by increasing revenues and decreasing costs.
5.	The District needs to enhance operations, such as establishing a specific budget and capital plan for the water plant.
6.	The Board needs to set policies and ensure management adheres to them.
7.	The water plant needs to be upgraded, as there is inadequate backup for water supplies in the region.
8.	The District needs to cut costs and determine if employees’ value is commensurate with their salary.
9.	Trustees were given minimal orientation and information when they were first appointed to the Board of Trustees.
10.	Trustees are getting better information now, but new problems are found as they ask more questions and become more involved with the District’s operations.

call log kept by the staff person in charge of banquets, we requested any management reports submitted by other operational areas. Officials stated that they receive information from departments, such as updates on business or special events, but these are not specific written reports.

Performance reporting information could help direct and monitor the District's operations and could be used to compare planned levels of performance (goals or targets) with actual outputs and outcomes (results), and also benchmark to other comparable entities. It could also be used to evaluate managers' work performance and reward them as appropriate.

Many organizations have annual reports that provide basic information, such as mission statement, programs, revenues, expenditures, balance sheet, organizational chart, and performance statistics (e.g., number of visitors, gallons of water sold, rounds of golf played). The District should develop and publish such an annual report for the taxpayers of Franklin and Jefferson Counties to show the year's accomplishments, including progress towards meeting goals and objectives.

<b>PERFORMANCE REPORTING</b>
Some areas of operation have begun the process of collecting basic performance data. For instance, the golf course now has a software package to track sales and the number of rounds of golf played, the lodge was able to provide occupancy rate information, and the shooting complex was able to provide the number of targets each year. However, because there are no established goals or objectives, the usefulness of this information is diminished.

### **Staffing Plan**

The District lacks an adequate number of professional managers with a business background for an organization with more than \$12 million in annual revenues, diverse recreational assets, a water plant that serves 160,000 people in Southern Illinois, and nearly 150 employees during the peak summer months. The District has been losing money on its recreational assets and continued to lack a business plan.

The only salaried employee in the District's administrative office had been a Managing Director. The District's Comptroller was an hourly employee, as was the Director of Human Resources. There was no written staffing plan that analyzed staffing needs; this creates a risk that the District lacks the optimal number and type of employees for its complex operations. For example, there was no deputy director, chief financial officer, legal counsel, chief engineer, or internal auditor.

### **Conclusion**

Without clearly defined mission, goals, objectives, and plans, key management controls are lacking to guide and direct both short-term and long-term District operations. Given the District's bifurcated functions (i.e., water plant v. recreational facilities), formal planning is critical to ensure that resources are appropriately allocated and priorities are set and followed. Furthermore, a lack of planning may also make the District dependent on employees and outside consultants with experience and

institutional knowledge since there is a lack of documentation to assist any new personnel. Without such information, employees lack guidance that is needed to ensure consistency and uniformity.

The District also needs to formally evaluate its staffing to determine its strengths and weaknesses, and to ensure that it has employees, particularly upper level employees, who are trained and proficient in the businesses operated by the District.

<b>PLANNING</b>	
<p><b>RECOMMENDATION NUMBER</b></p> <p><b>3</b></p>	<p><i>The Board of Trustees for the Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish a written mission statement for the District;</i></li> <li>• <i>Establish goals and objectives for the District;</i></li> <li>• <i>Establish a policy and procedures manual for the District;</i></li> <li>• <i>Establish required performance reports on District operations;</i></li> <li>• <i>Issue an annual report for its stakeholders that summarizes the District’s activities, successes, and challenges; and</i></li> <li>• <i>Establish a written staffing plan that specifies the skills and training needed for personnel who operate the various businesses managed by the District.</i></li> </ul>
<p><b>REND LAKE CONSERVANCY DISTRICT’S RESPONSE</b></p>	<p>The Board concurs with the findings and recommendations and has begun the process of preparing a mission statement, goals and objectives for the organization. This document will reflect both a short-term and long-term plan for the District. The Board recognizes the value of policies and procedures that outline the business purposes for the District, and these will be reflected in the policy and procedures manual referred to in Recommendation #2.</p> <p>In conjunction with the development of District goals and budget preparation, a staffing plan will be prepared that projects the needs of the various operational units. Consistent with revisions to the human resources management function, job descriptions will be completed/updated to more accurately reflect the knowledge, skills and abilities necessary for each position.</p> <p>An annual report summarizing the district’s activities, successes and challenges will be issued in order for the Board and management to make more informed judgments and to provide greater information sharing with the public.</p> <p>Except for the annual report, which will be completed after the close of the fiscal year ending April 30, 2005, these activities will be completed by December 31, 2004.</p>



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## Chapter Three

# FINANCIAL MANAGEMENT

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## CHAPTER CONCLUSIONS

In fiscal year 2004, the Rend Lake Conservancy District's income was nearly \$2 million, mainly due to the water system. The recreational areas as a whole lost money and have been supported by the sale of water in the past. For many years, the District has been transferring money from the Intercity Water System Fund to pay for its recreation and other activities; the cumulative amount exceeded \$10 million at the end of fiscal year 2003.

- Although the District as a whole had positive income in fiscal year 2004, the recreational areas lost approximately \$900,000 after depreciation. The District did not allocate depreciation for each recreational area although this information could show the full cost of operating an activity. Before depreciation, the restaurant lost more than \$250,000; shooting and hunting lost more than \$150,000; and the golf course lost more than \$60,000. Only the lodge made a profit before depreciation of less than \$50,000.
- The District did not have a specific line-item budget for each operational division to help ensure the recreational activities cover the cost of operations. The appropriation ordinance for fiscal year 2004 (\$24.7 million) was more than double the total expenses (\$10.3 million) and did not show the amount of expected revenues.

The District did not have written policies and procedures for the accounting and approval of expenditures although the District earned more than \$12 million in revenue in fiscal year 2004. This could result in expenditures being made without proper management or Board approval. For example, money was transferred from the General Fund to pay for other District operations without the approval of the Board of Trustees until external auditors (Clifton Gunderson, LLP) raised it as an issue in 2003. In addition, we sampled 100 expenditures and found that 50 lacked supervisory review that can help assure the District that purchases were for authorized purposes. Some of the expenditures did not appear to benefit the programs and functions of the District:

- Ten of the 100 expenditures totaling \$5,275 were for donations paid from the General Fund that obtains revenues from the collection of taxes.
- The General Fund was also used to purchase turkeys for \$2,307 at Thanksgiving to distribute to employees, trustees, and outside consultants.

- The administrative office purchased food items (such as chips, dip, donuts, cat food, milk, bread, and soda) for employees, trustees, and guests from Water, General, and Recreation funds.

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## BUDGETING AND ACCOUNTING

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The Rend Lake Conservancy District did not have written policies and procedures for the accounting and approval of expenditures although the District earned more than \$12 million in revenue in fiscal year 2004. This could result in a lack of uniformity in procedures and could result in expenses that lack proper management or Board approval. Written procedures, along with a line-item budget approved by the Board, could provide trustees with more information and better control. For example, the District's appropriation ordinance for fiscal year 2004 authorized nearly \$24.7 million in expenditures when actual expenses were about \$10.3 million.

At the beginning of each fiscal year, the Board of Trustees adopts an annual budget and appropriation ordinance that contains appropriations "*to defray all expenses and liabilities of the Rend Lake Conservancy District;*" however, the budget is general and does not contain projected revenues. For example, in response to our questions about the fiscal year 2004 appropriation ordinance (see Appendix C), the District's Comptroller indicated that the appropriation ordinance was a carry over from past management. The following questions and answers have been paraphrased:

- **Auditors' Question:** What is the reason for the separate \$52,500 appropriation for "Additions to water distribution system" under General Corporate Purposes since there is also a \$3 million appropriation under Operation and Maintenance of Intercity Water System?  
**District's Response:** A lot of the appropriation ordinance is a carryover from past management. Many of these items need to be changed and updated.
- **Auditors' Question:** What is the difference between "Planning Fees" (under Fees), "Advertising" and "Planning and Promotion" (under Other Expenses)?  
**District's Response:** None, just a way for past management to spend more in these areas.
- **Auditors' Question:** What is the reason for the \$18,500 appropriation for "Trustees Salaries" under both General Corporate Purposes and Operation and Maintenance of Intercity Water System, which total \$37,000 (since the total should be \$3,000 per year x 7 trustees or \$21,000)?  
**District's Response:** Previous management added approximately five percent to most line items every year in case something unexpected occurred.

The appropriation ordinances for the District have been rising each year and do not seem to remove appropriations for projects that have already been completed. For example, the fiscal year 2004 ordinance contained an appropriation for the construction

of the sewer treatment facility even though the facility was built in 1984 and upgraded in 1993. We also found appropriations totaling \$275,000 for purchases of automobiles under general corporate purposes over the five year period from fiscal years 2000 to 2004. Appropriated funds were permitted to be transferred, as noted in Section 4 of the fiscal year 2004 appropriation: *“Any unexpended balance of any item of any appropriations made by this ordinance may be expended in making up any insufficiency in any other item of appropriation made by this ordinance.”* Below is a summary of the appropriation ordinances (see Exhibit 3-1 and Appendix C) that have been growing for the past several years and now are more than double the actual revenues and expenses:

Exhibit 3-1 ANNUAL BUDGET AND APPROPRIATION ORDINANCE NO. 194 VS. ACTUAL EXPENSES Fiscal Year 2004		
<b>APPROPRIATIONS FOR GENERAL CORPORATE PURPOSES</b>		
Capital Expenditures	\$2,995,000	
Salaries and Wages	\$2,457,000	
Fees	\$359,000	
Utilities	\$392,750	
Insurance	\$518,500	
Taxes	\$86,500	
Maintenance	\$499,000	
Operating Expenses	\$1,408,500	
Other Expenses	\$557,000	
Non-operating Expense	\$500,000	
<b>Total</b>		\$9,773,250
<b>APPROPRIATIONS FOR OPERATION AND MAINTENANCE OF INTERCITY WATER SYSTEM</b>		
Capital Expenditures	\$5,720,500	
Salaries and Wages	\$1,979,000	
Fees	\$541,575	
Utilities	\$1,496,500	
Insurance	\$819,750	
Taxes	\$11,000	
Maintenance	\$496,500	
Operating Expenses	\$878,500	
Other Expenses	380,290	
Non-operating Expense	\$2,050,000	
<b>TOTAL</b>		\$14,373,615
Social Security and Illinois Municipal Retirement Fund		\$572,000
<b>Rend Lake Conservancy District Appropriation – Grand Total</b>		<b>\$24,718,865</b>
<b>ACTUAL EXPENSES</b>		
<b>Rend Lake Conservancy District Actual Expenses – Grand Total</b>		<b>\$10,331,321</b>
Source: Rend Lake Conservancy District Ordinance No. 194 and FY2004 audited financial statements.		

- Ordinance No. 173 for fiscal year 2000 had an appropriation for \$16,800,700 and included capital expenditures for the construction of the sewer treatment facility of \$110,500 and \$45,000 for the purchase of automobiles.

- Ordinance No. 177 for fiscal year 2001 had an appropriation of \$22,010,350 and included \$121,550 for construction of the sewer treatment facility and \$50,000 for the purchase of automobiles.
- Ordinance No. 181 for fiscal year 2002 had an appropriation of \$22,739,450 and included \$200,000 for construction of the sewer treatment facility and \$60,000 for the purchase of automobiles.
- Ordinance No. 189 for fiscal year 2003 had an appropriation of \$23,630,100 and included \$250,000 for construction of the sewer treatment facility and \$60,000 for purchase of automobiles.
- Ordinance No. 194 for fiscal year 2004 had an appropriation of \$24,718,865 and included \$262,500 for construction of the sewer treatment facility and \$60,000 for purchase of automobiles.

**Revenues**

The District receives most of its revenues through the sale of water from the Intercity Water System (see Exhibits 3-2 and 3-3). The next largest source of revenue is the District’s recreational activities that consist of a lodge, a restaurant, a golf course, and trap field shooting. Additional revenues are realized from the operation of a wastewater treatment system and land improvement and development (e.g., farm income). Some revenues are also obtained through the collection of taxes and are used to fund the general operations of the District.

Exhibit 3-2 <b>INCOME BY OPERATIONAL AREA</b> Fiscal Year 2004			
	<b>Revenue</b>	<b>Expenses</b>	<b>Income (Loss)</b>
General Fund	\$649,583	\$304,578	\$345,005
Land in Development	149,268	57,465	91,803
Water System	8,006,806	5,440,174	2,566,632
Golf	1,080,859	1,143,459	(62,600)
Restaurant	862,087	1,130,931	(268,844)
Lodge	866,323	820,388	45,935
Shooting and Hunting	460,064	625,307	(165,243)
Sewage Treatment	210,276	355,645	(145,369)
<b>TOTAL</b>	<b>\$12,285,266</b>	<b>\$9,877,947</b>	<b>\$2,407,319</b>
		Less Recreation Fund Depreciation <sup>A</sup>	(451,815)
		Other Recreation Fund Adjustments <sup>B</sup>	(1,559)
		<b>DISTRICT-WIDE INCOME <sup>C</sup></b>	<b>\$1,953,945</b>
<sup>A</sup> The District did not break out depreciation for the Recreation Fund to the separate operations. <sup>B</sup> The Recreation Fund had additional adjustments for hospitalization insurance and a loss on the sale of assets that were not allocated to the individual activities by the District. <sup>C</sup> Income (loss) total does not include \$96,000 capital grant.			
Source: Rend Lake Conservancy District FY2004 audited financial statements.			

In the past, another source of revenue for the District’s governmental functions was interest on investments, such as money market accounts. Interest income for fiscal year 2003 amounted to \$1,354 for the general fund and \$76,302 for the proprietary funds. It should be noted that the District used its available funds to pay off \$13.65 million in bonds in 2003. District personnel stated that they did not have a policy covering investments. A policy could help the District invest in assets that provide earnings to augment revenues, and assist in improving cash flow.

Exhibit 3-3 CHANGES IN REVENUE FROM VARIOUS FUNDS Fiscal Years 2002- 2004						
	FY 2002		FY 2003		FY 2004	
Fund	Revenue Collected	Change from Prior Year	Revenue Collected	Change from Prior Year	Revenue Collected	Change from Prior Year
General <sup>A</sup>	\$1,248,908	85.3%	\$709,139	(43.2%)	\$649,583	(8.4%)
Water System	7,199,918	(10.9%)	8,114,471	12.7%	8,006,806	(1.3%)
Recreation <sup>B</sup>	3,222,483	14.6%	3,239,093	0.5%	3,269,333	0.9%
Sewage Treatment	339,651	29.2%	340,454	0.2%	210,276	(38.2%)
Land Improvement and Development	239,985	(11.4%)	208,734	(13.0%)	149,268	(28.5%)
<b>TOTAL</b>	<b>\$12,250,945</b>	<b>1.3%</b>	<b>\$12,611,891</b>	<b>2.9%</b>	<b>\$12,285,266</b>	<b>(2.6%)</b>
<sup>A</sup> General Fund revenue for FY 2002 includes a grant for \$580,199; the amount of grants dropped to \$85,456 in FY 2003 and \$18,135 in FY 2004.						
<sup>B</sup> Recreation includes golf, restaurant, lodge, and shooting and hunting.						
Source: Rend Lake Conservancy District audited financial statements.						

The Auditor General is also releasing a financial audit of the District in conjunction with this management and program audit that contains additional information and findings related to the District’s financial management.

### Expenditures

The District had an appropriation ordinance that capped total expenditures, however, funds could be moved among areas and there was no written policy on how funds could be used. District personnel stated that for the first time in fiscal year 2004 supervisors were asked to formulate a budget for their areas. Since this was a learning experience, officials said the Board planned to wait until fiscal year 2005 to formally approve budgets. Formal budgets would allow the Board to control expenditures by authorizing a specified amount of expenditures for each area of operation; once the money was spent, division supervisors would not be able to spend any more money without receiving the Board’s approval.

In August 2003, the District began requiring approval of expenditures prior to disbursement by requiring all invoices to be signed or initialed by the division supervisor, District Comptroller, or the Managing Director. Also, approval is now obtained from the Board’s Finance Committee prior to payment; this committee was formed in July 2003 and consists of two trustees. The District prints checks and gives them to the committee for signature along with a check register that details the payments. Additional

documentation for payments such as invoices and statements is available to the finance committee if requested. Checks require two signatures and all trustees and the Managing Director had authority to sign checks.

Prior to a Board meeting, trustees are given the opportunity to examine the check register so that bills can be approved at the meeting. District officials said that in previous years trustees had received check registers but did not have sufficient time to review them. District officials stated that now check registers go to trustees up to a week before a Board meeting to allow them more time to review.

The District has made changes in an effort to reduce expenses. In fiscal year 2004, the District paid off its revenue bonds and golf cart loan; changed insurance companies and telephone carriers; and made other operational changes, such as reducing travel, mowing by District employees, and contracting of District security.
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## DEFRAYING THE COST OF OPERATIONS

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The River Conservancy Districts Act (70 ILCS 2105/11) authorizes the board of trustees of a conservancy district to operate a variety of facilities, but states that rates must be charged that will at least defray all fixed, maintenance and operating expenses. The Act delineates three groupings of facilities (emphasis added):

- (a) Dams and reservoirs for water storage . . . water purification works, pumping stations, conduits, pipe lines . . . for the production and delivery of adequate and pure water to incorporated cities and villages, corporations and persons . . . **The board is empowered and legally obligated . . . to sell water** to the incorporated cities and villages and the corporations and persons in unincorporated areas by meter measurements and **at rates that will at least defray all fixed, maintenance and operating expenses.**
- (b) Sewage treatment plants, . . . pumping stations, . . . and all other appurtenances, extensions or improvements necessary . . . for the sanitary collection, treatment, and disposal of sewage and industrial wastes. . . **The board is empowered and legally obligated to establish rates and charges for the services of any such sewerage facilities that at least defray all fixed, maintenance, and operating expenses.**
- (c) Lodges . . . golf courses . . . skeet ranges . . . and other related buildings and facilities for the accommodation and recreation of persons visiting the reservoirs owned by the district or from which it is drawing a supply of water . . . . **If the board determines to operate any such recreational facilities, it shall establish for the revenue-producing facilities rates and charges which at least defray all fixed, maintenance, and operating expenses.**

Contrary to the requirements of the Act, the District has not been charging rates for its sewage and recreational facilities that have been sufficient to cover their operating expenses. The cumulative amount transferred from the water system to pay for recreation and other activities has generally been growing and exceeded \$10 million at the end of fiscal year 2003 (see Exhibit 3-4).

Exhibit 3-4 <b>YEAR-END BALANCES OF INTERFUND TRANSFERS FROM THE INTERCITY WATER SYSTEM FUND</b> Fiscal Years 2001-2003			
<b>Funds that Received Money from the Intercity Water System Fund</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
General Fund	\$1,424,000	\$2,140,292	\$2,502,277
Land Improvement and Development Fund	856,402	996,191	1,089,238
Recreation Fund	5,066,169	6,524,009	6,717,165
Sewage Treatment System Fund	260,983	289,660	303,284
<b>CUMULATIVE END OF YEAR TOTALS</b>	<b>\$7,607,554</b>	<b>\$9,950,152</b>	<b>\$10,611,964</b>

Source: Rend Lake Conservancy District's FY01, FY02, and FY03 audited financial statements.

The District issued \$13.5 million in revenue bonds for the water plant in 1967-1968 (Ordinance No. 39). The River Conservancy Districts Act requires that the ordinance authorizing the sale of bonds:

. . . shall provide that the entire revenue from the facilities to be constructed or acquired with the proceeds of the sale of said bonds shall be set aside as collected and deposited in a separate fund, and a sufficient amount thereof shall be used solely in paying the cost of maintenance and operation of such improvement or facility, in providing an adequate depreciation fund, and in paying the principal of and the interest on said bonds, as they mature. (Section 15.1)

As shown in Exhibit 3-4, the District used revenues from the water sales to fund other operations, including recreational facilities. The District paid off the revenue bonds in 2003.

In fiscal year 2004, the Rend Lake Conservancy District as a whole made a profit; however, the recreational areas lost approximately \$450,000 before depreciation -- after depreciation, the loss doubled to approximately \$900,000. The District did not track depreciation for each recreational area although this information would give a more complete picture of the total cost of operating an activity.

Before depreciation, the restaurant lost more than \$250,000; shooting and hunting (also known as trap field) lost more than \$150,000; and golf lost more than \$60,000. Only the lodge made a profit before depreciation of less than \$50,000 (see Exhibit 3-5).

The management letter from the District's fiscal year 2003 auditors (Clifton Gunderson, LLP) dated July 2003

identified an issue related to the transfer of funds. It stated "*Funds have been transferred*

Exhibit 3-5 <b>RECREATION FUND LOSS</b> Fiscal Year 2004	
<b>Activity Area</b>	<b>Income (Loss)</b>
Restaurant	(\$268,844)
Shooting and Hunting	(\$165,243)
Golf	(\$62,600)
Lodge	\$45,935
Loss Before Adjustment and Depreciation	(\$450,752)
Hospitalization Insurance	14,304
Unallocated Gain (Loss) on Sale of Asset	(15,863)
Loss Before Depreciation	(\$452,311)
Recreation Fund Depreciation	(\$451,815)
<b>Income (loss) before capital contributions and transfers</b>	<b>(\$904,126)</b>

Source: Rend Lake Conservancy District FY2004 audited financial statements.

from the General Fund of the District to the other internal operating funds without approval by the Board of Trustees.” The District’s response to this issue was to require approval of all transfers of funds by the Board of Trustees.

<b>FINANCIAL MANAGEMENT</b>	
<b>RECOMMENDATION NUMBER</b>  <b>4</b>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish detailed written policies and procedures for its accounting function;</i></li> <li>• <i>Establish a line item budget with revenues and expenditures for each division; and</i></li> <li>• <i>Set rates and charges to cover the cost of operating the recreational activities.</i></li> </ul>
<b>REND LAKE CONSERVANCY DISTRICT’S RESPONSE</b>	<p>The District concurs with the findings and recommendations.</p> <p>Written policies and procedures for District accounting functions will be incorporated into the policy and procedures manual in Chapter #4 (Budget Function and Procedures). These policies are currently being written.</p> <p>The Board has approved the establishment of a line item budget with revenues and expenditures for each division for FY04-05. Rates and charges to cover the cost of operating the recreational activities will be established pending board consideration of options presented by management during the September board meeting. Cutting expenses, increasing charges and rates, as well as leasing will be options for Board consideration in order to cover costs of operating the recreational activities.</p> <p>These activities will be completed by December 31, 2004.</p>

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## AUDIT OF EXPENDITURES

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Although District employees stated they follow unwritten policies, the District did not have written policies and procedures for the accounting and approval of expenditures. According to the District’s draft Policies and Procedures Manual, “*The purchasing practices of the District shall be such as to benefit the programs of the District.*” Without proper procedures and restrictions on allowable expenses, the District cannot ensure that all purchases are properly authorized and benefit the District’s programs.

We selected a sample of 100 expenditures to verify that the expenses appeared program related, were supported by adequate documentation, and were properly authorized. The 100 expenditures were judgmentally selected from the District’s fiscal year 2004 general ledger and totaled \$596,090.



The general ledger is composed of different funds including the General Fund, Intercity Water System, Land Improvement and Development, Recreation Fund, and Sewage Treatment Facility. The Recreation Fund is used to pay for the different areas of operation at the District, such as the golf course, restaurant, hotel/condos, and shooting complex. We sampled each area to ensure that expenditures are reviewed appropriately and consistently across the areas of operation since duties are segregated across divisions.

### Lack of Supervisory Review

In 50 of the 100 expenditures we sampled, there was a lack of supervisory review. Such review can assist the District in assuring that purchases are for authorized purposes, necessary, and beneficial to the District’s programs. As noted previously, since summer 2003, all invoices must be signed or initialed by either the division supervisor, Managing Director, or District Comptroller. Expenditures lacking supervisory review included:

- legal bills,
- donations to religious organizations,
- travel/seminars,
- food purchases,
- telephone bills, and
- inventory.

In addition, Ordinance No. 54 (July 1971) requires prior approval by the Board of Trustees for trips, conferences, seminars, meetings, entertainment of guests, travel, and all other foreseeable expenses. Our sample did not show prior approval was granted by the Board for these types of expenditures.

<b>ORDINANCE NO. 54</b> (July 1971)
<p>Expenses may be reimbursed according to the following procedures:</p> <ul style="list-style-type: none"> <li>• Prior approval of Board of Trustees should be obtained where feasible.</li> <li>• Expenses shall be reported in detail on a District expense report form each month</li> <li>• All expense report forms shall be reviewed and substantiated by an Expense Committee (the General Manager, Chairman of Finance Committee and Secretary of the Board)</li> <li>• All expense report forms approved by the Expense Committee shall be submitted to the Board of Trustees for final review.</li> <li>• District management shall prepare a cumulative list of all travel and related expenses approved by the Board on a quarterly basis and make it available to the news media if requested.</li> </ul>

### Non-Program Related Expenses

Some of the expenditures in our sample did not appear to benefit the programs and functions of the District, as required by the draft Policies and Procedures Manual which states that the purchasing practices of the District shall be such as to benefit the programs of the District. These expenditures in our sample are discussed below:

- Ten of the 100 expenditures sampled (10%) totaling \$5,275 were donations. The expenditures listed below were paid prior to January 1, 2004 from the General Fund which obtains revenues from the collection of taxes:
  - \$2,700 donated for fireworks (\$200 to the City of Ziegler, \$2,500 to Taste of Freedom).
  - \$1,000 to Central Christian Church.

- \$500 to Benton High School Madrigal Group for taking care of parking at a Wine Tasting Festival.
  - \$250 to the Sesser Outdoorsmen Club for the Annual Rend Lake Deer Hunt for the Disabled.
  - \$200 to the Benton-West City Ministerial Alliance.
  - \$200 to the Whittington Baptist Church for the food pantry at the holidays.
  - \$200 to Rend Lake Piecemakers to defray advertising costs for a quilt show.
  - \$125 to the United Methodist Children’s Home.
  - \$100 to the Benton Library.
- There were other questionable expenditures from the General Fund:
    - Turkeys were purchased for \$2,307 at Thanksgiving to distribute to employees, trustees, and the outside legal and engineering consultants.
    - \$600 was paid for a stuffed pelican displayed at the administration office. In addition, the District could not provide a signed copy of the check for this purchase.
    - A \$400 payment was made for a fundraiser golf outing to support the Jefferson County Chamber of Commerce that was attended by three employees and one non-employee. The outing included a food buffet, award prizes, and door prizes.
  - The administrative office purchased food from local convenience stores and a food delivery service for items such as chips, dip, donuts, cat food, milk, bread, and soda. These expenditures in our sample totaled \$572. We were informed that food items are used at the administrative office for snacks for employees, supervisors, trustees, and guests. When several of the employees were hired, they were told that because their office was located in the country, and because they were to remain on District property, they would be provided meals. However, according to the Accounts Payable Clerk, lunches have been eliminated due to budget cuts; purchases for snacks and beverages are still made. While all food items were reportedly used at the administration building, approximately one-half of the expenses were charged to the Water Fund, and the rest charged to the General Fund and the Recreation Fund.

Separately, our sample contained one expenditure (\$619.23 check) that was coded as an accounts receivable. The payment was to the Director of Golf for golf lessons given at the District. A District employee said the District provides advertising brochures and the golf lessons are given at the District; however, the golf pros collect 100 percent of the lesson fees. Due to insufficient data, we could not determine if the golf employees were paid the fee in addition to regular wages, or if the lessons were given on the employee’s day off.

### Incomplete Supporting Documentation

In 14 of the 100 expenditures sampled (14%), we found inadequate documentation to support expenditures that totaled \$17,850. For example, there was no supporting documentation to explain the reason for \$4,203 in expenditures from the General Fund, including \$2,500 for Fourth of July fireworks at Rend Lake. There was incomplete documentation to explain the purpose of paying \$3,397 from the Water Fund to the Greater Egypt Regional Planning and Development Commission. A \$6,950 legal bill from an outside firm did not contain a specific list of services provided. There was inadequate documentation to support a \$717 payment to a car dealership, including the vehicle that was serviced and the specific services that were provided.

### Legal Expenses

Our sample included over \$68,000 in legal fees paid by the District. These included payments to the District’s outside legal counsel, as well as to other law firms. Attorney bills go to the outside legal counsel for approval and then they are sent to the District for payment.

According to District personnel, past auditors recommended cost allocations for various expenditures such as security, planning, and legal fees. However, for one payment in our sample, the District should have allocated 47.5 percent to the Water Fund. Instead, it allocated 91 percent of the legal fees (or \$17,822 out of \$19,588) to the Water Fund and 9 percent (\$1,766) to the General and Recreation funds. This is an allocation that is different from the District’s cost allocation plan shown in Exhibit 3-6.

District personnel said that after the District started getting freedom of information requests about legal fees, their outside legal counsel suggested his bills for postage, mileage, meals, etc. no longer be charged to legal fees. The District’s Comptroller decided to charge these expenses to operations:

- \$3,809 in legal expenses was charged to operations in the General Fund (\$848) and the Water Fund (\$2,961) from October 2003 to April 2004.
- These expenses included travel, postage, fax, photocopies, and long distance phone charges.

Exhibit 3-6 <b>COST ALLOCATION PLAN</b>	
Cost allocation plan provided to District by its prior audit firm (Gaither Rutherford & Co., LLP) for Legal Fees:	
• Water	47.50%
• General	21.25%
• Recreation	31.25%
Source: Rend Lake Conservancy District.	

We verified that these types of expenses were charged to operations (not legal) by reviewing the general ledger and the fiscal year 2004 bills from the outside legal counsel. Charging to the incorrect account is not appropriate because it fails to adequately account for the full cost of legal services and makes it difficult to compare expenses from year to year.

**Cell Phones**

The District has improved controls over cell phones and reduced the number of cell phones from over 30 in 2002 to 11 by May 2004. Ten of the 11 cell phones are covered by plans purchased by the District. One employee, however, uses her personal cell phone and is reimbursed by the District.

We reviewed four of the personal cell phone bills submitted by the employee for reimbursement, which were approximately \$47 each. The bills submitted did not contain any detailed calling information identifying the extent, if any, the phone was used for non-District purposes. A District employee noted that if the employee is out of the office, the District has to call long distance to reach her from a land line. Based on the limited billing information, we could not determine whether the expenditure was inappropriate.

<b>EXPENDITURES</b>	
<b>RECOMMENDATION NUMBER</b>  <b>5</b>	<p><i>The Rend Lake Conservancy District should develop specific procedures and guidelines for determining which types of expenses are allowable and unallowable. In addition, the District should ensure that expenditures are:</i></p> <ul style="list-style-type: none"> <li>• <i>Supported by adequate documentation;</i></li> <li>• <i>Reviewed by the appropriate supervisor;</i></li> <li>• <i>Allocated to the correct funds; and</i></li> <li>• <i>Beneficial to the programs of the District.</i></li> </ul>
<b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b>	<p>The District concurs with the findings and recommendations.</p> <p>The District's policy and procedures manual will clearly reflect the types of expenses which are allowable and unallowable. The District has already required review of expenditures by the appropriate supervisors and allocation of expenditures to the correct funds. Board action on the remaining items will take place at the September Board meeting.</p> <p>This activity will be completed by December 31, 2004.</p>

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## Chapter Four

# WATER AND SEWAGE

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## CHAPTER CONCLUSIONS

The Rend Lake Intercity Water System earned \$7.9 million in operating revenue and incurred \$5 million in operating expenses. In addition, the Intercity Water System had \$333,696 in non-operating expenses that resulted in income before capital contribution and transfers of \$2.6 million for fiscal year 2004. The District also paid off \$13.65 million in outstanding revenue bonds earlier in the fiscal year that were related to the water plant.

According to District personnel, the 30-year old water plant needs to be upgraded. The District had varying construction cost estimates for individual projects associated with upgrading the plant, but they were not linked and seemed to have different priorities. There was no single comprehensive capital plan which would demonstrate the need for projects, detail the costs, provide timelines, and specify revenue sources to pay for them.

The residential billing system for water made errors in calculating the bill amount and required manual checks. No supervisory review was performed to verify the accuracy of the work of the employee who performed the billing function. For municipal and commercial customers, there were no return stubs for customers to include with payments, which caused problems in matching payments with bills. Other problems included:

- Residential customers were on self-determined billing cycles, therefore, some paid monthly, some paid annually, and some paid in between.
- The District was unable to provide the total number of water customers whose payment of bills was in arrears although some customers had more than \$1,000 in unpaid water bills. No delinquent charge had been imposed on any customers although Ordinance No. 46 established late fees. One municipal customer that was late on several occasions should have been assessed approximately \$46,000 in late charges according to their contract.
- There were few operational reports on water and sewage billing (e.g., revenues, costs, number of users, number delinquent, amount delinquent, and aging schedules) to inform management of problems.
- Some customers did not pay the established sewage rate of \$2.80 per 1,000 gallons that was set by Ordinance No. 112. New apartments that were opened in 2001 were never billed for sewage services, according to District personnel.
- Two of the agreements (Wayne Fitzgerald State Park and Big Muddy River Correctional Center) required charging by a master meter, but instead these two customers were charged as a percentage of total water used each month. District personnel stated that these meters needed to be replaced because they were

inaccurate and that it was the decision of the previous management to instead bill based on water usage.

We compared the water rates charged to residential customers by the Rend Lake Conservancy District to those charged in nine other Southern Illinois communities as of July 2003. Water costs for residential customers ranged from \$15.84 in Carbondale (which does not buy its water from the District) to \$28.35 in Mt. Vernon (which does buy its water from the District) based on average monthly water usage of 6,000 gallons. The District charged \$26.75 for 6,000 gallons of water for residential customers living in Franklin and Jefferson Counties. The water cost data was collected as part of a survey conducted by the City of Carbondale.

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## WATER PLANT

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The Rend Lake Conservancy District, which is located in Franklin and Jefferson Counties, was created in 1955 to supply water to Southern Illinois. The plant provides water to approximately 160,000 people in Southern Illinois.

According to the Illinois Department of Natural Resources, the federal government constructed Rend Lake with a 'water supply' as an authorized project purpose. The State, as the local sponsor, paid \$9,941,000 (22.4% of the project costs) for water supply storage rights which could provide up to 70 million gallons per day in raw water supply. The State contractually assigned to the District the rights to withdraw up to 17.5 million gallons a day, which is currently being used to serve the Rend Lake Intercity Water System.

District personnel said they have the capacity to pump up to 19 million gallons a day but this strains the system. In the future, this capacity may need to grow (e.g., if another city needs water from them) which will also be an added cost. However, according to the District's outside engineer, the water usage from Rend Lake has been relatively stable. A water usage analysis commissioned by the District concluded that *"...water demand in the RLCD service area is expected to remain relatively stable, given no significant long-term change in other factors that influence personal income and land use development patterns."*

### Water Plant Operations

The water plant and the water distribution system are the primary responsibilities of the District. According to District personnel, the water plant is aging since it was constructed over 30 years ago and replacement parts are now difficult and expensive to obtain. District personnel added that in some instances they have had to juryrig the system to keep it operating.

District personnel also indicated that no upgrades have been made to the system in its 30 years and the control room operates in part on old telephone connections. The

Water Superintendent said the current system is inefficient compared to the available technology, and about \$6,000 a month could be saved by eliminating phone line leases.

The Intercity Water System experiences seasonal variations that impact operations. Peak demands during the summer put a strain on the current capacity of the system. According to the Water Superintendent, cold water in the winter requires more chemicals; the current filtration system also has more difficulty with cold water.

Over the past fiscal year, the District’s average daily output was 13.2 million gallons of water per day with a peak of 18.1 million gallons. For example, in September 2003, the largest customers were Mt. Vernon (98 million gallons), Herrin (56 million gallons), and DuQuoin (28 million gallons).

According to Bond Ordinance No. 39, the Water Superintendent was to inspect the facilities and report to the Secretary of the Board of Trustees on their condition each fiscal year. We requested copies of these reports for fiscal years 2002, 2003, and 2004. In response to this request, the District indicated that no such reports could be found. These reports would have helped keep the Board of Trustees and District management informed on the condition of the water facilities as well as assisted in decision-making (e.g., capital planning).

Exhibit 4-1 ORDINANCES RELATED TO WATER		
No.	Date Passed	Description
36	8-15-67	Authorized the issuance of revenue bonds.
39	3-23-68	Repealed Ordinance No. 36 and increased the bond authorization amount to \$13.5 million.
40	5-21-68	Established different rates for in-district and out-of-district customers, tap on fees, installation requirements, general rules for payments, etc.
46	11-18-69	Established a 5% late fee for water bills and a \$2.50 service charge if a personal call is made upon the customer.
50	12-15-70	Increased water rates.
56	10-19-71	Issued an additional \$150,000 in revenue bonds.
57	10-19-71	Added an additional administrative charge for tap on fees of \$25.
78	8-29-77	Increased water rates.
94	7-16-82	Increased water rates.
120	6-15-87	Increased water rates.
142	7-20-92	Increased water rates.
167	8-8-97	Increased water rates for municipal customers.
168	9-22-97	Increased water rates for residential and commercial customers.
192	7-22-02	Increased water rates for municipal customers.
Source: Rend Lake Conservancy District ordinances.		

**Resources**

The Intercity Water System is headed by a Superintendent and has an Assistant Superintendent. Except for the Superintendent and the Assistant Superintendent, all other employees are unionized. As of April 2004 it had four units: lab (4 operators); control room (4 operators); maintenance (14 personnel); and sewer plant (1 operator).

The Rend Lake Intercity Water System earned \$7.9 million in operating revenue and incurred \$5 million in operating expenses resulting in operating income of \$2.9 million for fiscal year 2004. The Intercity Water System also had \$333,696 in non-

operating expenses that resulted in income before capital contribution and transfers of \$2.6 million for fiscal year 2004 (see Exhibit 4-2). In addition, there will no longer be interest payments on the \$13.65 million in revenue bonds that were paid off in fiscal year 2004; fiscal year 2004 interest expenses approached \$425,000.

Exhibit 4-2 <b>WATER REVENUES AND EXPENSES</b> Fiscal Year 2004		
<b><u>OPERATING REVENUE</u></b>		
Wholesale	\$7,450,753	
Retail Sales	430,935	
Tap-On Charges	20,206	
Miscellaneous Income	15,016	
<b>Total Operating Revenues</b>		<b>\$7,916,910</b>
<b><u>OPERATING EXPENSES</u></b>		
Personnel	\$1,660,233	
Depreciation	931,739	
Purification expenses	495,957	
Bad Debt Expense	3,696	
Audit Fees	19,801	
Legal Fees	146,469	
Planning Fees	5,217	
Dues and Licenses	1,506	
Electricity	880,264	
Telephone/Cell Phones/Pagers	59,342	
Plant Equipment Maintenance Expense	114,421	
Grounds and Building Maintenance Expense	54,602	
Vehicle Related Expense	53,409	
Other Equipment Parts, Repairs and Maintenance	56,664	
Meters and Mains Maintenance Expense	42,504	
Insurance	361,373	
Operation Expenses	87,083	
Office Expenses	13,395	
Meetings and Seminars	2,705	
Other	26,202	
<b>Total Operating Expenses</b>		<b>\$5,016,582</b>
<b>Operating Income (loss)</b>		<b>\$2,900,328</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Income	\$75,305	
Gain on sale of Assets	14,591	
Interest Expense	(423,592)	
<b>Total Non-operating Revenues (Expenses)</b>		<b>(333,696)</b>
<b>Income (loss) before capital contributions and transfers</b>		<b>\$2,566,632</b>
Source: Rend Lake Conservancy District FY2004 audited financial statements.		

## WATER RATES

The District has different rate schedules for its water customers depending on whether the user is a residential customer, a commercial customer, or a municipal customer. The rates vary based on usage and are discussed below.



- **Residential customers** pay rates that were established by Ordinance No. 168 in 1997. These rates establish a minimum charge of \$10.65 (for in-district customers), which includes 2,000 gallons of water, as shown in the schedule below:

<b>RESIDENTIAL WATER RATES</b> Ordinance No. 168 (effective January 1, 1998) <i>Unit Cost per 1,000 gallons</i>			
<b>Unit Increment</b>	<b>Total Gallons</b>	<b>Within District</b>	<b>Outside District</b>
First 2,000	<sup>A</sup> 2,000	<sup>A</sup> \$10.65	\$10.80
Next 3,000	5,000	\$4.30	\$4.45
Next 5,000	10,000	\$3.20	\$3.35
Next 10,000	20,000	\$2.75	\$2.90
Next 30,000	50,000	\$2.55	\$2.70
Next 50,000	100,000	\$2.30	\$2.45
Next 400,000	500,000	\$2.15	\$2.30
Over 500,000		\$2.00	\$2.15

<sup>A</sup> Minimum charge of \$10.65, which includes 2,000 gallons.

- If the customer uses between 2,000 and 5,000 gallons of water, the charge is \$10.65 plus 0.43¢ per 1 gallon of water used – this equates to 4.3¢ for 10 gallons, or 43¢ for 100 gallons, or \$4.30 for 1,000 gallons.

- If the customer uses between 5,000-10,000 gallons, the additional charge is \$3.20 per 1,000 gallons (see inset for example of 6,000 gallons of water used).

<b>EXAMPLE -- RESIDENTIAL CUSTOMER (within District)</b> 6,000 Gallons of Water Used in a Month			
<b>Rate</b>	<b>Increment (gallons)</b>	<b>Usage (gallons)</b>	<b>Charge</b>
\$10.65 (minimum/2,000 gallons)	2,000	2,000	\$10.65
\$4.30/1,000 gallons	2,000-5,000	3,000	\$12.90
\$3.20/1,000 gallons	5,000-10,000	1,000	\$3.20
<b>TOTAL</b>		<b>6,000</b>	<b>\$26.75</b>

- **Commercial customers** pay rates that were also established by Ordinance No. 168 in 1997. They pay a *minimum* charge based on the size of the meter according to the schedule shown below (e.g., \$36.35 for a 1-inch meter, including 9,000 gallons).

<b>COMMERCIAL WATER RATES</b> Ordinance No. 168 (effective January 1, 1998)		
<b>Meter Size</b>	<b>Minimum Monthly In-District</b>	<b>Minimum Monthly Outside District</b>
5/8"	\$10.65 (2,000 gallons)	\$10.80
3/4"	\$10.65 (2,000 gallons)	\$10.80
1"	\$36.35 (9,000 gallons)	\$37.55
1 ¼"	\$53.30 (15,000 gallons)	\$55.40
1 ½"	\$79.80 (25,000 gallons)	\$83.40
2"	\$143.55 (50,000 gallons)	\$150.90
3"	\$312.30 (125,000 gallons)	\$330.90
4"	\$581.05 (250,000 gallons)	\$618.40
6"	\$1,368.55 (625,000 gallons)	\$1,462.15

- If a customer with a 1-inch meter uses more than 9,000 gallons of water, the *additional* charge is based on the rates shown earlier in the Residential Water Rates schedule -- in other words, the rate structure for commercial customers is a combination of the minimum charge based on the meter size plus the rate schedule for residential customers (see inset for example of an actual customer who used 24,030 gallons). For example, 10,000 gallons cost a commercial customer with a 1-inch meter \$36.35 for the first 9,000 gallons + \$3.20 for the next 1,000 gallons = \$39.55. If 11,000 gallons were used, it would cost this commercial customer with a 1-inch meter \$39.55 + \$2.75 = \$42.30. If 12,000 gallons were used, it would cost this commercial customer with a 1-inch meter \$42.30 + \$2.75 = \$45.05.

- If a commercial customer had a 2-inch meter, the *minimum* charge would be \$143.55 and it would include 50,000 gallons. Additional gallons would be based on the rates

<b>EXAMPLE – COMMERCIAL CUSTOMER (within District)</b> 24,030 Gallons of Water Used in a Month -- 1" Meter			
Rate	Increment (gallons)	Usage (gallons)	Charge
\$36.35 minimum for first 9,000 gallons (1" meter in district)	9,000	9,000	\$36.35
\$3.20/1,000 gallons	9,000-10,000	1,000	\$3.20
\$2.75/1,000 gallons	10,000-20,000	10,000	\$27.50
\$2.55/1,000 gallons	over 20,000	4,030	\$10.28
<b>TOTAL</b>		<b>24,030</b>	<b>\$77.33</b>

in the Residential Water Rates schedule above (e.g., \$2.30 for each additional 1,000 gallon of water beyond 50,000 gallons, until the customer uses 100,000 gallons; then the additional 1,000 gallons would cost \$2.15 per 1,000 gallons).

- **Municipal customers** pay rates that were established by Ordinance No. 192 in 2002. The ordinance establishes a rate of \$1.80 per 1,000 gallons for the first million gallons which drops in the increments shown below:

<b>MUNICIPAL WATER RATES</b> Ordinance No. 192 (effective October 1, 2002) <i>Unit Cost per 1,000 gallons</i>			
Unit Increment	Gallons per Month	Within District	Outside District
First	1,000,000	\$1.80	\$1.82
Next	29,000,000	\$1.60	\$1.62
Next	45,000,000	\$1.50	\$1.52
Over	75,000,000	\$1.45	\$1.47

- If a municipal customer uses less than 1,000,000 gallons in a month, the charge is \$1.80 per 1,000 gallons. For the next 29,000,000 gallons the charge is \$1.60 per 1,000 gallons.

- If the customer uses more than 30,000,000 gallons, the charge for the next 45,000,000

<b>EXAMPLE -- MUNICIPAL CUSTOMER (within District)</b> Over 100 Million Gallons of Water Used in a Month			
Rate	Increment (gallons)	Usage (gallons)	Charge
\$1.80/1,000 gallons	First 1,000,000	1,000,000	\$1,800.00
\$1.60/1,000 gallons	Next 29,000,000	29,000,000	\$46,400.00
\$1.50/1,000 gallons	Next 45,000,000	45,000,000	\$67,500.00
\$1.45/1,000 gallons	Over 75,000,000	33,420,500	\$48,459.73
<b>TOTAL</b>		<b>108,420,500</b>	<b>\$164,159.73</b>

gallons is \$1.50 per 1,000 gallons. Any usage past this (75,000,000) is at the rate of \$1.45 per 1,000 gallons.

### **Rate Setting**

Water rates vary based on many factors including the source of water, cost of clarifying the water, whether the distribution pipeline is owned by the utility, etc. The Illinois State Water Survey, a group that is affiliated with the Illinois Department of Natural Resources (IDNR) and the University of Illinois, provides a more detailed explanation:

All water has a price. Some costs are related to accessing a source and the system for water distribution/transport. Others are for treatment before and after usage. Even rural residents must pay to have a well drilled and piping installed. Due to frequent hardness and iron in waters from shallow aquifers, rural residents also must pay a continuing cost for water treatment. . . .

Costs of water treated for public consumption vary widely across the state. Most providers sell water by volume, but some do not. A Chicago residence receives water at a fixed monthly cost, regardless of how much is used. Conversely, many suburbs charge by quantity used. For example, the average rate for Chicago suburbs that use Lake Michigan water is \$3.23 per 1000 gallons, compared to \$2.08 in Champaign, and \$2.64 in DeKalb.

The District originally established water rates by ordinance in 1968 and adjusted the rates two years later in 1970. Two other ordinances added a late fee and an additional administrative charge for taps. The original ordinance (No. 40, May 1968) and subsequent amendatory rate adjustment ordinances do not contain provisions that set an interval for raising water rates. For water rates, Ordinance No. 39 (March 1968) states:

. . . [the District] will fix and maintain rates for the services thereof and will collect and account for revenues therefrom sufficient at all times to pay promptly the cost of maintenance and operation of said facilities, to provide an adequate depreciation fund, to pay the principal of and the interest on this Bond and the Series of which it is one, and to pay the principal of and the interest on any and all other bonds or obligations chargeable to the revenues of said facilities.

The District has adjusted municipal water rates by ordinance in five-year increments since 1977. Part of the rate setting process, according to the District's outside Legal Counsel, is to estimate what the inflation rate will be during the upcoming five-year time period. The Water Superintendent stated that the District's Board of Trustees makes the final decision on rates by adopting an ordinance. According to the District, water rates can be raised only once every five years due to the 40-year contracts with area municipalities signed in 1971.

We noted several issues during our review of contracts that the District has with its municipal and commercial customers. For example, we found:

Exhibit 4-3					
WATER SUPPLY CONTRACTS					
	Customer	Contract Date	Length (years)	Rate Review	Notes
<b>MUNICIPALITIES</b>					
1	Akin	5/2/1979	40	Yearly	
	Amendment #1	1/24/1994	41		Amended to change contract length.
2	Benton	10/18/1965	40	5 years	
3	Bonnie	4/6/1970	40	Yearly	
	Amendment #1	3/23/1971	60		Amended to set term to 60 years.
4	Buckner	7/3/1972	40	Yearly	Christopher waived rights to supply.
5	Cambria	5/18/1987	40	Yearly	
6	Carterville	11/2/1965	40	5 years	
7	Christopher	11/1/1965	40	5 years	
8	Crainville	2/20/1968	40	5 years	
9	Dahlgren	2/4/1969	40	5 years	
10	DuQuoin	12/17/1965	40	5 years	
11	Ewing-Ina	3/2/1970	40	Yearly	
12	Ferges	1/19/1971	40	Yearly	
13	Galatia	2/16/1971	40	Yearly	
	Amendment #1	3/6/1974			Amendment regarding water meters.
	Amendment #2	5/1/1981			Unable to locate document.
	Amendment #3	7/16/1984			Unable to locate document.
	Amendment #4	9/28/1987			Amendment increased water allocation.
	Amendment #5	3/26/2001			Amendment increased water allocation.
14	Greenwood Creek	7/22/1985	40	Yearly	Tax exempt status as a non-profit.
	Amendment #1	11/28/1994			Unable to locate document.
	Amendment #2	7/28/1997	42		Amended to change contract length.
15	Hamilton County	10/15/1984	40	Yearly	
	Amendment #1	2/16/1988	41		Changed length of contract.
	Amendment #2	3/19/1990	40		Increased water allocation.
	Amendment #3	2/18/1992	40		Changed length of contract.
	Amendment #4	7/1/1993	40		Changed length of contract.
	Amendment #5	10/23/1995	40		Increased water allocation.
	Amendment #6	3/2/1998			Changed expiration date to 2039.
	Amendment #7	12/6/1999			Increased water allocation. Changed expiration date to 2041.
16	Hanaford	4/7/1973			Unable to locate original contract.
	Amendment #1	5/15/1974			Amendment regarding water meters and payments.
	Amendment #2	6/18/1975			Amendment regarding delivery point and payments.
17	Herrin	11/17/1965	40	5 years	
18	Hill City	10/20/1977	40	Yearly	
	Termination of Contract	2/15/1978			
	New Contract	12/21/1993	10	Yearly	
19	Johnston City	11/22/1965	40	5 years	
20	Macedonia	3/19/1969	40	5 years	
21	McCleansboro	1/26/1966	40	5 years	
22	Mt. Vernon	1/3/1966	40	5 years	
23	Mulkeytown	2/15/1972	40	Yearly	
	Amendment #1	5/15/1973			Amendment regarding water meters and prior rights to providing water service.
24	Rt. 37 Water District	5/24/2001	40	Yearly	
25	Royalton	4/20/1992	10	Yearly	No indication in file whether contract was extended beyond initial 10 years.

Exhibit 4-3 WATER SUPPLY CONTRACTS					
	Customer	Contract Date	Length (years)	Rate Review	Notes
26	Sesser	10/5/1965	40	5 years	
27	Thompsonville	7/26/1966	40	5 years	
28	Valier	12/6/1965	40	5 years	
29	Washington County	5/23/1994	40	Yearly	
	Amendment #1	3/24/1995			Metering to be installed at the expense of Washington County.
	Amendment #2	12/18/2000			Expiration date set at 2043.
30	West City	4/21/1976	40	Yearly	
31	West Frankfort	12/20/1965	40	5 years	
32	Zeigler	1/24/1966	40	5 years	
COMMERCIAL					
33	Big Muddy Correctional Center <sup>A</sup>	12/17/1990	N/A	Yearly	Contingent on continued appropriation.
34	Ina Peninsula	9/15/1970	25	Yearly	No indication in file whether contract was extended beyond initial 25 years.
35	Freeman United	9/19/1972	20	Yearly	Rate schedule referenced. No indication in file if contract was renewed.
36	Consol #1	4/19/1976	20	N/A	Provision present for 15-year renewal. No document present indicating such renewal took place.
	Consol WP	1/22/1979	20	N/A	Provision present for 15-year renewal. No document present indicating such renewal took place.
	Consol (Nason)	7/31/1995	20	N/A	Rate schedule referenced.
37	SoyLutions	No contract			
38	Southern Illinois Artisans Shop	12/15/1989		N/A	To be charged customary and normal usage charges for water and sewer.
39	UCO Energy, Inc.	No contract			
40	Wayne Fitzgerald State Park	No contract			
41	Welcome Center	11/19/1975	N/A	N/A	
42	U.S. Army Corp of Engineers	No contract			
43	Coy & Wilma's	No contract			
44	Game Farm (IDNR)	No Signed Contract			
45	Kathalynas Corporation	No contract			
46	Rend Lake College	No contract			
47	Skaggs Properties	No contract			
48	Southern Illinois Materials	No contract			
<sup>A</sup> Charged municipal water rate.					
Source: Auditors' review of Rend Lake Conservancy District records.					

- The rate adjustment interval varied (e.g., 1-year, 5-years), as shown in Exhibit 4-3.
- The length of contracts varied (e.g., 10 years, 20 years, 40 years, 41 years, 42 years).

- Some customers had signed contracts, some had unsigned contracts, and some had no contract at all.
- Other provisions of the contracts varied (e.g., some contracts called for the customer to initially pay for pipelines).

**Water Rate Comparison**

The residential water rates charged by the Rend Lake Conservancy District are generally higher than other Southern Illinois communities sampled. The rate information presented in Exhibit 4-4 was collected as part of a survey conducted by the City of Carbondale and is based on water usage of 6,000 gallons.

We compared the water rates charged to residential customers by the Rend Lake Conservancy District to those charged in nine other Southern Illinois communities as of July 2003. Water costs for residential customers ranged from \$15.84 in Carbondale (which does not buy its water from the District) to \$28.35 in Mt. Vernon (which does buy its water from the District) based on monthly water usage of 6,000 gallons. The District charged \$26.75 for 6,000 gallons of water for residential customers living in Franklin and Jefferson Counties.

Exhibit 4-4 <b>RESIDENTIAL WATER RATES OF SELECT SOUTHERN ILLINOIS COMMUNITIES</b> July 2003	
<b>Community</b>	<b>Water Rate (6,000 gallons used)</b>
Mt. Vernon <sup>^</sup>	\$28.35
McLeansboro <sup>^</sup>	\$27.70
Benton <sup>^</sup>	\$27.20
<b>Rend Lake</b>	<b>\$26.75</b>
Pinckneyville	\$26.02
DuQuoin <sup>^</sup>	\$25.40
West Frankfort <sup>^</sup>	\$22.95
Marion	\$21.80
Murphysboro	\$18.39
Carbondale	\$15.84
<sup>^</sup> Communities whose systems purchase water from the Rend Lake Intercity Water System.	
Source: 2003 Water and Sewer Rate Study, City of Carbondale.	

**WATER AND SEWER BILLING**

The District’s billing systems for water and sewer customers had many problems. The billing system for residential water customers was separate from the billing system for municipal and commercial customers. Residential customers were billed from the water department while municipal and commercial customers were billed through the Administrative Office. Neither billing system used a billing software to generate bills and track payments. The District has now purchased a billing software program.

**Policies**

There were no written policies regarding how a determination was made on whether customers should be residential or commercial. A District official stated that the process for determining residential or commercial status was arbitrary -- the decision was up to the previous Water Superintendent. We found numerous inconsistencies in classification of users:

- Commercial customers (e.g., farms, elevators, campgrounds, supply company, mine tool company, and waste company) were in the residential billing system.
- One non-municipal customer paid municipal rates.

We requested written policies on water distribution or customer relations, such as policies related to leak allowances, late fees, and terminating service for delinquent water bills. The District responded that no written policies could be found and that the previous water superintendent made all these decisions.

### **Reports**

There were few operational reports on water and sewage billing (e.g., revenues, costs, number of users, number delinquent, amount delinquent, aging schedules) to inform management of problems.

### **Billing Problems**

The District had just over 1,000 residential water customers and 48 municipal and commercial customers as of March 2004. These included cities, water districts, government entities, and private companies; only seven paying customers received sewer services from the District. We reviewed the system used to bill these customers and tested billing records.

The billing system for municipal and commercial customers was a spreadsheet kept by the Assistant Comptroller at the administrative building. Each month the water department reads the meters and sent the readings to the Assistant Comptroller to input into the spreadsheet and calculate a bill. The bill was sent to the customer and a copy was given to the District's Comptroller. When payment was received, the Comptroller stamped the bill "paid", including the date received, and placed it in the customer's file.

There was no automated tracking system to ensure timely payments. We requested a list of delinquent accounts and were given a stack of bills for which payment had not been received. Some customers had unique adjustments for water and sewer billing that did not appear in their written agreement or, in some cases, contracts had provisions that conflicted with board ordinances.

We sampled a total of 20 municipal and commercial customers: the five cities which purchased the most water from the District, five water districts/commissions, five commercial customers, and five other customers selected judgmentally. For each customer, we reviewed their billings for water usage, charges, timeliness of payment, and other related factors over a 12-month period. We also reviewed related contracts for these users and found problems that included the following:

- An invoice is generated on a monthly basis but we could not determine when the bill was paid in most cases. According to District personnel, and our sample, it

- appears the District started stamping a date paid on the invoice in January 2004. Prior to that, there was little or no evidence of whether or when the bill was paid.
- The District did not have a return stub so there can be problems in matching payments with bills. For one company in our sample, it took months for the District to match the payment to the customer because the check did not include the company name. The residential billing system also receives checks sometimes that are not for a residential account.
  - There was no evidence of a customer ever paying a late fee. According to District personnel, the District has never charged a late fee. Our review of timeliness of payments was complicated by the fact that the District did not start date stamping the bills to show when the payment was received until January 2004. One municipal customer that was late on several occasions should have been assessed approximately \$46,000 in late charges according to their contract.
  - Some customers have signed contracts, some have unsigned contracts, and some have no contract at all.
  - One city was on estimated usage for 9 of the 12 months we reviewed because there was a problem with the meter.
  - A coal company in our sample had a charge for a “bypass” and another for “to be billed” later. The bypass was estimated (unmetered) water use because a valve needed to be replaced to allow water to run through the meter. The “to be billed” was according to an agreement with the District as the company installed its own water line and was to receive a 50 percent discount for the water use until the installation cost was reached. Instead, the company did not pay at all for water from this meter. According to District personnel, the amounts written off for two of these meters exceeded \$200,000 (\$169,160 for Consolidated Coal and \$39,000 for Inland Steel – Consolidated acquired Inland Steel).
  - Another coal company was being charged for a 1-inch meter but in fact had a 2-inch meter. For billing purposes the meter size was reduced by the District from a 2-inch to a 1-inch in March 2000. However, the actual meter was never changed so the company was billed incorrectly at a lower rate.
  - The District did not have applications for water for two of the four apartment buildings from one company, and the two applications we were able to locate for water were erroneously faxed to the water department instead of the Assistant Comptroller.



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## RESIDENTIAL WATER BILLING

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There was a general lack of review and oversight of residential water billing. The residential water billing system was dependent on a single employee who determined the water bill. There was no back up for the employee in case of absence, no one else knew how to do the job, and no supervisory review was performed to verify the accuracy of the work of the employee who performed the entire billing function. The District needs to establish one billing system for all customers, establish a system of checks/reviews, and cross-train employees so that if a key employee retires, takes leave, or is absent, billings will effectively continue.

We reviewed the process used for billing and collection of residential water customers. Residential water customers are sent a payment book and envelopes and are allowed to calculate or estimate their own bill each month. Although residential customers are required to pay on a monthly basis, we found that some residents pay only once a year or only at audit (every six months).

In order to reconcile the water accounts, all meters must be read periodically. According to water personnel, in the past, the residential meters were only read once a year, but now the water department is reading them every six months. After the meter readings are completed, the residential accounts are audited and statements are sent to each customer with the amount owed or, if overpaid, the credit amount. Because there is no billing software, there is no tracking of payments, other than manually, and at audit.

We reviewed billing and other information for residential customers and found the following problems.

- Not all customers had their own meter, which made it difficult to determine the exact amount that should be charged to each customer. It also made it impossible to turn off delinquent customers without turning off the water of paying customers. According to water personnel, about 130 customers are on such linked lines.
- Customers were on their own billing cycles (e.g., some pay monthly, some at audit, some once a year). If customers only pay every six months or once a year, the District does not realize the cash flow and there is a greater chance of a large uncollectable delinquency. There are also no monthly bills sent to customers – instead, customers are provided a payment booklet and allowed to estimate their own usage.
- There is no tracking system for delinquent accounts other than what is done manually. The residential billing system is simply a modified database. The District does not track delinquent customers and, according to water personnel, no late penalties or fees have ever been charged although Ordinance No. 46 established mandatory late fees and a service charge that may be added to the bill.

- District personnel also could not provide a list of the number of customers in arrears or the amount owed although some customers had more than \$1,000 in unpaid water bills.
- According to personnel, no one has been turned off and there is no policy on when this should occur and who approves shut-off's. In one case we reviewed, according to the billing employee, the prior water superintendent and general manager allowed a customer to apply for hook up assistance and obtain water service even though he owed \$143 for outstanding water bills at a previous residence. Ordinance No. 40 prohibits an applicant from obtaining water service until all previous charges are paid.
- The billing system used does not always calculate bills correctly and billing calculations must be checked manually. We were provided examples of problems in the current billing system and in one case the final bill was for more than \$12,000 when the customer should have been given a \$56 refund.
- There is no policy for leak allowances. One customer we reviewed received a leak allowance for what District personnel thought was most likely a leaky toilet (50% reduction or \$171).
- The approximately 1,200 residential meters have not been mapped. According to District personnel, the previous water superintendent began this process but it was never completed and they have been unable to locate the maps. According to some District meter readers, meters are sometimes difficult to find, and a new employee would not be able to locate many of the meters.

By District ordinance there is a minimum monthly charge established for each residential customer. We reviewed a list of all meters by water line provided by the District and found inactive meters. One customer had a meter installed in May 1999 but because there has never been any usage on it, has never been charged a minimum bill.

<b>WATER BILLING</b>	
<p><b>RECOMMENDATION NUMBER</b></p> <p><b>6</b></p>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish one billing system for all water plant customers of the District;</i></li> <li>• <i>Implement an electronic billing system that tracks each account and delinquencies;</i></li> <li>• <i>Require all customers to pay on a monthly basis or assess a late fee or penalty;</i></li> <li>• <i>Provide customers with return payment stubs with bills;</i></li> <li>• <i>Ensure that each customer has their own meter;</i></li> <li>• <i>Review all contracts to ensure that they are current, and follow all contract provisions;</i></li> <li>• <i>Review all water main sizes to ensure that the proper amount is being charged;</i></li> <li>• <i>Map the residential customers so that meters can be easily located;</i></li> <li>• <i>Develop written policies for leak allowances and termination of services in case of a delinquency; and</i></li> <li>• <i>Review all inactive meters and either charge the minimum rate each month or pull the meter.</i></li> </ul>
<p><b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b></p>	<p>The District concurs with the findings and recommendations and has recently installed an automated billing system that provides much of the functionality suggested in the auditor's comments.</p> <p>The Inter City Water staff is conducting an evaluation of the number of customers whose residences are not individually metered and will prepare a cost analysis for installing monitoring devices. The staff is evaluating options for mapping residential customer meter placement and will present its findings to the Managing Director (i.e. Global Positioning Survey, local map plotting, etc.) by November 30, 2004.</p> <p>In coordination with the installation of the automated billing system, monthly billing will be established and returning payment stubs will be sent with bills.</p> <p>Meters will be established for all sewage customers.</p> <p>This activity will be completed by June 30, 2005.</p>

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## CAPITAL PLANNING

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According to District personnel, the 30-year old water plant needs to be upgraded. The District had varying construction cost estimates for individual projects associated with upgrading the plant, but they were not linked and seemed to have different priorities. There was no single comprehensive capital plan. There were various lists of projects with differing priorities (see exhibits below), including some established by the outside engineer, but there was no comprehensive document that showed their funding mechanisms or approval by the trustees. We specifically requested any other capital construction plans and were informed that none could be found. A comprehensive capital plan would demonstrate the need for the projects, detail the costs, provide timelines, and specify revenue sources to pay for them. In July 2004, the Board of Trustees agreed to seek bids for the designing and building of a new \$20 million water plant.

In its last evaluation of the Rend Lake Intercity Water System, the Illinois Environmental Protection Agency, Division of Public Water Supplies stated in a letter dated May 17, 1999 that the water plant needed renovation and it also recommended planning for increased water capacity needs.

Ordinance No. 39 declares that the period of usefulness of the Intercity Water System facilities is in excess of 40 years from the date the ordinance was adopted (March 1968).
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### Five-Year Plan

Every five years, the District prepares a list of projects that it anticipates will be constructed on property belonging to the federal government and submits this development plan that is required by the U.S. Army Corps of Engineers (Corps). According to outside engineer Lawrence A. Lipe and Associates, the development plan is essentially a wish list of projects that may occur over the next five years and includes projects that are on-going. For example, one project is an expansion of the golf course by nine holes (from 27 holes to 36 holes). This expansion project has been submitted to the Corps twice in the past and been rejected.

On November 13, 2003, Lawrence A. Lipe and Associates, the District's consulting engineer, submitted to the Corps a five-year development plan on behalf of the District. Seven projects were identified with a priority attached to each for an estimated cost of \$2 million (see Exhibit 4-5).

Exhibit 4-5 FIVE YEAR PLAN SUBMITTED TO U.S. ARMY CORPS OF ENGINEERS Fiscal Years 2004-2008			
Priority	Project	Estimated Cost	FY
1	Sewer Forcemain-Whittington Sewer System	\$25,000	2004
2	Renovation Electrical System-Raw Water Intake Structure	\$350,000	2005
3	Replacement of Terminal Sanitary Sewage Pumping Station-Golf Course Area	\$100,000	2005
4	Fence Access Road-Raw Water Intake Structure	\$80,000	2006
5	Security Barrier in Rend Lake to Restrict Access-Raw Water Intake Structure	\$150,000	2007
6	Irrigation Water System Extension-Golf Course Driving Range	\$50,000	2005
7	Expansion of Existing Golf Course to 36 Holes	\$1,250,000	2004-2008
<b>TOTAL</b>		<b>\$2,005,000</b>	

Source: Rend Lake Conservancy District.

### Capital Improvements

According to officials, the water system is a priority of the District. One of the ways to maintain this asset is through capital improvements; the main components of the District's capital improvements program are summarized below in Exhibit 4-6. The District has developed a Capital Improvements Program list with cost estimates. The District has also developed a list of non-prioritized capital improvements to upgrade, replace, or refurbish the aging components of the system, which are also shown in Exhibit 4-6. The combined total of these projects was almost \$13.9 million.

Exhibit 4-6 CAPITAL IMPROVEMENTS PROGRAM September 2002-August 2007			
Priority	System Component	Projected Cost	
<b>PRIORITIZED IMPROVEMENTS</b>			
1	Water system security	\$705,000	
2	Chemical building and equipment	708,000	
2A	Mt. Vernon water transmission main (South)	1,699,000	
3	Renovation of water treatment plant (electrical and SCADA systems)	2,824,000	
4A	Renovation of raw water intake	1,069,500	
4B	Replacement of lime feed system	631,300	
<b>Sub-Total</b>			<b>\$7,636,800</b>
<b>NONPRIORITIZED IMPROVEMENTS</b>			
n/a	Mt. Vernon transmission main (North)	\$1,134,000	
n/a	Renovation of Mt. Vernon water pumping station	472,000	
n/a	Renovation of water system SCADA system	974,000	
n/a	Renovation of electrical system, Herrin and Johnston City pumping stations	425,000	
n/a	Southeast Jefferson County water distribution system (Moore's Prairie Township)	620,000	
n/a	Clear well for additional chlorine contact time and storage	1,865,800	
n/a	Additional clarifier for increase capacity	750,000	
<b>Sub-Total</b>			<b>\$6,240,800</b>
<b>TOTAL</b>			<b>\$13,877,600</b>

Source: Rend Lake Conservancy District, Capital Improvements Program, Intercity Water System.

The District has now publicly stated that it would like to build a new water plant for an estimated cost of \$20 million.

### **New Water Superintendent's Priority List**

On October 27, 2003, the incoming Water Plant Superintendent presented to the Board of Trustees a list of water system projects that need to be given attention. Although, his priority list included items other than capital projects, it did not generally correspond with the list of priorities identified above, and no project costs were provided to the Board.

1. Clarifier Rehabilitation. Three of the four valves were in need of repair.
2. Sludge disposal.
3. Bunny Farm Pressure. Connecting the Bunny Farm area water main to the Spring Garden System to improve water pressure.
4. Manpower. Water plant staffing needed to be increased.
5. Telemetry. Telemetry between the water plant and distribution system needed to be repaired.
6. Preventive Maintenance. Recommended that a preventive maintenance program be instituted.
7. Intake Structure. Recommended that a method of ice formation prevention be investigated.
8. Safety. Greater emphasis on safety was recommended, including regular safety training.
9. Lime Feed System. Upgrades and repairs to the system were recommended.
10. Electrical Upgrade. Upgrading this system was recommended to proceed as soon as possible and noted that *"The switchgear for incoming power to the plant is a potential disastrous problem."*
11. Sewer Force Main. Several main breaks have occurred between the Shooting Complex and the Big Muddy Correctional Facility.

### **Other Projects**

At a December 15, 2003 meeting, the District's outside engineer reported to the Board of Trustees on the progress of replacing the electrical system at the water plant. Plans and specifications for the electrical work were 90 percent complete. Lawrence A. Lipe and Associates estimated the total cost of the project to be \$2,814,000 with an additional engineering cost estimated at \$38,000. Exhibit 4-7 provides a breakdown of the estimated cost of the project.

For the short term, a planning document for 2003-2004 said the District would:

- Audit meters, about 1,200 throughout the system. They would be read and checked for problems.
- Reduce inventory of old equipment that is no longer used.

- Advertise for water plant chemicals to be used in 2004.
- Perform preventive maintenance on pumps and motors while the water system is at its lowest flow.

Regarding permits for construction, the Illinois Environmental Protection Agency (IEPA) personnel indicated that permits are required if construction involves an addition, change, or alteration to a water system that may affect the sanitary quality, mineral quality, or adequacy of the water supply. In terms of construction permits from Illinois Department of Natural Resources, IDNR personnel indicated that a permit would be required if the construction took place on IDNR property.

Exhibit 4-7 WATER PLANT ELECTRICAL SYSTEM UPGRADES	
Item	Estimate
Electrical room construction	\$215,000
Pole barn construction-raw water pump station	17,000
Utility rehab of substation	72,000
Underground service to administration building	60,000
Underground service to plant	100,000
Underground service to raw water pumping station	125,000
Switchgear for plant	1,450,000
Plant SCADA system	275,000
New emergency generator	500,000
<b>TOTAL</b>	<b>\$2,814,000</b>
Source: Rend Lake Conservancy District Board of Trustees meeting minutes for December 15, 2003.	

CAPITAL PLAN	
<b>RECOMMENDATION NUMBER</b>  <b>7</b>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish a single comprehensive capital construction plan for the water plant that specifies needs, benefits, projects, priorities, costs, revenue sources, and timelines; and</i></li> <li>• <i>Have the capital plan reviewed and approved by its Board of Trustees.</i></li> </ul>
<b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b>	<p>The District concurs with the findings and recommendations.</p> <p>The Water Plant Superintendent has identified major water plant and distribution system improvements, some of which are currently being addressed by engineering studies, which are being incorporated into a single comprehensive capital construction plan. The Board approved at its July 2004 meeting the solicitation of engineering firms to begin work on some of these projects because of their pressing nature.</p> <p>The entire capital construction plan will be completed and approved by the Board of Trustees no later than the October 2004 Board meeting.</p> <p>Operational reports to assist management in appropriate decision-making, particularly on water and sewer billing and comparing Rend Lake Conservancy District operations with other utilities that provide water, will be developed by December 31, 2004.</p>

**WATER MANAGEMENT ISSUES**

There were no operational reports on water and sewage billing (e.g., revenues, costs, number of users, number delinquent, amount delinquent, aging schedules) to inform management of problems. The water plant does not keep operating statistics. In response to our request for “. . . performance indicators, measures, or operating statistics they keep (e.g., customer interruption frequency; average duration of interruption; average customer outage time; number of main breaks, etc.)” the District e-mailed on December 2, 2003 that “. . . they do not have any type of statistics on any of their [water] operations.”

We were provided some reports that are generated on a monthly basis by the District such as the Intercity Water System Monthly Report, which is submitted to the Board of Trustees. This one-page report includes an overview of plant operations over the past month (e.g., a few sentences on maintenance work done, amount of water pumped, chemical costs, and water level/temperature).

**Water Benchmarking**

The Rend Lake Conservancy District does not collect all the data that would be necessary to monitor and evaluate its own performance or to compare its operations with other entities that provide water. Exhibit 4-8 lists outcome indicators recommended by the Government Accounting Standards Board and shows that the District does not track some of these key data elements.

Since the District is a wholesale provider to many customers (e.g., municipalities), there is not a direct way to calculate certain costs as the District is only responsible for the cost of maintenance and upkeep of water distribution up to the meter. Wholesale customers, such as municipalities, are responsible for the costs of the system distributing water to individual customers.

Exhibit 4-8 <b>OUTCOME INDICATORS FOR WATER</b> <b>RECOMMENDED BY THE GOVERNMENT ACCOUNTING STANDARDS BOARD</b> Fiscal Year 2004		
<b>Outcomes</b>	<b>Water</b>	<b>Sewer</b>
Percentage of total gallons pumped that were metered.	Not tracked.	Not tracked.
Number of calls about interrupted service.	Not tracked.	Not tracked.
Number of main breaks.	Not tracked.	Not tracked.
Number of days did not meet Federal and/or State standards (including reason for noncompliance).	No violation of Safe Drinking Water Standards.	Suspended solid levels have exceeded maximum in the past 3½ years four times.
Efficiency: cost/million gallons pumped.	Operating Cost - \$1,039/million gallons. Chemical Treatment Cost - \$82.50/million gallons.	Operating Cost - \$3,324/million gallons.
Source: Governmental Accounting Standards Board and Rend Lake Conservancy District data.		



There may also be other factors that would need to be disclosed. A representative from the Illinois Rural Water Association (IRWA) noted that surface water, like at Rend Lake, has the most stringent operating requirements. He also indicated that the source of raw water, geography, geology, personnel costs, number of customers, and the type and size of infrastructure are all variables that can impact the rate structure of a water supply system. For example, Rockford’s water supply is from 96 deep wells and supplies a similar number of customers. Water coming from deep-water wells requires less treatment than surface water. Aside from requiring less treatment, the infrastructure for the distribution system is completely different.

### Compliance

Under the Public Water Supply Operations Act (415 ILCS 45 et seq.), every community water supply is required to have a certified operator. A community water supply is defined by the Public Water Supply Operations Act as “. . . a public water supply which serves or is intended to serve at least 15 service connections used by residents or regularly serves at least 25 residents.”

The Rend Lake Intercity Water System qualifies as a community water supply. According to an IEPA official, Rend Lake is one of about 1,800 community water supply systems in the State. As a community water supply, Rend Lake is required to have at least one certified water operator. Based on information provided by the District, the Intercity Water System had the following certified operators at the time of our review in spring 2004: 6 Class A operators; 0 Class B operators; 3 Class C operators; and 4 Class D operators.

### Operations and Maintenance Costs

The District may have a potential financial liability of over \$100,000 per year for the operations and maintenance cost of Rend Lake. In 1976 the State of Illinois had requested that the contract between the State and federal government be modified to defer payments for water supply until the water was first used and, thereafter, the State pay a pro rata share of allocations to water supply as increments of water are used. The request by the State was denied by the Assistant Secretary of the Army (Civil Works).

By 1986, according to IDNR, the State was over \$1 million behind in operations and maintenance (O&M) payments. The federal government (Public Law 99-662, section 1137) directed the Secretary of the Army to amend the contract with the State of Illinois and granted the State six years of relief for the O & M payments for the unused portion of

CERTIFICATION LEVELS
<p>The Public Water Supply Operations Act establishes four operator certification levels: A, B, C and D. The certificates are good for three years and require training (Class A or B require 30 hours; Class C and D require 15 hours of training).</p> <ul style="list-style-type: none"> <li>• <b>Class A and B Certifications:</b> Graduation from high school or equivalent and not less than three years of acceptable study, training, and responsible experience in water supply operation or management.</li> <li>• <b>Class C Certification:</b> Graduation from high school or equivalent and not less than one year of acceptable study, training, and responsible experience in water supply operation or management.</li> <li>• <b>Class D Certification:</b> Graduation from high school or equivalent and not less than six months of acceptable study, training, and responsible experience in water supply operation or management.</li> </ul>

the water supply which is 75 percent of the available water that can be withdrawn (i.e., the District is authorized to withdraw 17.5 million gallons per day, or 25% of the withdrawal capacity of 70 mgd, resulting in unused water supply of 75%).

With the passage of Public Law 102-580 (Water Resources Development Act of 1992), payments for O&M were deferred again. The Water Resources Development Act of 1992 laid out three key provisions:

1. **Study:** The Corps shall conduct a study on whether to relieve Illinois of annual payments for unused water supply storage in Rend Lake.
2. **Report:** The Corps shall transmit to Congress a report on the results of the study with recommendations regarding relief of payments.
3. **Interim Payments:** Until six months after the Corps submits this report to Congress, the State of Illinois is not required to make any payments.

**WATER WITHDRAWAL FROM REND LAKE**  
 A contract signed September 23, 1988 between the State of Illinois and the United States of America authorized up to 70 million gallons per day (mgd) to be withdrawn from Rend Lake. IDNR personnel said 70 mgd was determined by hydrologists to be the amount of water that could be safely withdrawn from Rend Lake. The District and the State have signed a contract that granted the District access to 17.5 mgd from Rend Lake.

IDNR personnel said this report could be submitted to Congress at any time. IDNR estimates that its potential O&M obligation for the unused water supply at Rend Lake will total \$400,000 a year. After the Corps' study is submitted to Congress, the District may be obligated to pay O&M costs for the water supply used by District, and the State could be obligated to pay for O&M costs on the unused water supply.

### Conclusion

The Intercity Water System needs significant updating and maintenance. The water plant is more than 30 years old and is in need of major improvements. In some cases, maintenance has been deferred to the point where there is the potential for significant problems.

As discussed in Chapter Three, more than \$10 million was transferred from the Intercity Water Fund to other funds. These funds could have been accumulated to pay for major capital improvement to the water plant or other parts of the water system. Failure to segregate funds does not allow the District to accumulate reserves to make major capital improvements. Financial planning for the water system is critical because it:

- Demonstrates viability to the lending community and enhances credit ratings;
- Prepares the water system for new regulations; and
- Can lead to potential cost-savings tradeoffs, and thus reduce long-term capital requirements.

<b>RESERVE FUND</b>	
<b>RECOMMENDATION NUMBER</b>  <b>8</b>	<p><i>The Rend Lake Conservancy District should accumulate adequate reserves that are dedicated to capital improvements and maintenance, and collect data that is needed to monitor and evaluate performance for the water plant.</i></p>
<b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b>	<p>The District concurs with the findings and recommendations.</p> <p>The District is developing a capital budgeting plan that will provide a systematic process to plan for capital expenditures and identify funding sources. This will include the establishment of a Revenue Fund for capital improvements and maintenance.</p> <p>The need for Rend Lake Conservancy District to conduct careful financial and management planning to maintain its capital assets is obvious. The plan will reflect the District's needs, objectives, expected growth and financial capabilities. The District has limitations for funding capital facilities; however, careful planning will assure that high priority projects will be built first.</p> <p>These activities will be completed by December 31, 2004.</p>

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### **SEWAGE TREATMENT FACILITY**

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The sewage treatment facility of the Intercity Water System was constructed in 1984 and was upgraded in 1993. Its average flow is 0.5 million gallons per day (mgd) with a maximum of 2 mgd. The treatment plant is an 8.5 acre aerated cell with 18 mgd capacity, followed by a 2.1 acre aerated cell with a rock filter that has 7.8 mgd capacity.

The sewage component of the water system had operating revenues of \$209,585 and operating expenses of \$301,322 (see Exhibit 4-9). After including other income and expenses, mainly interest expense, sewage lost \$145,369 in fiscal year 2004.

Exhibit 4-9 <b>SEWAGE REVENUES AND EXPENSES</b> Fiscal Year 2004		
<b><u>OPERATING REVENUES</u></b>		
Charges for services	\$209,585	
<b>Total Operating Revenues</b>		\$209,585
<b><u>OPERATING EXPENSES</u></b>		
Personnel	\$62,517	
Depreciation	149,951	
Utilities	23,298	
Building and Equipment Maintenance	42,138	
Insurance	15,918	
Operation Expenses	7,500	
<b>Total Operating Expenses</b>		\$301,322
<b>Operating Income (Loss)</b>		(\$91,737)
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Income		691
Interest Expense		(\$54,323)
<b>Income (loss) before capital contributions and transfers</b>		<b>(\$145,369)</b>
Source: Rend Lake Conservancy District FY2004 audited financial statements.		

The sewage facility’s seven paying customers are the Southern Illinois Artisans Shop & Visitor Center, Big Muddy River Correctional Center, U.S. Army Corps of Engineers, Village of Ewing, Rend Lake College, Wayne Fitzgerald State Park, and the I-57 Rest Areas.

Exhibit 4-10 shows the sewer rates for 10 Southern Illinois communities including Rend Lake. The rate information presented was collected as part of a survey conducted by the City of Carbondale and is based on an average usage of 6,000 gallons. The rates for these 10 communities ranged from a low of \$13.81 for McLeansboro to a high of \$36.69 for Pinckneyville. Comparably, Rend Lake’s charge was \$16.80 for 6,000 gallons.

**Sewer Billing**

This audit identified problems with the billing by the District for the sewer services that it provides. There were only seven customers, and none of them was charged according to a master meter.

Two of the agreements (Wayne Fitzgerald State Park and Big Muddy River Correctional Center) required charging by a master meter, but instead these two customers were charged as a percentage of total water used each month. District personnel stated that these meters

Exhibit 4-10 <b>SEWER RATES OF SELECT SOUTHERN ILLINOIS COMMUNITIES</b> July 2003	
Community	Sewer Rate (6,000 gallons <sup>A</sup> )
Pinckneyville	\$36.69
Mt. Vernon	\$30.04
Benton	\$25.85
DuQuoin	\$25.40
Marion	\$21.45
Murphysboro	\$17.51
<b>Rend Lake</b>	<b>\$16.80</b>
West Frankfort	\$16.67
Carbondale	\$13.98
McLeansboro	\$13.81
<sup>A</sup> Sewer rates above are for residential users in selected Southern Illinois communities based on an average usage of 6,000 gallons as of July 2003. None of the cities purchases water from Rend Lake.	
Source: 2003 Water and Sewer Rate Study, City of Carbondale.	

needed to be replaced because they were inaccurate and that it was the decision of the previous management to instead bill based on water usage.

Although Ordinance No. 112 sets the established sewage rate of \$2.80 per 1,000 gallons, some customers did not pay this rate. Some customers paid different rates based on a percentage of water consumption, some were not charged by the meter, and one paid a rate that was less than the rate set by the ordinance (see Exhibit 4-11).

To give an indication of the revenue that was lost, the billing unit was able to provide an example for us. Per ordinance and contract, the U.S. Army Corps of Engineers was supposed to be charged \$2.80 per 1,000 gallons of sewage but the District’s billing unit said their former General Manager decided to charge the Corps a flat rate of \$165 per month. The billing unit’s calculation based on water used showed the total bill for the Corps’ sewage should have been \$12,910 for the period January 2002 to March 2004 but the amount charged (\$165/month) was \$4,455, resulting in a loss of revenue to the District of \$8,683.

Exhibit 4-11 <b>EXAMPLES OF PROBLEMS WITH SEWER BILLS</b>	
<ul style="list-style-type: none"> <li>• Different customers pay different rates:                             <ul style="list-style-type: none"> <li>○ Rend Lake College pays 82.5% of the water used at a rate of \$2.80 per 1,000 gallons.</li> <li>○ Wayne Fitzgerald State Park pays 85% of water used at a rate of \$2.80 per 1,000 gallons.</li> <li>○ Southern Illinois Artisan Shop pays 100% of water used at a rate of \$2.80 per 1,000 gallons.</li> <li>○ Village of Ewing is charged \$2.05 per 1,000 gallons of water used by agreement instead of \$2.80, which is required by ordinance.</li> </ul> </li> <li>• Wayne Fitzgerald State Park and Big Muddy River Correctional Center are required by agreement to be charged by a master meter but they were not charged according to a meter.</li> <li>• According to District personnel, there is one sewer customer that does not have a contract and does not get charged for sewer use.</li> </ul>	

According to District personnel, one customer (new apartments opened in 2001) was not charged for sewer service. We asked for documentation to show that the customer was receiving sewer services, but personnel could not locate it.

<b>SEWAGE</b>	
<b>RECOMMENDATION NUMBER</b>  <b>9</b>	<p><i>The Rend Lake Conservancy District should establish meters for all its sewage customers and implement a system to bill all the customers in accordance with rates that were established by ordinance and written contracts.</i></p>
<b>REND LAKE CONSERVANCY DISTRICT’S RESPONSE</b>	<p>The District concurs with the findings and recommendations.</p> <p>Sewage meters will be installed for all customers and billed in accordance with established rates.</p> <p>This activity will be accomplished by March 31, 2005.</p>



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## Chapter Five

# PERSONNEL

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## CHAPTER CONCLUSIONS

The Rend Lake Conservancy District did not have job descriptions (prior to August 2003), a pay plan for non-union employees, a formal staffing plan, or written personnel policies and procedures. The District had been following personnel policies and procedures that were established by the Board of Trustees in 1990 but rescinded in 2001.

- The District's personnel files were incomplete and more than one-half of the 30 personnel files we sampled did not have complete job application forms. One-third of the files sampled lacked salary data; in fact, there was no written pay plan for non-union employees that would show the minimum and maximum salaries for each position.
- There was little documentation related to recruitment that could demonstrate that the best candidates were selected (e.g., job postings, required and desired skills, interview records, internal recommendations, reference checks, and decision memos).
- The job descriptions created by supervisors did not encompass all of a position's requirements. For example, while a few job descriptions listed education (such as a bachelor's degree) as a desired qualification, none contained any required education qualifications.

The District had weak controls over employees' time keeping records, such as vacation time and compensatory time, and did not perform supervisory reviews of employees' timesheets. Without adequate controls, potential errors may occur in tracking employees' time records; employees may be reimbursed for time to which they are not entitled; or employees may take time off which they have not earned.

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## STAFFING LEVELS

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As of May 2004, the Rend Lake Conservancy District had 143 employees; 110 were non-union and 33 were union employees. Exhibit 5-1 provides a breakdown of employees on May 1<sup>st</sup> for 2001 through 2004.

Exhibit 5-1  
**REND LAKE STAFFING LEVELS AS OF MAY 1<sup>st</sup> FOR 2001-2004**

May 2001	Full-Time	Part-Time	Seasonal	Total	Union	Non-Union	Total
Administration	7	1	0	8	3	5	8
Water Plant	21	0	0	21	18	3	21
Golf Course	8	0	9	17	5	12	17
Pro Shop	4	0	16	20	0	20	20
Restaurant	6	12	26	44	0	44	44
Lodge	3	9	13	25	0	25	25
Shooting Complex	3	14	0	17	2	15	17
Marketing	1	0	0	1	0	1	1
<b>Total 2001<sup>^</sup></b>	<b>53</b>	<b>36</b>	<b>64</b>	<b>153</b>	<b>28</b>	<b>125</b>	<b>153</b>
<b>May 2002</b>							
Administration	7	1	0	8	3	5	8
Water Plant	21	0	0	21	18	3	21
Golf Course	8	0	9	17	5	12	17
Pro Shop	4	0	14	18	0	18	18
Restaurant	6	13	28	47	0	47	47
Lodge	3	11	13	27	0	27	27
Shooting Complex	4	13	0	17	3	14	17
Marketing	1	0	0	1	0	1	1
<b>Total 2002<sup>^</sup></b>	<b>54</b>	<b>38</b>	<b>64</b>	<b>156</b>	<b>29</b>	<b>127</b>	<b>156</b>
<b>May 2003</b>							
Administration	4	1	0	5	3	2	5
Water Plant	21	0	0	21	18	3	21
Golf Course	7	0	6	13	4	9	13
Pro Shop	4	0	14	18	0	18	18
Restaurant	6	14	28	48	0	48	48
Lodge	3	11	11	25	0	25	25
Shooting Complex	4	7	0	11	3	8	11
Marketing	1	0	0	1	0	1	1
<b>Total 2003<sup>^</sup></b>	<b>50</b>	<b>33</b>	<b>59</b>	<b>142</b>	<b>28</b>	<b>114</b>	<b>142</b>
<b>May 2004</b>							
Administration	8	1	0	9	3	5	8
Water Plant	25	0	0	25	23	2	25
Golf Course	6	0	7	13	5	8	13
Pro Shop	3	0	15	18	0	19	19
Restaurant	5	10	27	42	0	42	42
Lodge	3	16	6	25	0	25	25
Shooting Complex	3	7	0	10	2	8	10
Marketing	1	0	0	1	0	1	1
<b>Total 2004</b>	<b>54</b>	<b>34</b>	<b>55</b>	<b>143</b>	<b>33</b>	<b>110</b>	<b>143</b>

Note: "Golf Course" consists of Golf Course Superintendent, Equipment Manager and Groundskeepers.  
 "Pro Shop" consists of Director of Golf, Golf Professionals, Pro Shop Employees, Cart Staff and Marshals.  
<sup>^</sup> Estimated by the District's Human Resource Director; does not include employees that were off for Worker's Compensation.

Source: Rend Lake Conservancy District.

Of the 143 employees in May, 2004, 14 were salaried employees (see Exhibit 5-2) while the remaining 129 employees were paid on an hourly basis. Many of the permanent full-time positions were hourly, such as the Comptroller and the Human Resource (HR) Director. All hourly employees are eligible for overtime; overtime is considered anything over 40 hours in one week and is paid at a rate of time-and-a-half.



Prior to July 2003, the District lacked a personnel or human resource position. Most personnel duties were spread among individual supervisors and employees within the administration office. Now the District has a HR Director who started in March 2003 as a receptionist and became the HR Director on July 21, 2003.

According to the HR Director, there was no formal staffing plan that considered the number of employees or the types of skills that were needed by the District. Through January 2004, the supervisors did all of the hiring for seasonal, full-time, and part-time employees. The supervisors determined the staffing rates and salaries considering individuals hired in the past for that position; if the starting salary seemed inconsistent to the Comptroller and/or the HR Director, they discussed it with the supervisor.

Exhibit 5-2 <b>SALARIED POSITIONS</b> May 2004	
1.	Managing Director
2.	Water Plant Superintendent
3.	Golf Course Superintendent
4.	Director of Golf
5.	Head Golf Professional
6.	Assistant Golf Professional
7.	Restaurant Manager
8.	Assistant Restaurant Manager
9.	Event Coordinator
10.	Executive Chef
11.	Lodge Manager
12.	Housekeeping Supervisor
13.	Shooting Complex Manager
14.	Marketing Director
Source: Rend Lake Conservancy District.	

Beginning January 27, 2004, the Board decided to assume the responsibility of hiring personnel. According to the Board meeting minutes, the Board advised the Managing Director that trustees desired “. . . to assume the responsibility of hiring personnel. Should a position need to be filled between board meetings, supervisors may tentatively put an individual on payroll, but it should be strictly understood that employment will only be finalized upon approval by the Board of Trustees at their next meeting by majority vote.”

### **Personnel Policies**

Since July 2001, the District was operating without a formally approved personnel policy when the Board of Trustees rescinded (by Ordinance No. 183) the policies and procedures that had been established by the Board in 1990 (Ordinance No. 132). The 1990 policies covered such personnel topics as attendance, work injuries, discipline and discharge, termination, grievances, wage attachments, overtime, keys, leave of absence, insurance, holidays, uniforms, vacation time, pay plans, retirement, hiring, tools, and timekeeping. A chapter of the draft policies manual was developed establishing new personnel procedures and was approved by the Board in May 2004, but is subject to legal and management approval.

This is not the first time that the Board has rescinded personnel policies. In 1987, the Board rescinded the personnel policies and for three years (1987 to 1990) the District had no personnel policies and procedures for non-union employees (see Exhibit 5-3).

**Timekeeping**

Since the District did not have approved personnel policies, the HR Director was interviewed to determine the current procedures for granting leave time to employees. The HR Director provided the following information:

Exhibit 5-3 <b>PERSONNEL POLICIES FOR NON-UNION EMPLOYEES</b>	
1971	Board established personnel policies by Ordinance No. 52.
1987	Board rescinded personnel policies by Ordinance No. 122.
1990	Board established new personnel policies by Ordinance No. 132.
2001	Board rescinded personnel policies by Ordinance No. 183 for non-union employees.
Source: Rend Lake Conservancy District Ordinances.	

- **Vacation Days.** Both union and non-union employees receive vacation days on their hire anniversary date; the maximum they can accrue is 30 days per year. A vacation request form must be completed by the employee and signed by the supervisor two weeks in advance. The Managing Director signs the forms of the supervisors.

Exhibit 5-4 <b>VACATION SCHEDULE</b>	
<b>Employment Time</b>	<b>Vacation Time</b>
1 year	1 week
2-7 years	2 weeks
8-11 years	3 weeks
11+ years	3 weeks, plus 1 additional day for each year over 11, subject to a maximum of 30 days
Source: Rend Lake Conservancy District.	

- Union employees can bank up to 60 days of vacation, including the current year’s allowance. According to Article 10, Section 4 of the union contract, vacation time can be completely bought out at the end of any calendar year; otherwise it will be paid at termination of employment.
- Non-union employees can be paid for unused vacation time. The maximum days they can accrue is the number of vacation days earned in two years. According to the HR Director, it has been past practice that non-union employees could accrue 2 years of vacation, plus the current year. During the May 2004 Board meeting, the Board informed the HR Director it should be two years total. After implementation of the Personnel Policy, the HR Director will notify all employees that are over the two years and decide what will be done with the extra days.

- **Sick Days.** Both union and non-union employees receive 5 sick days per year. According to the HR Director, no forms are completed to request sick time.
  - Union employees’ sick days for the current calendar year are called “current” and are used first; they may be used as personal time also. The old sick time is called “accrued” and may be used with a doctor’s note. According to the union contract, accumulated days cannot exceed 30.
  - Non-union employees can use their sick time, both current and accrued, as personal time without a doctor’s note. The maximum number of sick days that non-union employees can accrue is 35 days.

- **Overtime.** Salaried employees are not eligible for overtime. Overtime is paid at the rate of one and one-half times the base rate for all hours worked over 40. Exhibit 5-5 shows the hours and amounts paid, by division for overtime.

Exhibit 5-5 OVERTIME HOURS AND AMOUNT PAID Fiscal Years 2002 – 2004						
	FY 2004		FY 2003		FY 2002	
Division	Hours	Amount	Hours	Amount	Hours	Amount
Water	2,135	\$60,890.98	1,990	\$57,720.71	2,842	\$79,099.82
Golf	802	\$16,215.98	1,333	\$26,528.43	1,599	\$29,108.84
Administration	460	\$11,946.53	352	\$8,071.95	358	\$6,683.49
Trap	988	\$10,835.64	481	\$6,305.87	593	\$7,487.94
Restaurant	600	\$7,541.71	1,449	\$20,058.47	1,550	\$18,732.45
Lodge	333	\$3,701.90	399	\$4,772.38	482	\$5,362.36
<b>Total</b>	<b>5,316</b>	<b>\$111,132.74</b>	<b>6,005</b>	<b>\$123,457.81</b>	<b>7,423</b>	<b>\$146,474.90</b>
Note: Total may not add due to rounding.						
Source: Rend Lake Conservancy District data analyzed by the Office of the Auditor General.						

### Monitoring and Controls

The District lacked adequate controls over the accounting of sick, vacation, and compensatory time for employees. The District did not have formally approved personnel policies and procedures. Without adequate controls, potential errors may occur in tracking employees' time records; employees may be reimbursed for time to which they are not entitled; or employees may take time off which they have not earned.

Prior to the employment of the current HR Director, leave time was taken in half-day increments; now the HR Director allows time off for sick and vacation to be taken in increments of 15 minutes. According to the HR Director, union employees clock-in, whereas non-union do not. Supervisors did not sign-off on employees' timesheets.

A form called an Attendance Controller was used for each employee. This form had a yearly calendar on the front and space for writing on the back. The HR Director wrote each employee's time on the Attendance Controller form and then entered it into a computer.

For union employees, a Leave Summary form was printed and given to the employee each month. Non-union employees had to ask their supervisor the amount of time they had remaining as each supervisor received a report of all his/her employees' remaining sick and vacation time. The supervisors usually kept all of the vacation requests and marked the employee's timesheet when they took a vacation day. The HR Director had no way of assuring that time was properly accounted for since she did not receive the vacation request form.

- **Compensatory Time.** The District lacked adequate controls over compensatory time. The salaried employees (who are eligible for compensatory time) track their

own compensatory time because it is not recorded into a central computer system for the HR Director to track. An employee wanting to take comp time must notify the supervisor in advance. However, there is no official way to track comp time. For example, the HR Director noted that the restaurant and lodge “. . . have never kept track of comp time and are unfamiliar with anybody ever keeping track of it” and added that the Water Superintendent “. . . doesn’t have any written records, but he keeps an idea in his head.” The Director of Golf stated that there was no system for comp time.

- Wage Increases.** According to the Comptroller, the accounting software has a log that tracks changes in payroll but this log was lost for data prior to September 2003, when the software was updated. The Comptroller also stated that she had a spreadsheet with any bonus or pay raise that was awarded to all employees. She added that individual pay raises should be noted in each individual personnel folder. However, during our personnel file testing, specific pay increase information was found in only 7 of the 30 files we sampled (23%).
- Job Descriptions.** Prior to August 2003, no job descriptions existed. Supervisors were directed to write job descriptions for each of the positions within their department, instead of the District establishing the requirements for each position. Creating official job descriptions can be a complicated task of determining all the responsibilities that are required by the organization to successfully perform the duties of the position. The job descriptions created by supervisors did not encompass specific requirements. For instance, none of the job descriptions established education as a required qualification, not even for the District’s Comptroller or the Director of Human Resources (see Exhibit 5-6).
- Training.** The HR Director was aware of no training materials used by the District but checked with individual divisions and identified only a list of golf maintenance crew training videos and a training sheet for restaurant staff. Without proper training, the District cannot ensure that its employees are receiving adequate training to perform their duties. Such training may include orientation for new employees and training that is specific to each employee’s operating division (e.g., water, lodging, shooting), or profession (e.g., professional development, continuing education, certification).
- Other Issues.** The District lacked a policy on family members working for the District. Several employees working for the District share the same last name,

Exhibit 5-6 EXAMPLE OF JOB DESCRIPTION
<p style="text-align: center;"><i>Excerpts from HR Director’s job description:</i></p> <p>REQUIREMENTS &amp; TERMS OF EMPLOYMENT:                      Knowledge of office equipment; knowledge of insurance policies; ability to follow oral and written directions; ability to work well with others. An understanding of the need and agreement to work weekends or holidays as required.</p> <p>DESIRABLE EXPERIENCE &amp; TRAINING:                      One year of human resource experience, or equivalent training.</p>
<p>Source: Rend Lake Conservancy District.</p>

including one division supervisor who directly supervised his wife and approved her overtime. This can result in weak controls and create the potential for abuse.

- Workers’ Compensation – The District’s premium for workers’ compensation insurance increased by approximately \$230,000 in 2004. The District has now contracted with the National Insurance Advisory Service for \$1,200 to review the current policy and rate to determine if their current program is reasonable.

- Unemployment insurance benefits had been increasing as more claims were filed over the years. Therefore, the District decided to change the insurance to save money. Through December 31, 2003, unemployment benefits were 100 percent reimbursable (i.e., fully paid by the District). Effective January 1, 2004, unemployment benefits are determined as a percentage of the total payroll (i.e., the District pays a percent of its payroll to the Illinois Department of Employment Security regardless of the number of employees laid off).

Exhibit 5-7 <b>UNEMPLOYMENT INSURANCE BENEFITS PAID</b>		
<b>FY</b>	<b>Number of Employees</b>	<b>Amount</b>
2000	0	\$0
2001	8	\$13,188
2002	13	\$19,856
2003	16	\$24,526
2004	26	\$84,520
<b>TOTAL</b>		<b>\$142,089</b>
Note: Total may not add due to rounding.		
Source: Rend Lake Conservancy District.		

- Confidential information, such as personnel or medical information, was not kept locked during the day. This information was kept in filing cabinets that were in a common area rather than in a private office where they may be less accessible to unauthorized individuals.

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## AUDIT SAMPLE OF PERSONNEL RECORDS

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We sampled 30 personnel files from the District’s 109 employees in January 2004. In selecting the sample, we considered factors such as employee’s title, division, salary/wage, and years of employment. One-third of the 30 personnel files that we sampled lacked salary data; in fact, there was no written pay plan for non-union employees that would show the minimum and maximum salaries for each position. There was little documentation related to recruitment that could demonstrate that the best candidates were selected (e.g., job postings, required and desired skills, interview records, internal recommendations, reference checks, and decision memos). We found the following:

- Seventeen personnel files (57%) did not contain complete job applications. In 14 files, no applications were found at all. Two files had only page 1 of the job application completed and 1 file had only a photocopy of the first page of the application in the file.
- Four files (13%) did not contain a job description.

- None of the 30 personnel files contained performance evaluations. According to the HR Director, no performance evaluations of employees have ever been done.
- The District now uses a New Employee Hire Form that contains the employee’s personal information, starting wage, position, and start date. Twelve personnel files (40%) had this form, although 2 of the 12 did not have the starting wage listed.
- In one file (for the new Water Superintendent), the most recent documentation was a letter of resignation from 1999. This employee was rehired in September 2003; however, nothing in the file shows this.
- The District uses an Employee Change Form for changes in employees’ insurance, wages and termination. Nine personnel files had this form.
- No pay information was kept in 10 of the files (33%), including for one employee who received a 20 percent increase in five months (\$26,000 to \$31,200).

<b>PERSONNEL</b>	
<b>RECOMMENDATION NUMBER</b>  <b>10</b>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish a comprehensive written personnel policy;</i></li> <li>• <i>Keep complete records on all its employees, including comprehensive job descriptions, job applications, and recruitment and selection records;</i></li> <li>• <i>Conduct annual performance evaluations of all permanent employees;</i></li> <li>• <i>Improve controls over employees’ time records;</i></li> <li>• <i>Retain complete records on employees’ training; and</i></li> <li>• <i>Keep confidential records appropriately locked.</i></li> </ul>
<b>REND LAKE CONSERVANCY DISTRICT’S RESPONSE</b>	<p>The District concurs with the findings and recommendations and will proceed to develop new personnel policies to ensure more complete employee files containing all relevant documentation. Management is currently reviewing policies and procedures as they related to employee performance, compensation, and position changes.</p> <p>The District is in the process of developing all policies and procedures in this area and will establish a related written policy for the personnel policies and procedures manual.</p> <p>This activity will be completed by December 31, 2004.</p>

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## Chapter Six

# CONTRACTS, ASSETS, AND INFORMATION SYSTEMS

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## CHAPTER CONCLUSIONS

There were significant weaknesses in the District's administration of contracts, assets and information systems. The District lacked formal written policies and procedures to guide its operations in these areas; other forms of internal controls were also lacking. The District now has a draft of policies and procedures manual, although certain provisions in the draft conflict with the requirements of the River Conservancy Districts Act.

- The District did not follow the bidding requirement of the River Conservancy Districts Act which states that contracts for work other than professional services exceeding \$2,500 be let to the lowest responsible bidder. In numerous instances, goods and services exceeding \$2,500 were purchased without entering into a contract with the vendor.
  - The District did not have a list of all the contracts that it had entered into and was legally bound to honor, including basic information such as the number of oil wells on District property or the number of acres of farmland that were leased.
  - In addition, contract files were not kept in a centralized location.
- The District did not have a system to monitor the performance of contractors and lessees. No employee was assigned to monitor contracts, such as to ensure the oil wells or farmers were paying the District the correct amount. Without adequate controls over contracts and leases, the District cannot ensure that the services for which it is paying, or being paid, are being provided according to the obligations that have been set forth in the contract agreement.
- The District did not have written policies and procedures for the acquisition, usage, and disposal of property and equipment. There was no complete, accurate, and comprehensive physical inventory of fixed assets and the District did not utilize a tagging system to track assets.
  - We sampled 30 items from the District's master fixed asset inventory list and could not locate 9 of the items (30%). Another six items (20%) sampled were either found in a different location than what was on the master fixed asset list or were incorrectly categorized.
  - To verify that all the District's assets are on its inventory list, we performed a "reverse" inventory (items were randomly selected and then checked to the master assets list); however, 60 percent of the 20 assets we sampled were not

- clearly identifiable on the District's fixed asset list (e.g., computer, printer, TV, VCR, camcorder, scanner) because of a lack of serial number or other specific information.
- The District did not know the total number of vehicles it owned, did not have titles for all its vehicles, and was not able to locate two vehicles that it had “given” to the Benton airport.
- The District did not adequately segregate duties related to the administration of its computer system. The District lacked written policies and procedures associated with information systems and also lacked a written and tested disaster recovery plan.

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## CONTRACTS AND PROCUREMENT

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The Rend Lake Conservancy District did not have written policies and procedures for entering into contracts or for monitoring contract performance. No District employee was responsible for supervising contracts or leases. District personnel indicated that the outside legal counsel and former General Manager used to handle contracts and leases; therefore, the current employees did not know very much about this function. The River Conservancy Districts Act requires contracts over \$2,500 for work other than professional services to be competitively bid:

All contracts for work other than professional services, to be done by such conservancy district, the expense of which will exceed \$2500, shall be let to the lowest responsible bidder therefor upon not less than thirty days' public notice of the terms and conditions upon which the contract is to be let . . . (70 ILCS 2105/16). [emphasis added]

In May 2004, we asked the Board Chairman how the District ensures compliance with this statute and he responded that the District does not have a method to ensure that all contracts exceeding \$2,500 are competitively bid.

In February 2004, we asked the District to provide any specific procedures on the contracting process (e.g., how contracts should be entered into and how they should be executed once an agreement is reached) but they were unable to provide any such procedures. Therefore, in May 2004, we asked the Board Chairman and he responded that “*the District does not have any ordinances or policies that dictate how contracts should be entered into nor how they should be executed once an agreement is reached.*”

In addition, we requested a list of all contracts. The District did not maintain a listing of contracts or keep contracts in a central location. An employee searched the District's files, compiled a list of contracts, and informed us that they are now filing contracts in one location, although no one has been assigned to keep official files and records of the District.

- On February 11, 2004, District employees provided us a list of 69 contracts and leases.



- On February 18, 2004, they updated the list to include 73 contracts, leases, easements, and deeds.
- On March 12, 2004, they updated the list to 90 contracts, leases, easements, and deeds.
- On July 7, 2004, the Board Chairman provided another 5 contracts and leases which brought the total to 95.

### **Audit Sample of Contracts**

Since the list of contracts provided to us in February 2004 was incomplete, and the actual population of contracts was unknown, we judgmentally selected 20 of the 73 known contract files for testing: 11 contracts, 5 leases, and 4 easements. We tested the contracts to determine the process used for entering into agreements, in addition to any system used to monitor and evaluate contractor performance. We also reviewed all farm leases and oil well leases that were identified.

Four of the 20 contractual agreements sampled did not appear to have adequate documentation to support the services provided:

1. A contract for temporary security services did not list what duties would be required by security personnel. According to the District, these were explained verbally.
2. The District had only a bid in the file for a company hired for mosquito spraying services – nothing in the file showed acceptance of the bid or that an agreement was made. This company was paid \$3,325 between May 1, 2003 and December 31, 2003.
3. A maintenance contract lacked a clear description of services provided.
4. One contract was an amendment to an easement for a water pipeline – the District could not provide the original easement documentation.

The District has a weak system of internal controls for monitoring contracts and leases. In 11 of 12 agreements where monitoring would be appropriate, there was no documentation to show that District employees had monitored performance. The District's Comptroller stated that other than water line construction contracts, which the District's outside engineer would monitor, there was no system in place to monitor and evaluate contractor performance.

- Of eight contracts sampled that were over \$2,500, five did not show any evidence of competitive bidding as required by the River Conservancy Districts Act (70 ILCS 2105/16).
- In addition, many vendors providing services for the District did not have contracts. We reviewed payments to vendors that were at least \$7,500 and found the District had few written contracts, such as with vendors that provided products for golfing, shooting, and the restaurant (see Exhibit 6-1).

Exhibit 6-1 <b>SELECT VENDORS PAID MORE THAN \$7,500</b> Fiscal Year 2004 (May 1, 2003 – April 30, 2004)				
<b>Vendor</b>	<b>Description of Services</b>	<b>Expenditure</b>	<b>Services Competitively Bid? <sup>A</sup></b>	<b>Contract Exists?</b>
Liberty Mutual Insurance Group	Workers Comp Ins	\$260,328	Yes	Yes
Bunn Capitol Company	Supplies	\$259,823	No	No
Lawrence A. Lipe and Associates	Consulting Engineer	\$243,907	No	No
Campbell, Black, Carnine & Hedin	Legal Fees	\$165,569	No	No
S.C.D. Rea & Sons	Commercial/Auto Insurance	\$152,203	Yes	Yes
Supreme Turf Products, Inc.	Chemicals	\$94,927	No	No
McMahon, Berger, Hanna, Linihan	Legal Fees	\$92,549	No	No
Korte & Luitjohan Contractors	Construction	\$87,168	Yes	Yes
Gamaliel Shooting Supply	Trap Inventory	\$73,465	No	No
Ulrich Chemical, Inc.	Water Disinfection	\$72,404	No	No
Zanders Sporting Goods	Trap Inventory	\$70,318	No	No
National Waterworks, Inc.	Equip Maintenance	\$33,965	No	No
Flanders Electric Motor Service	Equip Maintenance	\$33,531	No	No
Cintas Location #314	Uniform Cleaning	\$32,865	Yes	Yes
Allen Foods	Restaurant Inventory	\$29,359	No	No
IMCO Utility Supply Co.	Equip Maintenance	\$28,224	No	No
Brenntag Mid-South, Inc.	Clarification/Softener	\$26,367	No	No
Southard Oil Company, Inc.	Gas, Oil & Lube	\$22,595	No	No
GLI International-Hach Company	Lab Testing	\$21,390	No	No
Water Treatment Services, LTD	Clarification/Softener	\$21,087	No	No
IBT, Inc.	Equip Maintenance	\$20,475	No	No
Ben's Lawn Service	Mowing	\$20,286	No	No
B & J Computers	Information Systems	\$19,012	No	No
Lodgenet Entertainment	Hotel Expense	\$18,549	No	Yes
U.S. Turf, Inc.	Equip Maintenance	\$17,599	Yes	No
Webb Oil Company, Inc.	Gas, Oil & Lube	\$15,653	No	No
Bulk Feed Transport	Clarification/Softener	\$15,470	No	No
Titleist	Inventory	\$15,350	No	No
Gear for Sports	Uniforms	\$13,988	No	No
Sidener Supply Co.	Equip Maintenance	\$12,863	No	No
Viacom	Advertising	\$12,450	No	Yes
Securitas Sec. Services USA, Inc.	Security	\$11,776	No	Yes
Central Wholesale	Restaurant Inventory	\$11,342	No	No
Cusumano & Sons	Restaurant Inventory	\$10,664	No	No
The Cutting Edge	Mowing	\$9,750	No	No
The Stolar Partnership	Legal Fees	\$9,694	No	No
Winston & Strawn	Legal Fees	\$7,500	No	No

<sup>A</sup> According to State statute (70 ILCS 2105/16), "All contracts for work *other than professional services*, to be done by such conservancy district, the expense of which will exceed \$2500, shall be let to the lowest responsible bidder . . . ." [emphasis added]

Source: Auditors' analysis of information provided by the Rend Lake Conservancy District. Expenditure amounts were pulled from the FY04 general ledger prior to adjusting entries.

On a positive note, the District does competitively bid out all chemicals used for the water plant and documentation from fiscal year 2004 shows it awarded the contract to the lowest bidder in all cases.

Although the District did not have a general contract with Lipe and Associates, it did sign a \$159,693 contract in October 2000 for a specific consulting engineering project to improve the water distribution system. There was no evidence of competitive bidding for engineering services. Periodic bidding would help ensure that services are being provided at a reasonable, competitive rate. The Board has now requested billings with detailed rates and charges on the company's bills. Lipe and Associates has provided engineering and architectural services as a consultant to the District since 1965. The company develops plans, specifications, and cost estimates for the District's projects. The Board then obtains bids on these projects. After a project starts, Lipe and Associates provides construction engineering and observes the construction.

### **Draft Policies on Contracting**

The District has a draft of its policies and procedures manual, although it conflicts with the River Conservancy Districts Act (Act). The draft manual requires bidding for contracts exceeding \$5,000 while the Act has a lower threshold of \$2,500. The draft policy manual states that "*All contracts for supplies, materials or work involving an expenditure in excess of \$5,000 except contracts which by their nature are not adapted to award by competitive bidding, shall be put out to bid . . . The contract is to be awarded to the 'lowest responsible bidder'. The contract is awarded by vote of the Board . . .*" [emphasis added]. During its October 28, 2002 Board meeting, a requirement was passed that all purchases or services of more than \$5,000 be bid except in special circumstances.

In addition, the Act also restricts District employees from financial dealings with the District but nothing in the draft manual prohibits such financial transactions:

No trustee or employee of such district shall be directly or indirectly interested financially in any contract work or business or the sale of any article, the expense, price or consideration of which is paid by said district . . . (70 ILCS 2105/4b).

We identified instances where employees had financial dealings with the District: one employee leased farmland from the District (jointly with a parent) and two other employees made purchases at a District auction.

<b>CONTRACTS</b>	
<b>RECOMMENDATION NUMBER</b>  <b>11</b>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish policies and procedures for entering into contracts that comply with the River Conservancy Districts Act;</i></li> <li>• <i>Ensure that these policies and procedures include competitive bidding for applicable contracts and a system to monitor and evaluate contractor performance;</i></li> <li>• <i>Perform an analysis to determine if any currently used vendors need contracts; and</i></li> <li>• <i>Keep complete records on all its contracts, including evidence of monitoring contractor performance.</i></li> </ul>
<b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b>	<p>The District concurs with the findings and recommendations and will develop such policies and procedures which comply with the River Conservancy District Act. The District will create and maintain a master list of all current District contracts and will update the list periodically for compliance. Deliverables will continue to be monitored to ensure timely receipt.</p> <p>This activity will be completed by December 31, 2004.</p>

### Oil Well Leases

The Rend Lake Conservancy District did not have complete records on its oil wells and did not adequately monitor its leases for oil production on District owned land. The District has had oil production on its property for over 35 years. The District's outside legal counsel provided documentation relating to oil leases, including an unexecuted copy of an oil and gas lease dated October 1977 which he stated may be the operative lease that has been in effect since that time. He also provided an oil and gas lease dated December 1969 and various Division Orders going back to January 1970. A Division Order shows who has rights to the oil proceeds for a well, along with the percentage division of interest. While he provided this information, he noted that he was the outside legal counsel for the District and did not always have intimate knowledge of the details of the operations. He added that his files were not complete and that there should be records at the District.

We requested any additional documents the District maintains to support these contracts and leases. The District provided a signed oil and gas lease from 1980 covering 80 acres of land along with documentation showing a Request for Proposal (RFP) was issued for this lease. In response to our questions about competitively bidding oil and gas leases, the Board Chairman stated in July 2004 that the District's outside legal counsel "*feels that bidding would not be feasible . . . since there is usually only one person interested in*

development.” However, by way of comparison, State law (5 ILCS 615) and administrative rules (62 Ill. Adm. Code 250) require the Illinois Department of Natural Resources (IDNR) to competitively bid oil well leases in certain circumstances.

The District found Division Orders for five current wells and several old leases for wells that have been filled in, but could not provide the total number of wells. Also, District personnel could not provide a map showing the current areas of land leased for oil production. Without proper tracking of land leased for oil production, the District cannot ensure it is paying taxes only on District property. The District paid real estate taxes on oil wells that totaled \$1,114 for 2002 taxes paid in 2003.

The District did not adequately monitor oil well production and revenue generated from current oil leases. Lease operators were not required to provide reports showing the amount of oil sold. Instead, they simply mailed checks to the District without any details to show the royalty owed to the District. In fiscal year 2004, the District received \$14,667 in oil lease income (as shown in exhibit 6-2). Comparatively, IDNR requires reports showing the details of the financial transactions, such as amount sold, price received, and Department royalty. The Division Orders contain a specific percent of income the District is to receive. Also, leases contain provisions, such as payments of \$4,000 for a second well drilled, which also need to be monitored for compliance.

Since a District employee informed us that no reports are submitted by any of the lessees, we asked what controls (e.g., reports, monitoring) are in place to ensure all oil pumped is being reported to the District. In July 2004, the Board Chairman responded that the District’s situation is similar to that common in the industry and stated that *“Developed oil is pumped into tanks and removed by a third party purchaser . . . who measures the quantity of oil pumped and makes payment directly to all parties entitled to payment, including RLCD [Rend Lake Conservancy District]. . . There would be no other controls which would be common in this circumstance.”*

Exhibit 6-2 <b>FARM AND OIL LEASE INCOME</b> Fiscal Years 2002 through 2004			
	<b>FY04</b>	<b>FY03</b>	<b>FY02</b>
Oil Lease Income	\$14,667	\$14,141	\$11,188
Farm Lease Income	\$64,971	\$37,849	\$47,137
<b>TOTAL</b>	<b>\$79,638</b>	<b>\$51,990</b>	<b>\$58,325</b>
Source: Rend Lake Conservancy District.			

Similar to the District, the Illinois Department of Natural Resources has leases for oil production on its lands. IDNR also receives royalties from a third party oil purchaser. However, each time oil is purchased from the lease operator, a report showing the amount of oil purchased and the amount of IDNR royalty is provided by the purchaser. According to IDNR, this is standard industry practice for the payment of royalty to mineral owners.

### Farm Leases

There were many shortcomings with the District’s monitoring of farm leases, including not knowing the number of acres leased to each farmer, not having documentation to show the basis for the District receiving one-third of the profits from the sale of grain, and not requiring farmers to provide reports, records, or elevator tickets to determine the amount of revenue generated (see Exhibit 6-3).

A District employee said four farms are located on District property but they were able to locate the leases for only two farms, both dated 1977. At that time, profits from the sale of grain were divided equally between the District and the tenant.

We found settlement sheets, a handwritten statement for one farmer, and checks written to the District for the sale of grain in October 2003; however, a District employee informed us that tenants are not required to submit financial reports. Both farm leases stated that the *“tenant shall keep a strict financial record of the farm business, a copy of which shall be furnished to the landlord.”* By not requiring the tenants to provide financial records, the District is allowing the tenants to violate the terms of the lease agreement. Without regular reports, the District cannot monitor the sale of grain to ensure it is receiving the appropriate amount of income.

One way to reduce the risk of not getting the full amount of rent due to the District is to charge a predetermined amount of cash rent, instead of calculating rent based on a percent of sales. This would ensure the District knows the amount of rent it can expect to receive, reduce record keeping, and allow consistency in revenue from year to year.

Exhibit 6-3 <b>FARM LEASE SHORTCOMINGS</b>
<ul style="list-style-type: none"> <li>• The District was unable to provide the total number of acres leased to each farmer. While the two existing leases state the number of acres farmed, an employee informed us that these numbers are not accurate because new roads and additions to the District have been built since 1977.</li> <li>• There was no documentation to show the basis for the District receiving 1/3 of the profits from the sale of grain. Comparatively, the Illinois Department of Natural Resources (IDNR) requires lessees to pay a certain amount per acre.</li> <li>• Farmers were not required to provide reports, financial records, or elevator tickets showing the total amount of crops sold and revenue generated. This information would demonstrate that the District received its fair share. Comparatively, IDNR requires lessees to provide elevator tickets, receipts of all purchases, and reports of chemicals used.</li> <li>• According to District personnel, for farmland, the District paid all real estate taxes that exceeded \$4,200 in fiscal year 2004. Comparatively, IDNR requires lessees to pay all taxes on the leased lands.</li> <li>• The District was unable to provide a breakdown of expenses paid to each lessee and informed us that employees do not conduct an analysis to ensure revenues are greater than expenses paid.</li> <li>• The District did not require the lessees to have crop insurance on the District’s portion of the farmland. In FY04, one lessee did not show any profits on his land due to flooding, but had insured his portion of the farm. The District’s portion was not insured so the District was paid nothing during that year. Comparatively, IDNR requires lessees to provide insurance.</li> </ul>
<p>Source: Auditors’ review of District contracts and information from IDNR.</p>

Due to the limited amount of documentation available for each lease, we could not compare the terms of each lease. In March 2004, we requested the number of acres farmed and the amount of income received from each lease for fiscal year 2001 through 2003; District employees responded they did not know the number of acres farmed. The total amount of income received for 2004 from all four leases was \$64,971 (as shown earlier in Exhibit 6-2).

According to the leases, the District is responsible for covering some expenses related to farming. These include real estate taxes and chemicals shown to be necessary by soil tests. The District paid all real estate taxes on farmland in fiscal year 2004 without knowing the exact number of acres leased.

Without adequate controls over contracts and leases, the District cannot ensure that the services for which it is paying, or being paid, are being provided according to the obligations that have been set forth in the contract agreement.

<b>LEASE REVENUES</b>	
<b>RECOMMENDATION NUMBER  12</b>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Review its farm, oil, and other leases to update their provisions and ensure that the District is receiving its appropriate contractual share;</i></li> <li>• <i>Determine the exact number of acres leased as farmland; and</i></li> <li>• <i>Obtain cash rents for farmland using competitive bids.</i></li> </ul>
<b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b>	<p>The District concurs with the findings and recommendations.</p> <p>District staff is currently reviewing all farm and oil leases. All leases will be updated and evaluated for performance. Leases will be renegotiated if deemed appropriate by the Board.</p> <p>This activity will be completed by November 30, 2004.</p>

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## PROPERTY AND EQUIPMENT

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The Rend Lake Conservancy District did not have written policies and procedures for the acquisition, usage, and disposal of property and equipment. There was a lack of a complete, accurate, and comprehensive physical inventory of fixed assets and the District did not utilize a tagging system to track assets.

The District's Comptroller said that supervisors report assets assigned to their divisions every six months. She then compiles a master asset inventory from these lists and updates the master asset inventory to reflect new purchases and disposals on a monthly basis, but relies on the division supervisors to provide accurate updates or changes to accomplish this task.

The District's Comptroller is planning a 100 percent physical inspection of all District assets. However, this task is complicated by poor records and removal of records for the on-going FBI investigation. Without taking a comprehensive physical inventory, the District cannot ensure whether it has actual possession of the equipment or whether the equipment is missing, lost, or stolen. Failure to promptly determine missing equipment decreases the chances of retrieving the equipment. The Comptroller noted that the District plans to conduct random checks of assets in the future.

The District does not have a central purchasing agent, which resulted in employees making some purchases with District credit cards, such as supplies from local retail stores. This may have been more costly than if a central purchasing agent purchased them in bulk. Division supervisors submit requests to acquire property and equipment to the Managing Director, who then submits the requests to the Board for approval. The files maintained by the Comptroller contained documentation, such as receipts, vouchers, and invoices; however, documentation was not consistent from file to file.

We sampled 30 items from the District's master list of fixed assets in April 2004 and found the following problems:

- No serial numbers were used in the description of assets on the master fixed asset listing.
- Brand names and models were not always used. With more than one like item in a location, the assets cannot be identified. For instance, there are multiple printers in the Pro Shop.
- Nine items (30%) sampled could not be located. These included two computers and a monitor, two cameras, a radio, a T.V., a copier, and a shotgun. Of the nine items that could not be located, seven were listed as located in the administration building, one in the lodge, and one at the water plant.
- Two items (7%) were found in a different division than was specified in the master fixed asset listing; one was found in the restaurant instead of the lodge and one was found in the administration building instead of the lodge.



- Four items (13%) appeared to be categorized incorrectly in the master fixed asset listing. These included:
  - o Water Plant maintenance building categorized as “miscellaneous”
  - o John Deere Tractor categorized as “office equipment”
  - o Organ/piano as “bldg improvement”
  - o Chemical Feed Building as “construction in progress”

We also conducted reverse fixed asset testing of 20 items (items are randomly selected and then checked back to the master assets list) and found that 12 (60%) items were not clearly identifiable on the fixed asset listing:

- One copy machine (5%) was classified at an incorrect location – it was found at the restaurant but was listed as being at the administration building;
- Two (10%) items were potentially on the fixed asset listing (fax machine and printer) but due to vague descriptions on the master fixed asset listing these items could not be verified;
- Nine (45%) items were unable to be matched to the fixed asset listing including a:
  - o GE Microwave
  - o RCA TV with VCR
  - o Brother IntelliFax 4750e – Business Class Laser Fax Super G3/33.6 kbps
  - o Radio Shack Karaoke Machine
  - o Sony Caddy Cam Video 8 Analysis System
  - o Epson Stylus Photo 870 Printer
  - o Canon Scanner N1220U
  - o Samtron 4 Head VCR
  - o George Foreman grilling machine

Assets were sometimes grouped together if they were the same product. These items need to be identified individually. One item sampled was listed as “7 Dell computers (1 server).” Several of the descriptions of assets on the master fixed asset listing were vague such as “Tools” or “Pentium III Computer.”

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## VEHICLES

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The Rend Lake Conservancy District's vehicle records were incomplete. The District did not have a central list of vehicles. As of May 2004, the District owned approximately 40 vehicles but had no written policies and procedures for vehicle usage, maintenance, purchase, or disposal. In addition, important information relating to vehicles, such as maintenance costs, was not available. One District official noted that vehicle procedures had been "*pretty sporadic in the past.*" Generally Accepted Accounting Principles dictate the need for an accurate account of all assets and their values.

Vehicles were assigned to different operational areas. Job descriptions assigned responsibilities related to vehicles to the Human Resources (HR) Director, Lodge Manager, Assistant Golf Course Superintendent, and Shooting Complex Maintenance Technician.

- The job description for the HR Director listed three duties related to vehicles: maintain files on vehicles owned by District; maintain insurance records and issue reports as necessary; and maintain vehicle titles and insurance. The HR Director said she was involved with vehicle acquisition, insurance, and disposal by auction.
- The three remaining position descriptions referred only to maintenance of vehicles; however, the HR Director stated that the division supervisors are responsible for most of the vehicle functions at the District.

### List of Vehicles in Fleet

The District provided an insurance schedule (updated May 10, 2002) as a list of its fleet and a master inventory of fixed assets that was based on self-reporting by the division supervisors. The most recent master fixed asset list was dated March 2004. The insurance schedule was incomplete, the description of the vehicles on these lists differed, and no identification number was assigned to enhance vehicle tracking.

Also, the list of vehicles attached to an insurance bill (for coverage May 1, 2003 to May 1, 2004) did not match up to the master fixed asset listing. Not all vehicles on the insurance listing are on the master fixed asset listing and vice versa. This could lead to not insuring all vehicles or insuring a higher number of vehicles than necessary. Some examples of vehicles on the insurance listing but not on the master fixed asset listing are: 1974 Chevy Flatbed, 1991 Ford Semi Tractor, and a 1998 Ford Pickup. Examples of vehicles on the master fixed asset listing but not on the insurance listing are: Mack Wrecker Tractor Truck, 5-Ton Dump Truck (32,315 miles), and a Mack Truck 2300.

In addition, a vehicle inspection conducted by the Managing Director in July 2003 noted that the District did not possess titles for at least 5 vehicles. According to the Human Resources Director, two vehicles were "given" to the Benton Airport after the

District discontinued a shuttle service. While she still has the titles for these two vehicles on file, she has not been able to confirm the location of the vehicles.

### Monitoring and Controls

The District did not have a central list of all the vehicles that it owned and there was no single number assigned to each vehicle to identify and track the vehicles. A lack of adequate records, along with a lack of policies and procedures, makes it difficult to monitor and control the District’s fleet.

- Vehicle Usage.** In January 2003, the Board passed a motion to restrict vehicle usage. A forensic investigation report submitted to the Board in March 2003 noted vehicles were provided to several employees although not required by either their employment contract or by the Board. The forensic investigation also mentioned that there was no evidence of employees (for whom vehicles were not necessary for performing their duties) reimbursing the District for personal usage of the vehicles. Currently, employees are authorized to use a District vehicle if a task requires it; however, there are no usage reports (e.g., mileage logs, inspection checklists, or sign-out sheets). There were also no mileage logs for vehicles for us to determine if employees were filling personal vehicles with gasoline from the District (see Exhibit 6-4).

Exhibit 6-4 REND LAKE GASOLINE AND DIESEL FUEL PUMP CONTROLS			
Division	# of Gas Pumps	# of Diesel Pumps	Controls
Administration	1	0	Locked compound; separate power switch
Golf Course Maintenance	2	1	Gate at entrance
Shooting Complex	1	1	None
Water Plant	1	1	Locked compound; padlocks on pump
Source: Rend Lake Conservancy District and auditors’ inspection.			

- Maintenance.** Not all divisions keep maintenance or repair history records. Division supervisors are responsible for vehicle maintenance and were asked to implement the use of a daily vehicle inspection checklist beginning May 1, 2004. One supervisor said he has a maintenance schedule for vehicles (i.e., oil change) and keeps copies of repair bills. Before repairs are performed, the Managing Director is informed and then a bid on the work is obtained. Repair receipts are then submitted to the accounting section.
- Vehicle Inspections.** Our review of District files showed evidence of one inspection of the vehicle fleet for the Water division. In this July 2003 letter, several findings were noted including: vehicles without a title, no plates or documentation, and burned out tail lights. The severity of conditions led to questions regarding vehicle and shop maintenance, training programs, and quality control.
- Acquisition/Disposal.** The District did not have a central list of all the vehicles that it owned and there was no single number assigned to each vehicle to identify and

track the vehicles. Division supervisors are responsible for most of the vehicle functions, including determining the need to acquire or dispose of surplus vehicles. Supervisors are responsible for submitting requests for acquiring vehicles for their division to the Managing Director and then to the Board for authorization. There were neither written policies and procedures for acquiring vehicles, nor were there any forms or written requests. Division supervisors set the minimum bid prices for each vehicle for auction. The Human Resources Director is involved in the areas of vehicle insurance, acquisition, and disposal via auction.

Changes in the fleet were self-reported by the division supervisors. Physical inspections were not performed regularly to verify the information provided by division supervisors. We tried to compile information on vehicles (e.g., number, types, maintenance, usage) by surveying information from each division and by reviewing the master fixed asset listing. However, as shown in Exhibit 6-5, the information did not agree (i.e. supervisors identified more vehicles to us than were on the master list, and some vehicles on the master list were not reported to us by the division supervisors).

Exhibit 6-5 <b>VEHICLE LISTING DISCREPANCIES</b> Audit Survey (April 2004) vs. District's list (March 2004)		
<i>Division</i>	<i>Reported on audit survey by District Supervisors – but not listed on District's master fixed asset list</i>	<i>Reported on District's master fixed asset list – but not reported on audit survey by District Supervisors</i>
Administration	1999 GMC Yukon <sup>A</sup>	1988 Ford F150 Pickup
Golf Course	1997 Ford F150 XLT Lariat 1974 Chevrolet 1 ton Custom 30 1988 International S 1900 Diesel 1987 International S 1900 Diesel 1992 GMC Jimmy 4x4 SL <sup>B</sup>	1989 Ford Ranger 1970 F600 Ford 2-Ton Dump Truck Ford 600 1½ Ton flat bed truck 1984 International Dump Truck <sup>D</sup> 1994 Jimmy GMC 4x4 <sup>C</sup> 1986 Dodge Ramcharger Utility Auto for Golf Course Maintenance
Lodge	1994 GMC Jimmy <sup>C</sup>	1982 Ford LTD 4 door tan 1989 Dodge Dakota Pickup
Restaurant	1979 Ford F250	1999 GMC Yukon 4x4 <sup>A</sup> GMC Jimmy <sup>B</sup>
Shooting	1984 International Dump Truck <sup>D</sup> Dodge Dakota Pickup <sup>E</sup>	1989 Dodge Utility Truck <sup>E</sup>
Water Plant	1977 Ford F250 4x4 Club Cab 1981 International Welding Truck S1800 <sup>F</sup> 1952 GMC 2½ ton 6x6 (fuel truck) 1982 LT8000 Dump Truck <sup>G</sup> 1979 GMC 7000 1985 Chevy Flatbed 1985 Chevy Utility 9000 Ford Semi	1962 International 6x6 Mack Wrecker Tractor Truck Ford Prairie International <sup>F</sup> 5 Ton Dump Truck 32,315 miles <sup>G</sup> Snowplow Truck Mack Truck 2300
Notes A-D: Vehicles listed on the audit survey for one division but appear on the master fixed asset list for a different division.		
Notes E-G: Vehicles that lacked sufficient information to match with certainty.		
Source: Rend Lake Conservancy District's response to auditors' survey and District master fixed asset list.		

### **Fleet Reduction**

In March 2003, the Board passed a motion directing the District to sell surplus vehicles. This resulted in two auctions in 2003 to dispose of unneeded vehicles. The first auction was held in July 2003 and disposed of 13 surplus vehicles. One vehicle did not receive the minimum required bid and was not auctioned. The second auction was held in October 2003 and six vehicles were auctioned along with some vehicle trailers and other equipment. On December 15, 2003, the Director of Human Resources (HR) reported to the Board that the auctions (including the sale of equipment) resulted in \$37,440 in revenue and a savings of approximately \$9,500 in insurance per year.

The HR Director and the Golf Course Superintendent (who has involvement with vehicles because years ago the District consolidated vehicle maintenance with golf operations) prepare bid sheets. The HR Director was unaware of what the minimum bid price is based upon (e.g., book value). According to District personnel, once minimum bid prices are set, the vehicles to be auctioned are advertised in four to five local newspapers.

The auctions are conducted using a sealed bid process, with the highest bid being accepted. The HR Director and the Golf Course Superintendent open the bids and establish the highest bidder. After the bid is accepted, the HR Director accepts payment from the purchaser and submits the revenue from the auctioned item to the District's Comptroller, including a listing of license plates for the auctioned vehicles. The Comptroller deposits the money and removes the disposed asset from the District's inventory.

<b>PROPERTY, EQUIPMENT, AND VEHICLES</b>	
<p><b>RECOMMENDATION NUMBER</b></p> <p><b>13</b></p>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish policies and procedures for the acquisition, usage, and disposal of property and equipment;</i></li> <li>• <i>Tag all property and equipment with a unique inventory number;</i></li> <li>• <i>Take an annual inventory of its assets and ensure that all assets are accurately recorded and identifiable;</i></li> <li>• <i>Establish a central purchasing agent function;</i></li> <li>• <i>Ensure vehicle listings are accurate, including lists used for insurance; and</i></li> <li>• <i>Improve controls over vehicle usage, such as unique numbers to easily identify vehicles, mileage logs, and sign-out sheets.</i></li> </ul>
<p><b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b></p>	<p>The District concurs with the findings and recommendations and has begun a program that will accurately identify and track the capital assets of the District. The District is developing a request for proposals to secure bar coded inventory tags and tracking equipment that will help with the monitoring of assets. Further, policies and procedures are being prepared that will outline specific requirements for the acquisition and disposal of any property and equipment.</p> <p>A central purchasing agent function will be developed and staff trained appropriately for such duties.</p> <p>This activity will be completed by April 30, 2005.</p>

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## INFORMATION SYSTEMS

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We also identified weaknesses in information systems used by the District in the administration of its operations, including the lack of written policies and procedures, and physical and logical security weaknesses. The lack of policies and procedures can result in inconsistencies in file backup, inadequate security over the information systems, and improper usage of system resources.

The District's information system (IS) consists of separate computer systems for each department that are not networked together. Our review focused on the computer network in the administration office building that was viewed by the District as having its most critical software, the District's accounting system (other systems are discussed at the end of the section). The administrative office has six computers that are networked

together as a local area network. This local area network (LAN) consists of servers dedicated to the general functions of the LAN and to the accounting system.

The District's Comptroller performed day-to-day system duties for the administration of the computer system, such as adding or deleting users, backing up data, and making changes to accounting system entries. There was a lack of segregation of duties as the Comptroller also has authority and responsibility to print checks.

- **Physical Security.** According to District personnel, the District's administrative computer system is located in a building protected by an alarm system at night and the building is locked at night. A fence is around the building and access is through an electronic gate. District personnel noted that all computers are insured as part of a blanket insurance coverage. The LAN servers had been locked in the District Comptroller's office prior to April 2004. However, the Comptroller moved from the office where the capability to physically lock the office existed, to an open cubicle area. The District's LAN servers are now located next to the Comptroller's desk. At the present time no additional security for the District's LAN servers exists other than the building's own security system.
- **Access Security.** According to District personnel, authorized users are required to log into the network with a password when first turning on their computers each day. Each person using accounting software has certain access rights in the accounting system depending on his/her area of responsibility. The Comptroller has full access rights, including the ability to change entries, make adjusting entries and print checks. District personnel stated they do not have a policy to change passwords on a regular basis. Staff indicated that they only change their passwords when the system requires it such as after a software upgrade. The District lacks written policies and procedures regarding user access to the IS system. Passwords should be changed on a frequent (e.g., monthly) basis for effective security (see Exhibit 6-6).
- **Disaster Recovery.** District personnel stated that no disaster recovery plan existed in writing for its most critical accounting system in the administrative office. District personnel feel that they would be able to purchase another system in a relatively short period of time and load software from their tapes in order to restore operations. They also feel that space would be available in various departments for temporary use in the event of an emergency. A disaster could result in interruptions to operations as well as loss of data (e.g., information on changes in payroll were lost when new software was installed in September 2003 without adequate backup).
- **Service Provider.** A service provider handles the District's other system administration duties, such as purchasing and installing software, installing hardware, and tracking software licenses. District personnel said there have been delays by this service provider in responding to computer problems that have affected the District personnel's work. The service provider is located in

Murphysboro, Illinois, approximately 45 minutes from the District and the District is charged travel time at a rate of \$40 per hour. No contract or agreement exists for the service provider. According to District personnel, the third party service provider was paid \$19,012 for services during fiscal year 2004. At an October 28, 2002 District Board meeting, a requirement was passed that all purchases or services of more than \$5,000 are to be bid except in special circumstances. These services were procured without a competitive bid although District personnel stated no specific exemption had been given by the Board to purchase computer services without requesting bids for the services.

- **Licensing.** No centralized tracking is performed of computer system software, or the licensing of software, by the District other than through its service provider. No policies or procedures are in place regarding the use of non-licensed software by District personnel. The potential use of unlicensed software in District computer

Exhibit 6-6  
**COMPUTER SECURITY POLICIES AND PROCEDURES**  
**Suggestions to Enhance Computer Security**

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- **Establish a security administration function** to provide oversight for ensuring physical security of resources, logical security of information, off-site storage of backups, and communication of security policies and issues to users.
- **Develop computer security policies and procedures** to outline security guidelines and user's responsibility in protecting computer resources (update annually):
  - Appropriate uses of computer equipment
  - General security provisions
  - Routine backup of information
  - Off-site storage of backups
  - System development procedures
  - Virus protection measures
  - Individual responsibility to protect computer resources.
- **Establish a security awareness program** to keep employees aware of security issues via memoranda or electronic mail.
- **Establish security standards** such as:
  - Each user should have an individual ID.
  - Passwords should be required, have a minimum length of six characters, and be changed at least every 35 days.
  - The number of times a user can log into a system after their password expires and before they change it should be limited to no more than three attempts.
  - A password history should be maintained to prohibit re-use of passwords.
  - After five unsuccessful attempts to enter a valid password for an ID, the ID should be revoked.
  - Unless a user requires 24 hour access to a computer system, time restrictions should be set to limit when he or she can use the system.
  - Users should only be allowed to log on to one (two may be acceptable in some environments) workstation on the LAN at any given time.
  - If a user has no activity on a system for a maximum of 60 minutes, the session should be deactivated until a valid password is entered or the user should be logged off the system.
  - Access to information and resources should be limited based on the user's need and job duties.

These requirements are not intended to be all inclusive and may not be appropriate in all circumstances, but serve as general guidelines.  
 Source: Office of the Auditor General.



systems could result in copyright or licensing agreement infringements. Unlicensed software can also introduce viruses to the District computer systems.

The District also has other computer systems besides the administrative network, such as in the Seasons Lodge and the Water Plant, which are not networked:

- We identified problems with the software at Seasons Lodge. As an example, rooms that are out of service for maintenance can only be shown as a complementary, or free, room. Complementary rooms or rooms charged a rate other than one already in the system show in the lodge’s monthly report as available and occupied rooms, which could result in the occupancy rate to be misstated.
- As for the water billing system, it is on a separate computer in the water treatment facility and is not connected to the administrative office computer network; furthermore, residential water billing is done using a modified Microsoft Office product rather than a billing software. Additional issues related to the District’s water billing system have been discussed in Chapter Four.

<b>INFORMATION SYSTEMS</b>	
<p><b>RECOMMENDATION NUMBER</b></p> <p style="font-size: 2em;"><b>14</b></p>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish policies and procedures for its information systems that at least include file backup, security, passwords, user access, and use of non-licensed software;</i></li> <li>• <i>Segregate duties related to the administration of the computer system to the extent possible;</i></li> <li>• <i>Establish appropriate physical, logical, and access security;</i></li> <li>• <i>Competitively bid the consulting contract for an information systems service provider as required by ordinance;</i></li> <li>• <i>Update the computer system at the lodge; and</i></li> <li>• <i>Establish a disaster recovery plan for its critical computer applications.</i></li> </ul>
<p><b>REND LAKE CONSERVANCY DISTRICT’S RESPONSE</b></p>	<p>The District concurs with the findings and recommendations.</p> <p>The reliance on technology has increased; therefore, the District is compelled to protect the integrity of its computing facilities and its users. The District will evaluate its existing structure and determine the most effective way to protect this asset. A computing policy will be included in the District’s operating procedure that will provide for security, password management, appropriate software licensing, and disaster recovery.</p> <p>This activity will be completed by December 31, 2004.</p>



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## Chapter Seven

# GOLF, SHOOTING, AND HUNTING

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## CHAPTER CONCLUSIONS

In fiscal year 2004, the Golf Course and Pro Shop lost \$62,600 before depreciation on revenues of over \$1 million. The Shooting Complex had a greater loss of over \$165,000 before depreciation on revenues of \$460,000; in fact, personnel costs alone were more than 50 percent of revenues for the Shooting Complex.

- The Golf Course established an operational plan for increasing revenues but the Shooting Complex did not have a plan to eliminate its losses.
- The Shooting Complex lacked a marketing plan with specific goals or timetables.
- The Golf Course and Pro Shop did not have written policies and procedures regarding inventory, employee discounts, or training requirements. Although the Golf Course strengthened its planning and oversight through the creation of policies and procedures covering basic operations, an operational plan for increasing revenues, and management reports, there was a lack of adequate segregation of duties, supervisory review, and formal procedures.
- The Shooting Complex lacked written goals, objectives, policies and procedures to guide its operations. Written policies and procedures could have established requirements to collect, maintain, and evaluate performance data which could be useful in gauging the operations of the complex and in benchmarking to comparative complexes, especially since District officials indicated the complex was not likely to make a profit in the near future.

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## GOLF COURSE AND PRO SHOP

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The Rend Lake Conservancy District operates a 27-hole golf course that has a 4½ star rating from Golf Digest. The Golf Course and Pro Shop had 3 full-time employees and 15 seasonal employees. The full-time employees were a Director of Golf, a Head Golf Professional, and an Assistant Golf Professional. The seasonal employees included marshals, cart attendants, and pro shop staff.

According to District personnel, the Golf Course and Pro Shop has significantly decreased seasonal employee hours, as requested by the Board of Trustees. This includes hiring fewer seasonal employees and assigning them fewer work hours. As shown in Exhibit 7-1, seasonal employees worked 9,077 hours in 2002 versus 6,724 hours in 2003, a reduction of 2,353 hours. Most of the decrease came at the Pro Shop, which reduced staff time by 1,869 hours (from the total of 2,353 hours).

Exhibit 7-1 <b>SEASONAL EMPLOYEE HOURS</b> Calendar Years 2002-2003		
	<b>CY 2002</b>	<b>CY 2003</b>
Marshals	2,228	2,116
Cart Attendants	4,095	3,723
Pro Shop Staff	2,754	885
<b>TOTAL</b>	<b>9,077</b>	<b>6,724</b>
Source: Rend Lake Conservancy District.		

### **Revenues and Expenses**

The Golf Course and Pro Shop had a loss before depreciation of \$62,600 in fiscal year 2004. The golf course's operating revenue was \$1,075,881 and its operating expenses were \$1,073,956; non-operating revenues and expenses were a negative \$64,525 (see Exhibit 7-2). Most of the revenues were from the daily fees, \$637,024, while most of the expenses were for personnel, \$571,298.

Exhibit 7-2 <b>GOLF REVENUES AND EXPENSES</b> Fiscal Year 2004		
<b><u>OPERATING REVENUES</u></b>		
Daily Fees	\$637,024	
Driving Range Fees	22,344	
Annual Fees	20,810	
Cart Rental	292,584	
Inventory Sales	77,371	
Grant Income	18,135	
Miscellaneous Income	7,613	
<b>Net Total Revenues</b>		<b>\$1,075,881</b>
<b><u>OPERATING EXPENSES</u></b>		
Personnel	\$571,298	
Cost of Goods Sold	53,833	
Audit Fees	2,773	
Legal Fees	15,437	
Dues and Licenses	3,668	
Electricity	34,428	
Telephone	12,694	
Building Maintenance	4,480	
Equipment Maintenance	72,632	
Vehicle Related Expense	14,525	
Grounds and Course Maintenance	95,332	
Equipment Rental	493	
Advertising and Promotion	20,941	
Insurance	128,916	
Operation Expenses	25,294	
Office Expenses	13,077	
Meetings and Seminars	2,382	
Other	1,753	
<b>Total Operating Expenses</b>		<b>\$1,073,956</b>
<b>Operating Income (Loss)</b>		<b>\$1,925</b>
<b><u>NON-OPERATING REVENUES AND EXPENSES</u></b>		
Gain on Asset Disposal	4,700	
Interest Income	278	
Interest Expense	(66,602)	
Interest Expense – Golf Carts	(2,901)	
<b>Total Non-operating Revenues and Expenses</b>		<b>(\$64,525)</b>
<b>Income (loss) Before Depreciation</b>		<b>(\$62,600)</b>
<p>Note: Above data does not include depreciation, an adjustment made to insurance for hospitalization insurance and an unallocated loss on the sale of assets. These expenses were taken as a lump sum for the recreation fund.</p> <p>Source: Rend Lake Conservancy District FY2004 audited financial statements.</p>		

The total number of golf rounds played peaked in 2001 while total revenues have generally continued to increase (see Exhibit 7-3). Golf officials noted that a decrease in rounds played at golf courses was a national trend as new golf courses are built; the National Golf Foundation completed a preliminary analysis that indicated rounds of golf played in 2003 would be about four percent lower than in 2002.

Exhibit 7- 3 GOLF COURSE AND PRO SHOP FINANCIAL ANALYSIS						
	CY 1998	CY 1999	CY 2000	CY 2001	CY 2002	CY 2003
<b>Total Rounds</b> <sup>A</sup>	31,817	31,459	31,793	32,474	31,269	30,945
Greens Fees	\$552,378	\$646,303	\$599,979	\$665,000	\$626,318	\$640,695
Golf Cart Fees	\$263,429	\$268,012	\$254,034	\$279,946	\$268,263	\$292,109
<b>Average Fee Per Round</b>	\$25.64	\$29.06	\$26.86	\$29.10	\$28.61	\$30.14
Merchandise Sales	20,964	27,626	76,501	87,741	72,280	75,861
<b>Merchandise Sales Per Round</b>	\$0.66	\$0.88	\$2.41	\$2.70	\$2.31	\$2.45
Driving Range Income	\$17,083	\$18,104	\$17,662	\$21,783	\$20,730	\$21,204
<b>Driving Range Income Per Round</b>	\$0.54	\$0.58	\$0.56	\$0.67	\$0.66	\$0.69
Total Revenue	\$892,643	\$991,718	\$985,868	\$1,091,918	\$1,028,912	\$1,067,185
<b>Total Revenue Per Round</b>	\$28.06	\$31.52	\$31.01	\$33.62	\$32.91	\$34.49

<sup>A</sup> Total Rounds includes 9-hole and 18-hole rounds.  
Source: Rend Lake Conservancy District Golf Course and Pro Shop.

Golf personnel are anticipating an increase in revenue in calendar year 2004 as golf rates were increased \$2 per round in May 2003 -- \$1 for 18-hole greens fees and \$1 for cart fees. These increases are expected to earn an additional \$35,875 during the peak season (May 1 through September 30) if the 2003 number of rounds played remains consistent.

### Revenue Enhancement Plan

On December 15, 2003, the Managing Director presented an operational plan for increasing Golf and Pro Shop revenues to the District’s Board of Trustees. This plan was prepared by the Director of Golf, the Head Golf Professional, and the General Superintendent. The plan proposed to establish year round operation (effective January 10, 2004) and calculated having 400 additional paying rounds per month.

The operational plan estimated a total increase of \$177,942 in revenues for calendar year 2004 (see Exhibit 7-4). Some of these proposals are based on the additional golf rounds played due to year round operation (i.e., driving range income, merchandise sales, annual passes, and greens/cart fees). According to golf personnel, Rend Lake Conservancy District has not performed any formal follow-up to compare the plan’s projections but as of August 11, 2004, total revenue had increased \$1,246 in calendar year 2004.

Exhibit 7-4 REVENUE ENHANCEMENT PLAN Calendar Year 2004 Estimate	
Driving Range Income	\$6,000
Merchandise Sales	\$7,509
Annual Passes	\$4,000
Greens and Cart Fees	\$89,275
Cancel Southern Illinois Open	\$3,000
Cancel SIGA Team Championship	\$9,000
Pay Off Note on Carts	\$59,158
<b>TOTAL</b>	<b>\$177,942</b>

Source: Rend Lake Conservancy District.

### Benchmarking

The Rend Lake Conservancy District informally compares itself to data from the National Golf Foundation and other local golf courses but does not formally benchmark itself against comparable entities to determine performance measures (i.e., number of rounds played, revenue earned per round, or rates charged per round). Therefore, we undertook comparisons whenever possible.

For example, the National Golf Foundation provides information on the golf industry and prepared a report, *Rounds Played in the United States 2003 Edition*, which summarized round and revenue information for about 2,300 golf facilities in calendar years 2001 and 2002. According to this report, total rounds played in the United States decreased three percent from 518.1 million in 2001 to 502.4 million in 2002. One of the hardest hit regions was the Lower Midwest with a decline of about five percent. The Lower Midwest Region consists of Illinois, Indiana, Iowa, Kansas, Missouri, Nebraska, and Ohio.

Golf officials said they use this report to look at rounds played regionally and nationally. Exhibit 7-5 compares merchandise revenue and total revenue per round for the Rend Lake Golf Course, the Lower Midwest Region, and the total for the United States. This exhibit shows that while revenue increased for the Lower Midwest Region and for the United States from 2001 to 2002, it decreased for Rend Lake: 2 percent for total revenue per round and 14 percent for merchandise revenue per round.

Exhibit 7-5 REVENUE COMPARISON PER ROUND Calendar Year 2001-2002			
	Rend Lake Golf Course	Lower Midwest Region	Total United States
<b>Total Revenue Per Round</b>			
2001	\$33.62	\$32.80	\$43.65
2002	\$32.91	\$33.72	\$45.43
<b>Merchandise Revenue Per Round</b>			
2001	\$2.70	\$3.14	\$4.38
2002	\$2.31	\$3.35	\$4.48
Source: Rend Lake Conservancy District and National Golf Foundation Information.			

The Director of Golf noted that he considered Annbriar Golf Club in Waterloo, Illinois and Stonewolf Golf Club in Fairview Heights, Illinois to be comparable to Rend Lake. Exhibit 7-6 below has a comparison of greens fees (including cart fees and taxes) for regional golf courses that shows Rend Lake golf course's rates were higher than some courses but lower than the golf courses that Rend Lake considers to be comparable.

Exhibit 7-6 <b>GREENS FEE COMPARISON</b> (Includes cart fees and taxes) Rates effective January 2004				
Course	Rating (stars)	City	Monday – Thursday	Friday – Sunday
Eagle Creek Resort <sup>A</sup>	3½	Findlay, Illinois	\$55.00 <sup>B</sup>	\$55.00 <sup>B</sup>
Annbriar Golf Club	4½	Waterloo, Illinois	\$50.00	\$60.00
Stonewolf Golf Club	3½	Fairview Heights, Illinois	\$48.00	\$48.00
The Missouri Bluffs Golf Club	4	St. Charles, Missouri	\$45.50	\$45.00
<b>Rend Lake Golf Course <sup>A</sup></b>	<b>4½</b>	<b>Whittington, Illinois</b>	<b>\$39.00</b>	<b>\$43.00</b>
Gateway National Golf Links	4	Madison, Illinois	\$37.50	\$37.50
The Falls Golf Club	3½	O’Fallon, Missouri	\$26.00	\$36.00
Wolf Hollow Golf Course	3½	Labadie, Missouri	\$18.00	\$19.80
Note: Some of these golf courses’ greens fees had increased as of June 29, 2004. For example, the Stonewolf Golf Club increased its rates to \$58.00 and \$63.00.				
<sup>A</sup> Eagle Creek Resort prices for May – October; Rend Lake Golf Course prices for May – September.				
<sup>B</sup> Eagle Creek Resort offers a \$40.00 local rate for anyone who lives within 40 miles of the resort.				
Source: Rend Lake Golf Course, Eagle Creek Resort, and Golf Digest.				

Exhibit 7-7 compares the maintenance and total expenses per round for the Rend Lake Golf Course with the median for 27-hole public golf courses. The most recent data available is not for the same years because the District kept combined records for recreation prior to 2004 and the latest data available on national expenses was for 2001. Therefore, this is only a general indicator that Rend Lake’s total expenses per round were slightly higher than the median.

Exhibit 7-7 <b>GOLF COURSE EXPENSE COMPARISON</b>		
	<b>27-Hole Public Facility Median Figures (2001) <sup>A</sup></b>	<b>Rend Lake Golf Course (2004) <sup>B</sup></b>
Total Rounds	46,000	30,945
Total Maintenance Expenses	\$555,984	\$364,478
<b>Total Maintenance Expenses Per Round</b>	<b>\$12.09</b>	<b>\$11.78</b>
Total Expenses	\$1,544,400	\$1,073,956
<b>Total Expenses Per Round</b>	<b>\$33.57</b>	<b>\$34.71</b>
Notes:		
<ul style="list-style-type: none"> <li>• Data for the same years was unavailable because the National Golf Foundation had not yet published calendar year 2002 through 2004 data and Rend Lake did not keep detailed expense data for recreation prior to fiscal year 2004.</li> <li>• Total Rounds for Rend Lake Golf Course were 32,474 in calendar year 2001.</li> </ul>		
<sup>A</sup> Total round and expense data for 27-hole public facility median figures are for calendar year 2001.		
<sup>B</sup> Total round data for Rend Lake Golf Course is for calendar year 2003 while expense data is for fiscal year 2004.		
Source: National Golf Foundation and Rend Lake Conservancy District.		

### Policies and Procedures

In August 2003, the Golf Course and Pro Shop began establishing written policies and procedures, which cover basic operations such as daily duties, golf cart safety, and cart barn guidelines and procedures. The procedures address duties such as counting



money in the petty cash safe and cash drawer, closing the cash register, and locking the safe, but do not specify the number of employees required to complete these activities.

According to Golf personnel, only one employee is required to complete these activities and the employee varies based on assignments. The person closing that day counts the cash register drawer down to a specified amount, and the excess of this is recorded on adding machine paper, initialed and dated by whoever closes that day. No procedures required supervisory review of these activities to verify their completion.

### **Inventory**

The Golf Course and Pro Shop began preparing reports in January 2003 using a computer program used by golf courses. This computer program provides access to customer information and updates inventory records. It also helps prepare various management reports including an inventory comparison, monthly seasonal hours breakdown, gross sales comparison, year-to-year revenue statistical comparison, and revenue comparison. These reports are used by the Director of Golf and the Head Golf Professional.

The Golf Course and Pro Shop has not established written procedures for its inventory process. The Head Golf Professional takes the inventory four times each year by printing a list of in-stock items from the Handicomp System and hand counting the inventory. On occasion, other employees provide assistance but they do not perform any supervisory review. Even if an item needs to be significantly adjusted, no additional review or precautionary measures are taken. If inventory adjustments are necessary, Golf personnel notify the Administrative Office.

### **Employee Discounts**

According to Golf Course and Pro Shop personnel, they have an unwritten policy regarding employee discounts for greens and cart fees. Golf course and pro shop employees do not pay greens and cart fees. Other District employees do not pay greens and cart fees if their division manager provides approval in advance. Golf personnel stated that these discounts are not always applicable, such as when the course is busy. In calendar year 2003, Golf personnel estimated that District employees played 435 rounds of golf while paying no greens and cart fees.

### **Training**

The Golf Course and Pro Shop does not have policies and procedures detailing training requirements but personnel said the following types of training applies to their employees:

- **Director of Golf** is required to maintain a Class “A” membership in the Professional Golfers’ Association including the completion of all continuing education requirements.

- **Head Golf Professional** is required to maintain Class “A” membership in the Professional Golfers’ Association including the completion of all continuing education requirements.
- **Assistant Golf Professional** is expected to possess general knowledge on the game of golf and specific knowledge on the fundamentals of the golf swing.
- **Pro Shop Staff** is required to receive training on areas such as scheduling tee-times and providing information on all aspects of Rend Lake Conservancy District.
- **Marshals** are required to receive minimal training on areas such as monitoring the pace of play, maintaining order, and displaying a pleasant demeanor.
- **Cart Attendants** are required to receive training on areas such as safe operation of golf carts and range equipment.

In addition, Golf personnel said seasonal employees are given hands-on experience under the direct supervision of the Director of Golf, Head Golf Professional, or Assistant Golf Professional who monitors their job performance and trains them.

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## SHOOTING COMPLEX

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The Rend Lake Conservancy District offers shooting and hunting (also known as trap field shooting) as one of its recreational areas. Like most other recreational areas of the District, the Shooting Complex did not make a profit in fiscal year 2004 – total operating revenues were \$459,684 and total operating expenses were \$625,307 resulting in a net operating loss of \$165,623. The Shooting Complex had an additional \$380 of revenue. Personnel cost of \$240,769 was 52 percent of total revenues. According to Shooting Complex officials, the Shooting Complex last increased its rates and charges in late 1998 or early 1999.

### Operations

The Rend Lake Shooting Complex is located on 400 acres of District property. The District’s website states that its Shooting Complex is the most state-of-the-art shooting facility in the Midwest. The Shooting Complex is open year-round and no membership is required.

There is a Pro Shop that offers a line of products commonly used by most shooters. This inventory includes shells, cleaning supplies, reload components, shooting accessories, and clothing; the pro shop also has shotguns for rent.

Exhibit 7-8 shows the three basic disciplines associated with shotgun shooting sports: trap, skeet, and sporting clays. The Shooting Complex has generally seen an increase in “registered shoots” by professionals in tournaments over the past five years and has hosted amateur and professional tournaments. Registered shoots are competitions that have been approved by one of the governing bodies (e.g., the Amateur Trap Association, National Skeet Shooting Association, or National Sporting Clay Association).

As reflected by Exhibit 7-9, there are various types of targets used by shooters at the Shooting Complex. Each of these target types has a different cost associated with them.

**Tournaments**

Rend Lake’s shooting complex has hosted events such as the 1999 Illinois Sporting Clays Association State Championship, the 2001 National Sporting Clays Association Zone 5 Championship, the 2002 Angle Port Open, and the 2003 Illinois Sporting Clays Association Tournament. The course is changed on a continuous basis in order to enhance new looks and provide different shooting challenges.

Exhibit 7-8 <b>SHOOTING SPORTS</b>	
◆ <b>TRAP</b> shooting consists of a round of 25 shots, five each from five stations or posts. An oscillating trap throws a clay target approximately 50 yards which rises between 6 and 12 feet.	
◆ <b>SKEET</b> shooting involves clay targets that are thrown by two different machines 40 feet apart, one high (10 feet) and the other a low (3.5 feet) placed on the left and right of the shooter. The target travels between 60 and 70 yards and passes 15 feet high. A shooter proceeds through eight stations and tries to hit 25 targets.	
◆ <b>SPORTING CLAYS</b> are designed to simulate field shooting and use a variety of targets that mimic birds and rabbits. A round generally consists of 50 targets distributed over a variety of stations.	
Source: Clay Targets Online, FieldandClays.com, National Association of Shooting Ranges, National Sporting Clays Association, National Skeet Shooting Association, and USA Shooting (US Olympic governing body).	

Exhibit 7-9 <b>PURCHASE PRICE OF TARGETS</b>		
Type of Target	Number per Case	Price per Case
Orange Bio Targets <sup>B,C,D</sup>	135	\$5.30
White targets <sup>A</sup>	135	\$5.20
Black Battue Targets <sup>C,D</sup>	180	\$14.80
Orange Dome Targets <sup>A</sup>	135	\$5.10
Orange Rabbit Targets <sup>C,D</sup>	177	\$6.00
White Flyer 60 MM <sup>C,D</sup>	250	\$15.25
White Flyer 90 MM <sup>C,D</sup>	144	\$5.55
<sup>A</sup> Trap. <sup>B</sup> Skeet. <sup>C</sup> Sporting clay. <sup>D</sup> 5-stand.		
Source: Rend Lake Conservancy District Shooting Complex.		

Exhibit 7-10 shows the number of clay targets expended from 1998 through 2003 as part of registered shoots. Clays expended as part of these competitions are recorded by one of the governing bodies; walk-in shooters or unregistered tournaments are not counted and tracked. District personnel attributed the decrease in 2000 to the absence of large events that year.

Exhibit 7-10 <b>REGISTERED CLAY TARGETS EXPENDED</b>		
<b>Year</b>	<b># of Clays</b>	<b>Change from prior year</b>
2003	136,550	29%
2002	105,475	(13%)
2001	121,200	170%
2000	44,900	(42%)
1999	76,800	726%
1998	9,300	
Source: Rend Lake Conservancy District.		

### Resources

In fiscal year 2004, the Shooting Complex and Hunting Preserve’s net revenues were \$459,684 and operating expenses were \$625,307 resulting in a operating loss of \$165,623 (see Exhibit 7-11). The Shooting Complex had additional revenues of \$380, not including depreciation expenses.

The Shooting Complex did not have a written plan to increase revenues and/or decrease costs. However, the Shooting Complex Manager said they are examining youth clinics (e.g., BB guns), and are trying to host the U.S. Open Sporting Clay Championship, the 2005 Sporting Clay shoot sponsored by the State Sporting Clay Shoot, and a large charity event to increase revenues.

The organizational structure for the Shooting Complex is flat (there are no subunits) – the nine employees report to the Shooting Complex Manager. Additional help may be called in for an event. Nearly all the employees are involved in maintenance. Officials indicated that they have experienced a shortage of staff that has made maintenance more difficult.

Exhibit 7-11 <b>SHOOTING COMPLEX AND HUNTING PRESERVE REVENUES AND EXPENSES</b> Fiscal Year 2004		
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$358,957	
Inventory and Target Sales	97,846	
Miscellaneous Income	2,881	
<b>Net Total Revenues</b>		<b>\$459,684</b>
<b><u>OPERATING EXPENSES</u></b>		
Personnel	\$240,769	
Cost of Goods Sold	152,753	
Audit Fees	2,999	
Legal Fees	14,106	
Consultant	3,600	
Trap Fees	11,605	
Dues and Licenses	372	
Electricity	8,834	
Telephone	5,557	
Building Maintenance	2,432	
Equipment Maintenance	8,973	
Vehicle Related Expense	4,755	
Grounds Maintenance	5,931	
Equipment Rental	160	
Advertising and Promotion	13,166	
Special Events	40,242	
Insurance	35,728	
Operation Expenses	26,960	
Office Expenses	8,350	
Meetings and Seminars	2,133	
Other	35,882	
<b>Total Operating Expenses</b>		<b>\$625,307</b>
<b>Operating Income (Loss)</b>		<b>(\$165,623)</b>
<b><u>NON-OPERATING REVENUES AND EXPENSES</u></b>		
Gain on Asset Disposal	380	
<b>Total Non-operating Revenues and Expenses</b>		<b>380</b>
<b>Income (loss) Before Depreciation</b>		<b>(\$165,243)</b>
<p>Note: Above data does not include depreciation, an adjustment made to insurance for hospitalization insurance and an unallocated loss on the sale of assets. These expenses were taken as a lump sum for the recreation fund.</p> <p>Source: Rend Lake Conservancy District FY2004 audited financial statements.</p>		

### Monitoring and Controls

The District's Shooting Complex lacked written goals, objectives, policies, and procedures to guide its operations. Policies and procedures could have established requirements to collect, maintain, and evaluate performance data, such as targets thrown, number of walk-ins, types of supplies sold, or established customer surveys. This information could be useful in gauging operations of the complex and in benchmarking it

to comparative complexes, especially since District officials indicated the complex was not likely to make a profit in the near future. Auditors also noted the following control weaknesses:

- The supplies for the Shooting Complex were not purchased using competitive bids; in fact, there was no written contract for the supplies.
- The Shooting Complex did not have documentation showing price comparisons for shooting supplies. Pricing, according to District Officials, is done over the phone on a weekly or monthly basis. One vendor supplies the Shooting Complex on a regular basis (every two weeks). This vendor was paid \$70,318.33 in FY 2004. The Shooting Complex Manager makes purchasing decisions.
- There are four permanent employees who work for the Shooting Complex, including one employee who is the Shooting Complex Manager's wife. She reports to him, which is an arrangement that has the potential for problems.
- The Shooting Complex lacked a clearly defined marketing plan, which connects marketing efforts to results.
- The shooting complex does not appear to track costs of supplies compared to prices charged.
- Although the Shooting Complex generates some cash register data at the end of each day, this data is manually transferred to a report, which is submitted to the Administrative Office. The transfer of data or information manually is more prone to error than automatic or ad hoc computer generated reports.

When asked about monitoring and oversight, District personnel outlined a number of mechanisms, such as a monthly budget analysis to identify anything that is unexpected. Revenue is run through the cash register and this information is recorded on tape and in the register's memory. A daily itemized report is generated with a deposit slip completed and attached to this report. For incoming inventory, all tickets are turned into the Administrative Office. The Shooting Complex conducts an inventory each month. Finally, according to District officials, the Administrative Office examines reports in reference to receipts, deposits, and inventory, and checks that stated money is actually there.

As of late July 2004, the District did not have any policies and procedures pertaining specifically to the Shooting Complex. One of the chapters in the draft policies and procedures manual (Chapter 4) pertaining to fiscal management and purchasing states that "*Telephone quotations, verbal quotation or catalog prices should be used to procure materials which are needed urgently, or for small quantity orders involving relatively little money.*" This draft chapter also calls for written quotations when purchases are to be made of highly specialized materials or when the field of competition is limited; it also establishes purchase orders for goods, services, and equipment, except purchases from a petty cash fund and certain food and minor repair purchases.

If the language in draft Chapter 4 is adopted and implemented, it would help address what appears to be a potential weakness in the internal control environment as there is a lack of structure in operations of the Shooting Complex.

The Shooting Complex Manager reports to the District Manager and the Board of Trustees. The reporting mechanisms are generally oral through visits by the Managing Director and individual Board members. Oral reports are also provided at weekly staff meetings. The manager indicated that reports are provided with information related to customer response, requests, problems, and successes. The Manager said management approves expenditures beyond standard day-to-day costs. Financial reports given to the administrative office include receipts, deposits, and inventory.

### Shooting Complex Benchmarking

Shooting complexes in Illinois offer a variety of opportunities that include sporting clays, trap, skeet, and five-stand. The combination of these opportunities and the number of courses and stations varies between shooting complexes. A majority of the 56 shooting complexes offer trap and sporting clays; fewer shooting complexes offer skeet and five-stand (see Exhibit 7-12).

Only five of the 56 complexes (9%) offer all four shooting sports, including the Rend Lake Shooting Complex. Like Rend Lake, 86 percent of the Illinois shooting complexes are public, but unlike Rend Lake, 63 percent (or 35 shooting complexes) offer membership. Whether a shooting complex is public or private, or has a membership program, can have a bearing its rate structure.

Sport	Yes	%	No	%
Trap	34	61%	22	39%
Sporting Clays	33	59%	23	41%
Skeet	28	50%	28	50%
Five-stand	20	36%	36	64%

Source: Auditors' summary of "Black's Buyer's Directory: 2003 Wing & Clay."

Rend Lake's rates (shown in Exhibit 7-13) are generally lower than many other shooting clubs for which we collected rate information. Rend Lake did not formally compare itself to other shooting complexes.

Event	Duration	Price
Trap Shooting	25 targets	\$3.50
Skeet Shooting	25 targets	\$3.50
Five-Stand	25 targets	\$4.00
	5 rounds	<sup>A</sup> \$18.75
Sporting Clays	50 targets	\$15.00
	100 targets	\$25.00
	5 rounds (100 shots)	<sup>A</sup> \$112.50

<sup>A</sup> With use of discount card.  
Source: Rend Lake Conservancy District website.

According to an Illinois Department of Natural Resources official who promotes shooting sports in the State, the cost for 25 targets is generally \$3 to \$6. One reason for higher costs may be attributed to the inclusion of shells. Price variances can also be attributed to the types of shooting opportunities offered (as shown in Exhibit 7-13). Other price differences can be due to membership, location, and packages (see Exhibit 7-14).

Exhibit 7-14 <b>COMPARISON OF RATES CHARGED FOR SHOOTING SPORTS AT SELECTED LOCATIONS (IN ILLINOIS)<sup>A</sup></b>		
	<b>Targets</b>	<b>Rates</b>
<b>SKEET</b>		
<i>Rend Lake, Whittington</i>	<i>25 targets</i>	<i>\$3.50</i>
Brittany Shooting Park, Bunker Hill	25 targets	\$3.75
Highland Pistol and Rifle Range, Highland	25 targets	\$4.25
Peoria Skeet and Trap Club, East Peoria	25 targets	\$4.25
Darnall's Gunwork and Ranges, Bloomington	25 targets	\$4.50
<b>SPORTING CLAYS</b>		
Brittany Shooting Park, Bunker Hill	100 targets	\$19.00
Salt Creek Sporting Clays, Mason City	100 targets	\$25.00
<i>Rend Lake, Whittington</i>	<i>100 targets</i>	<i>\$25.00</i>
Otter Creek Hunting Club, Jerseyville	100 targets	\$27.00
Pheasant Valley Sportsmen's Club, Bunker Hill	100 targets	\$30.00
Turkey Creek Lodge, Newton	100 targets	\$30.00
<b>5 STAND</b>		
<i>Rend Lake, Whittington</i>	<i>25 targets</i>	<i>\$4.00</i>
Otter Creek Hunting Club, Jerseyville	25 targets	\$5.00
Pheasant Valley Sportmen's Club, Bunker Hill	25 targets	\$6.00
Darnall's Gunwork and Ranges, Bloomington	25 targets	\$6.50
Notes:		
<sup>A</sup> Some clubs offer memberships. The rates in this Exhibit are those charged to non-members, since Rend Lake does not offer memberships.		
Source: Auditor General's research of published rates.		

## HUNTING PRESERVE

The Rend Lake Hunting Preserve did not have written policies and procedures to guide its operations. It did not have written goals and objectives, or performance data, which could also be used to benchmark its operations with others.

The Hunting Preserve started operations in November 1995. It allows controlled game hunts from October through March with professional guides and trained pointing dogs. According to the District, the peak time for the Hunting Preserve is November to January.

The hunting operations at Rend Lake are much smaller as compared to its Shooting Complex since it is not open year round. Revenue from the Hunting Preserve was approximately \$13,000 with expenses (including birds, feed, caps and extra guides) approximately \$8,000. According to the manager, to enhance revenues, the Hunting Preserve plans to offer a European game shoot program, which is offered by other hunting preserves across the country.

Hunts are scheduled by appointment for \$125/per person, with a \$75 deposit. Included in this price is:



- Hunting Preserve guide;
- Hunting Preserve dogs;
- Blaze orange hat;
- A round of 25 clay targets to warm up;
- 2 pheasant;
- 2 chukar;
- Refreshments brought out to the field; and
- Birds are professionally cleaned and packed in ice filled coolers.

At the conclusion of the hunt, the birds are cleaned, packaged, and refrigerated. Although there is no limit on the number of birds, there is an additional charge for any birds over those included in the package listed above. These additional charges are:

- \$15 per pheasant;
- \$10 per chukar; and
- \$7 per quail.

According to Illinois Department of Natural Resources (IDNR), costs will vary from preserve to preserve. Some hunting preserves charge a set fee for game birds released; others charge for a half-day or full-day hunt. Most preserves charge a minimum fee per hunter or hunting party. Extra services, such as clay target shooting and/or dressing game birds, will add to the cost. Good birds, hunting dogs, guides, and vegetative cover (natural and planted) constitute the basics of every successful hunting preserve. According to the Hunting Preserve program manager at IDNR, the Rend Lake Hunting Preserve provides quality upland hunting opportunities to a limited number of clients/guests. In addition, according to an official at IDNR, the Rend Lake Hunting Preserve is unique in its ownership; no other Hunting Preserve is owned by such a public entity.

Hunting preserves are required by IDNR to properly renew their license every year, maintain records and submit monthly reports on an IDNR form. The reports require information on the number of hunter trips and the number of birds by species released and harvested. According to an official at IDNR, the Rend Lake Hunting Preserve has renewed its license in a timely manner and submitted timely reports.

### **Hunting Preserve Benchmarking**

According to IDNR, there are 64 public hunting preserves in the State of Illinois including the Rend Lake Hunting Preserve (see Appendix D). These public hunting preserves offer a diverse array of hunting opportunities, the most common combination being pheasant, quail, and chukar only at 19 hunting preserves (30%). However, 56 public hunting preserves offered at least pheasant, quail, chukar, or other hunting (e.g., ducks, deer). In addition to game birds, some public hunting preserves offer sporting clays and trap shooting for their customers.

In terms of charges, IDNR listed three categories: daily fee, membership, and daily fee and membership. Most Illinois hunting preserves fall in the daily fee plus membership category (28 or 44%). Eleven hunting preserves (17%) charge membership fees, while 25 hunting preserves (39%) charge a daily fee – including the Rend Lake Hunting Preserve.

According to IDNR, there are some advantages of a membership preserve versus a daily-fee preserve. Membership dues generate revenue for the operator in the Spring,

thus guaranteeing business in the Fall. Members can help recruit new members. A membership committee can help screen new members and if necessary drop existing members who have acted in an unsportsman like manner. In terms of daily fee preserves, IDNR indicates that these preserves often serve as a way to attract hunters to a preserve before evolving into a membership operation.

When we examined the charges for hunting, we noted there was significant variability in rate schedules (e.g., there can be charges for dog rental, bird cleaning, guests of members, etc. depending on the club). For example, one hunting preserve that offers pheasant, quail, chukar and sporting clays like the Rend Lake Hunting Preserve is the Wind River’s Kennel and Koeberlein’s Hunting Preserve in Tolono, Illinois. However, unlike Rend Lake it offers a two-tiered rate schedule for members and non-members. There are also certain membership benefits, such as first choice of fields and dates, no minimum bird release, hunting without a bird release, and dove hunting. The charge for a minimum bird release is \$25.00 for non-members. Guides, if desired, have member and non-member charges (\$35.00 versus \$40.00). Prices for birds for this hunting preserve are reflected in Exhibit 7-15.

Exhibit 7-15 <b>WIND RIVER’S KENNEL &amp; KOEBERLEIN’S HUNTING PRESERVE PRICE SCHEDULE</b>		
<b>Bird</b>	<b>Member Price</b>	<b>Non-member Price</b>
Pheasants	\$12.00	\$14.00
Chukar	\$8.00	\$10.00
Quail	\$6.00	\$7.00
Source: Wind River’s Kennel and Koeberlein’s Hunting Preserve website.		

<b>GOLF, SHOOTING, AND HUNTING</b>	
<p><b>RECOMMENDATION NUMBER</b></p> <p><b>15</b></p>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish a comprehensive plan of action to eliminate the losses by golf and shooting;</i></li> <li>• <i>Develop written financial and marketing goals for golf, shooting, and hunting with specific timetables;</i></li> <li>• <i>Review rates charged to ensure they cover the cost of operations, including alternatives such as memberships and variable rates;</i></li> <li>• <i>Establish written operating procedures for golf, shooting, and hunting;</i></li> <li>• <i>Collect and review statistics to monitor and report the performance of golf, shooting, and hunting against established goals; and</i></li> <li>• <i>Segregate duties so that family members do not have direct reporting relationships, or provide additional controls.</i></li> </ul>
<p><b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b></p>	<p>The District concurs with the findings and recommendations and will reorganize the golf, shooting and hunting operations to eliminate losses. Such reorganization will take into consideration the overall mission of the District, which includes the promotion of recreation and tourism as an integral part of the region's economy balanced against the need to have each operation be self supporting. The District has already segregated Inter City Water funds and restricted their use to water plant and distribution needs only.</p> <p>Management will present to the Board at the September Board meeting a comprehensive plan of action with written financial and marketing goals to accomplish the District's mission.</p> <p>This activity will be completed by December 31, 2004.</p>



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## Chapter Eight

# LODGING AND RESTAURANT

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## CHAPTER CONCLUSIONS

The Rend Lake Seasons Lodge had income of \$45,935 before depreciation for fiscal year 2004. However, trends indicated that the Lodge's occupancy rates have been declining. The District lacked a formal marketing plan for its recreational activities that contained goals (desired outcomes), resources (amount to be expended), methods (types of the media to be used, number and types of advertisements), and timelines.

The Seasons Restaurant lost \$268,844 before depreciation in fiscal year 2004. In addition, few controls were in place, such as over inventory, which may also be contributing to the loss. In March 2004, the District retained a consultant to review the restaurant's operations who submitted a report with suggestions to enhance controls and reduce costs in order to improve operations.

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## LODGING

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The Rend Lake Conservancy District owns and operates the Seasons Lodge and the Fairway Suites. The lodge has 45 rooms and a manor house with two sleeping quarters (see Exhibit 8-1 for lodge rates).

The lodge is listed by the AAA and has been awarded a three-diamond rating out of a possible five-diamond rating. AAA considers a three-diamond facility to “. . . appeal to the traveler with comprehensive needs. Properties are multifaceted with a distinguished style, including marked upgrades in the quality of physical attributes, amenities and level of comfort provided.” Comparatively, a five-diamond rating is for first-class accommodations while a four-diamond rating is for upscale establishments. A two-diamond rating is for establishments that provide more than the basic accommodations while a one-diamond rating is for establishments that provide no-frills accommodations.

Exhibit 8-1 SEASONS LODGE RATES			
Room Size	Summer		Winter
	Sunday-Thursday	Friday-Saturday/ Holidays	
Double Queen	\$79	\$89	\$59
Deluxe Suite	\$89	\$99	\$69
Fireplace Suite	\$99	\$119	\$79
Spa/Fireplace	\$129	\$139	\$89
Source: Rend Lake Conservancy District website.			

The Fairway Suites consist of 23 condominium style suites that can be rented on a daily basis to an annual basis. Exhibit 8-2 shows rates for the condominium suites. As of May 1, 2004, the Seasons Lodge employed a total of 25 employees that included a Lodge Manager, an Assistant Manager, and various other staff (e.g., front desk, night auditors, maintenance staff, and housekeeping).

During the off-season, the lodge employed 15 to 16 staff; this number increased to 26 to 28 during the busy season. The housekeeping supervisor is in charge of scheduling housekeeping staff based on the sales forecasts and bookings. During the off-season, staff is cut to about half and a deep cleaning is done of all lodging facilities.

**Rates**

When asked how the room rates were set, the Lodging Manager noted that some years ago the former General Manager established the room rates that are currently in effect. Since the lodge did not compare its rates with other hotels or lodges, we contacted the Illinois Department of Natural Resources to obtain the rates for lodges at State parks. This data shows that the Seasons Lodge rates were around the middle range as compared to other State lodges (see Exhibit 8-3).

Exhibit 8-2 FAIRWAY SUITES RATES Fiscal Year 2004			
Suite Size	Length of Stay	Summer (Mar.-Nov.)	Winter (Dec.-Feb.)
3 bed/ 3 bath 1,515 s.f.	Daily	\$280	\$180
	Weekly	\$1,200	\$700
	Monthly	\$2,800	\$1,500
	Annual	\$1,700/month	\$1,700/month
3 Bed/ 2 Bath 1,240 s.f.	Daily	\$260	\$160
	Weekly	\$1,000	\$650
	Monthly	\$2,600	\$1,300
	Annual	\$1,500/month	\$1,500/month
2 Bed/ 2 Bath 1,027 s.f.	Daily	\$240	\$140
	Weekly	\$800	\$550
	Monthly	\$2,400	\$1,100
	Annual	\$1,300/month	\$1,300/month

Source: Rend Lake Conservancy District website.

Exhibit 8-3 LODGING RATES AT REND LAKE AND ILLINOIS STATE PARKS March 2004		
State Park	Peak Season Hotel <sup>A</sup>	Off-Season Hotel <sup>A</sup>
Starved Rock State Park, Utica	\$100.00	\$100.00
Pere Marquette State Park, Grafton	\$101.50	\$101.50
Illinois Beach State Park, Zion	\$99.00	\$69.00
Eagle Creek, Findlay	\$89.00	\$55.00
Wayne Fitzgerald State Park, Rend Lake Resort, Whittington	\$88.00	\$88.00
<b>Seasons Lodge at Rend Lake Conservancy District, Whittington</b>	<b>\$79.00</b>	<b>\$59.00</b>
Carlyle Lake – Eldon Hazlet, Keyesport	<sup>B</sup> \$78.00	<sup>B</sup> \$68.00
Cave-in-Rock State Park, Cave-in-Rock	<sup>B</sup> \$69.00	<sup>B</sup> \$50.00
Giant City State Park, Makanda	<sup>B</sup> \$60.00	<sup>C</sup> Not open

<sup>A</sup> Lowest rate for each season is shown.  
<sup>B</sup> Cabins/Cottages.  
<sup>C</sup> The lodge at Giant City State Park is closed from Mid-December to February.

Source: Illinois Department of Natural Resources (Division of Concession and Lease Management), and Rend Lake Conservancy District.

Exhibit 8-4 shows the fiscal year 2004 operating revenues of \$866,323 and operating expenses of \$658,971 for the lodge and the condominiums. Non-operating revenues and expenses were negative \$161,417, resulting in income of \$45,935 before depreciation.

Exhibit 8-4 <b>LODGING REVENUES AND EXPENSES</b> Fiscal Year 2004		
<b><u>OPERATING REVENUES</u></b>		
Lodge Revenue	\$501,841	
Condominium Revenue	347,805	
Miscellaneous Income	16,677	
<b>Net Total Revenues</b>		<b>\$866,323</b>
<b><u>OPERATING EXPENSES</u></b>		
Personnel	\$372,358	
Bad Debt Expense	12,085	
Appraisal Fees	66	
Audit Fees	4,195	
Legal Fees	14,739	
Dues and Licenses	225	
Electricity	58,599	
Telephone	13,737	
Building Maintenance	25,666	
Equipment Maintenance	19,433	
Vehicle Related Expense	680	
Grounds Maintenance	1,844	
Advertising and Promotion	17,502	
Security	17,383	
Insurance	31,182	
Operation Expenses	37,766	
Office Expenses	30,290	
Meetings and Seminars	107	
Other	1,114	
<b>Total Operating Expenses</b>		<b>658,971</b>
<b>Operating Income (Loss)</b>		<b>\$207,352</b>
<b><u>NON-OPERATING REVENUES AND EXPENSES</u></b>		
Interest Expense – Condo Loan	(101,033)	
Interest Expense – Hotel Loan	(60,384)	
<b>Total Non-operating Revenues and Expenses</b>		<b>(161,417)</b>
<b>Income (loss) Before Depreciation</b>		<b>\$45,935</b>
Note: Above data does not include depreciation, an adjustment made to insurance for hospitalization insurance and an unallocated loss on the sale of assets. These expenses were taken as a lump sum for the recreation fund.		
Source: Rend Lake Conservancy District FY2004 audited financial statements.		

Exhibit 8-5 shows total revenues from fiscal year 2001 to 2004 for the District’s lodging operations. Revenues for lodging increased \$169,423 from 2001 to 2003 from \$704,233 to \$873,656, but then decreased slightly by \$7,333 in 2004 from \$873,656 to \$866,323.

**Occupancy Rates**

The Lodging Manager provided us monthly activity reports that showed the occupancy rates for the District’s lodge and the condominium

Exhibit 8-5 <b>LODGING REVENUE</b> Fiscal Years 2001 - 2004	
Year	Total Revenue
2004	\$866,323
2003	\$873,656
2002	\$800,031
2001	\$704,233
Source: District’s FY 2004 audited financial statements.	

suites. Occupancy rates at Seasons Lodge are decreasing while occupancy rates have been stable for the Fairway Suites. Exhibit 8-6 shows a comparison of occupancy rates between the Seasons Lodge operated by the Rend Lake Conservancy District and the neighboring Rend Lake Resort located in the Wayne Fitzgerald State Park that is privately operated. The Seasons Lodge has frequently had a lower occupancy rate than the Rend Lake Resort.

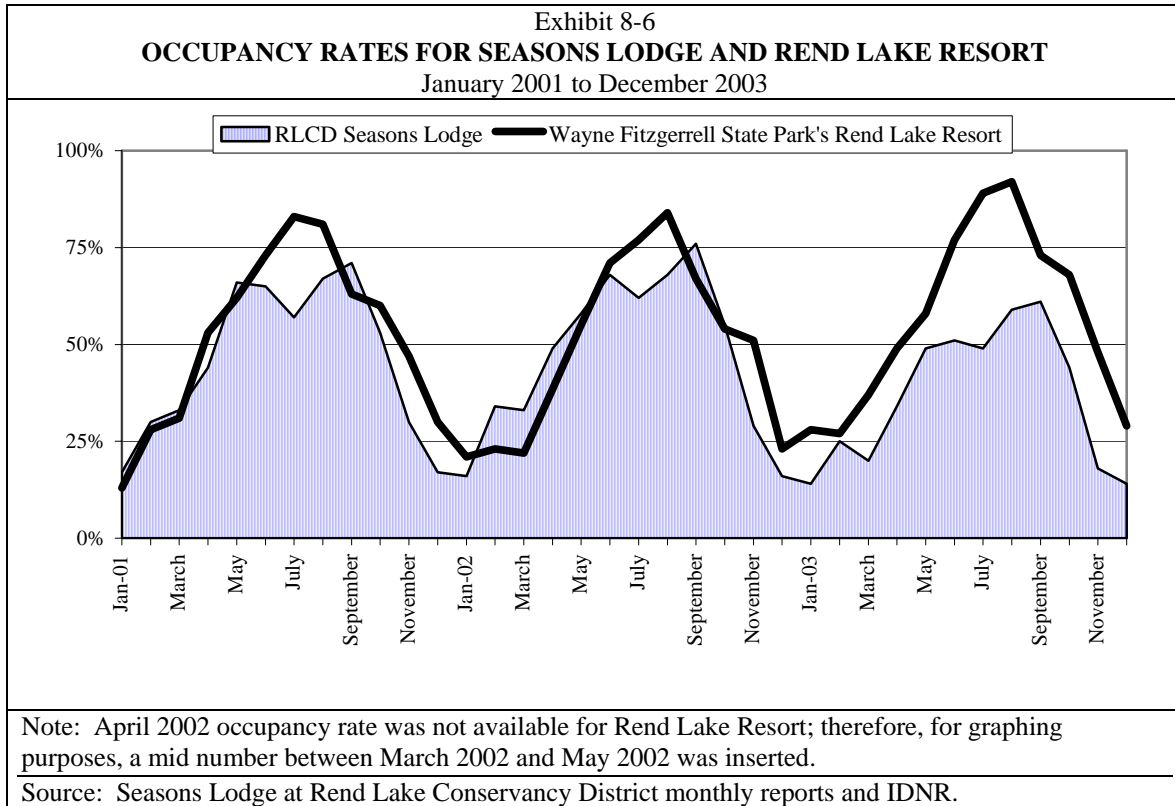
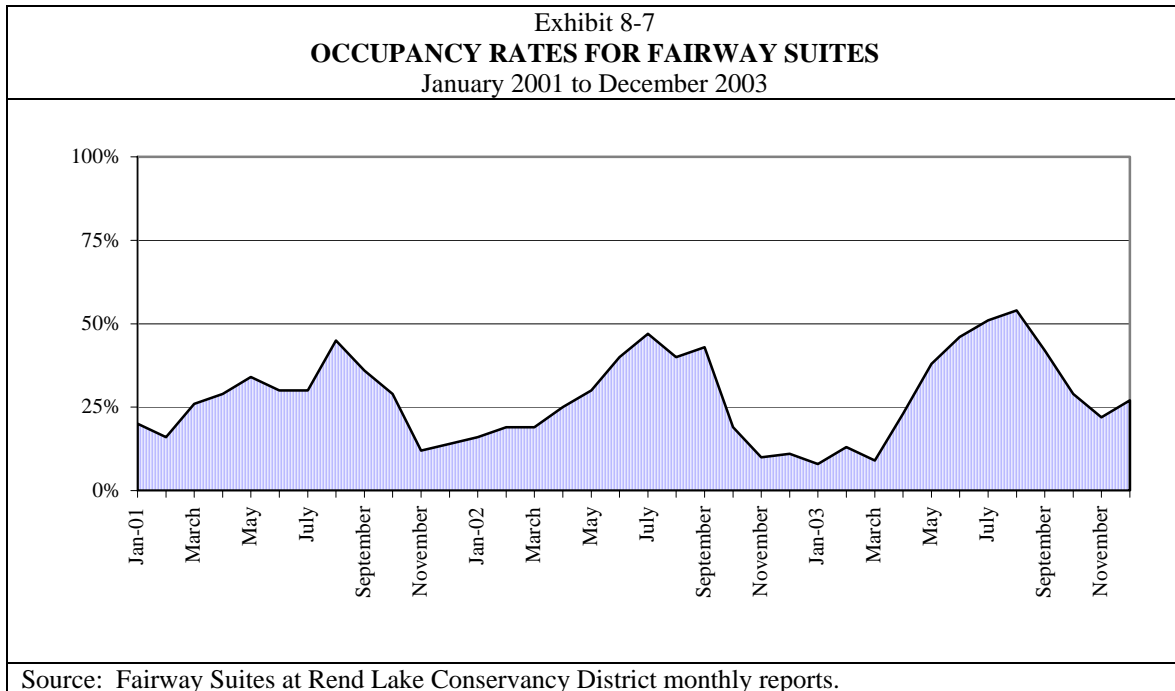


Exhibit 8-7 shows the occupancy rate for the Fairway Suites operated by the District. It shows that occupancy has generally remained below 50 percent.





According to the American Hotel and Lodging Association, the national average 2002 occupancy rate was 59.1 percent, which rose to 59.2 percent in 2003. This compares to 47 percent and 37 percent respectively for the Seasons Lodge, and 26 percent and 30 percent respectively for the Fairway Suites (see Exhibit 8-8).

Exhibit 8-8  
**AVERAGE ANNUAL OCCUPANCY RATES**  
Calendar Year 2001-2003

Year	Fairway Suites (Condos)	Seasons Lodge
2003	30%	37%
2002	26%	47%
2001	27%	46%

Source: Monthly Activity Reports supplied by Rend Lake Conservancy District, Seasons Lodge.

### Monitoring of Costs

We inquired whether the District had performed any break-even analysis to determine if rates were being set to offset the costs of operating lodging facilities at the District. The Lodging Manager stated that the District had not performed a break-even analysis and noted that this was the first year in which the District’s administrative office provided them expenditure details to match with revenues. A break-even analysis can be useful to make decisions, such as setting profit goals and establishing cost controls. The analysis can show the occupancy rate needed for the lodge to break-even, the point in time within the fiscal year when cash inflows equal cash outflows, and the effect that cost increases can have.

The Lodging Manager stated that the District considers utility costs (e.g., electric, telephone), to be fixed costs that do not change with occupancy. However, utility rates can have both a fixed component (an amount charged even if no unit is rented) and a variable component that is dependent upon the number of units rented.

The Lodging Manager said that control over expenditures has improved as compared to the past when they had no say over the expenditures and did not see how their divisions were doing financially. During the past year they have been able to see their revenues and expenditures to assess financial performance. She added that communications had improved, such as through staff meetings and by inviting supervisors to attend monthly Board meetings.

### **Marketing**

The District formulated a marketing plan but it lacked specific, measurable, and achievable goals (e.g., with dollars, numbers, and timetables). A goal-oriented marketing plan should be prepared based on research of the industry and region, in addition to guest surveys, interviews, and comment cards that collect information on services that visitors desire, factors they liked or disliked, the amount of money they spent, the purpose of their visit, and their home towns (to target advertising).

The Illinois Department of Transportation shows annual average daily traffic counts to be at least 27,000 on Interstate 57 through this area; however, the Lodging Manager noted that they get little traffic from interstate travelers. This may indicate that the lodging facilities at the District rely primarily on vacation travelers who have selected the Rend Lake area as their destination. One of the reasons for the low occupancy rates at the District may be the result of their marketing efforts.

We were provided a copy of the 2005 Marketing Plan that had general objectives, which stated the following:

#### **Overview**

Additional revenue and increase profit potential

#### **Objectives**

Increase the number of “heads in beds” and overall visitors during the off-season, which is essentially November to March. These goals include:

- Create revenue in the off-season
- Enhance the image
- Expand markets for the facility

#### **Business/Marketing Plan**

- Identify target audiences
- Develop an approach to reach audience
- Provide specific steps to implement plan

The Marketing Plan presented ideas and included promotional packages but did not develop a formal step-by-step methodology of how a goal could be reached and what increase in occupancy could be expected from each method of advertising for the lodging facilities. If expectations were identified, it would provide a method to benchmark the performance of the various types of advertising. The marketing plan did not contain goals (desired outcomes), resources (amount to be expended), methods (types of the media to be used, number and types of advertisements), and timelines.

In order to determine the effectiveness of marketing, it would be helpful for an organization to set specific standards or goals that it is striving to accomplish, such as a 10 percent increase in the occupancy rate for 2004 as compared to 2003. The District’s marketing plan did not list specific goals with steps to obtain the objectives, such as for “Increasing the number of ‘heads in beds’ . . . .”

In February 2004, the District developed a survey of lodge guests to determine the effectiveness of advertising media. The survey asks guests how they heard about the lodge. This survey should become a continuous part of the marketing efforts for the lodge as it identifies potential marketing opportunities, can assist in identifying repeat visitors, and can be used to target customers with special return offers to establish a stronger customer base.

The Marketing Director noted that the District is now developing a budget that should help because it will indicate the amount of funds available for advertising (e.g., radio, mailings, billboards, magazine ads). In the past, she indicated that she did not see invoices so it was a guess how much certain marketing efforts really cost.

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## RESTAURANT

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The Rend Lake Conservancy District operated Seasons Restaurant that was open all year, seven days a week. The restaurant closed at 9:00 p.m. during the off-season and between 10:00 p.m. and 1:00 a.m. during the summer. In-season, they were open every day for breakfast, lunch, and dinner. Off-season dinner was served only on Friday, Saturday, and Sunday nights and opening times depended on the opening time of the golf course.

The Seasons Restaurant also offers conference and banquet facilities that can accommodate 230 people in the Boardroom (see Exhibit 8-9).

In fiscal year 2004, the Seasons Restaurant lost more than \$250,000 before depreciation on operating revenues of approximately \$860,000 because operating expenses were more than \$1.1 million (see Exhibit 8-10). In addition, few controls were in place, such as over inventory, which may also be contributing to the loss. The District retained a consultant to review the restaurant’s operations and in March 2004 the consultant submitted a report with suggestions to enhance controls and reduce costs in order to improve operations.

Exhibit 8-9 MEETING ROOM CAPABILITIES	
Location	Maximum Capacity
Boardroom	230
Cabana	25
Pavilion	80
Patio	40
Lodge Conference Room	15
Source: Rend Lake Conservancy District website.	

Exhibit 8-10 <b>SEASONS RESTAURANT REVENUES AND EXPENSES</b> Fiscal Year 2004		
<b><u>OPERATING REVENUES</u></b>		
Food Sales	\$628,645	
Beverage Sales	190,945	
Other Sales	15,594	
Miscellaneous Income	26,903	
<b>Net Total Revenues</b>		<b>\$862,087</b>
<b><u>OPERATING EXPENSES</u></b>		
Personnel	\$505,353	
Cost of Goods Sold – Food	268,023	
Cost of Goods Sold – Beverages	60,770	
Bad Debt Expense	4,175	
Audit Fees	4,283	
Legal Fees	15,146	
Dues and Licenses	1,785	
Electricity	12,811	
Telephone	8,464	
Building Maintenance	9,120	
Equipment Maintenance	19,733	
Vehicle Related Expense	1,141	
Grounds Maintenance	2,765	
Equipment Rental	1,542	
Advertising and Promotion	32,962	
Security	344	
Real Estate Taxes	1,692	
Insurance	79,165	
Operation Expenses	71,028	
Office Expenses	12,058	
Meetings and Seminars	438	
Meals and Entertainment	16,267	
Other	1,866	
<b>Total Operating Expenses</b>		<b>\$1,130,931</b>
<b>Income (loss) Before Depreciation</b>		<b>(\$268,844)</b>
<p>Note: Above data does not include depreciation, an adjustment made to insurance for hospitalization insurance and an unallocated loss on the sale of assets. These expenses were taken as a lump sum for the recreation fund.</p>		
<p>Source: Rend Lake Conservancy District FY2004 audited financial statements.</p>		

In fiscal year 2004, Seasons Restaurant earned \$207,711 less in revenue than in fiscal year 2003. Exhibit 8-11 shows the restaurant’s revenue for fiscal years 2001 through 2004. An employee who was a cook, and later became the executive chef, set the menu prices and was responsible for ordering food items. Sometimes buffets did not bring enough customers to generate a profit. The Restaurant Manager during our audit stated she had provided this information to the Board, which decided to continue the buffets.

The Restaurant Manager during our audit was not aware of standard/average labor costs for restaurants similar to Seasons. The restaurant did not have a goal for labor costs but the Restaurant Manager stated she tried to keep food costs between 33 percent and 37 percent of revenues from food sales.

- Food costs were 43 percent of the revenues from food sales (not including beverage sales, other sales, and miscellaneous income) based on the audited financial statements for fiscal year 2004.
- Restaurants with an average check per person of under \$15 have a median food cost of 33 percent, according to the 2003 Restaurant Industry Operations Report by the National Restaurant Association and Deloitte & Touche. According to data provided by Seasons Restaurant, the average check per person was less than \$13 for August 2003 through April 2004.

Similarly, Seasons Restaurant’s personnel costs appeared to be higher than industry averages. According to the 2003 Restaurant Industry Operations Report, restaurants with an average check of less than \$15 have salaries and wages of 32 percent of total revenue. Comparatively, Seasons Restaurant personnel cost was much higher at 59 percent of total revenue.

The District began reviewing revenues and expenditures for each of its divisions last year. For fiscal year 2004, the restaurant lost \$268,844. The Restaurant Manager said the District’s administration wanted the restaurant to turnaround its operations and become profitable within four years. In the past, the District had leased the restaurant to be operated by private concessionaires and this was an option that some trustees were considering revisiting. Exhibit 8-12 summarizes the restaurant’s monthly revenues for the in-season months last year that show the restaurant made a loss nearly every month.

Exhibit 8-11 <b>SEASONS RESTAURANT REVENUE</b> Fiscal Years 2001 – 2004	
<b>Year</b>	<b>Total Revenue</b>
2004	\$862,087
2003	\$1,069,798
2002	\$1,124,675
2001	\$953,733
Note: Other sales and misc. income were not allocated to the restaurant fund for 2001-2003, but were included in 2004.	
Source: FY 2001-2004 audited financial statements.	

Exhibit 8-12 <b>RESTAURANT REVENUES AND EXPENDITURES</b> (In-Season 2003)							
	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>September</i>	<i>October</i>	<i>Total</i>
<b>REVENUES</b>							
Food Sales	\$82,350	\$72,770	\$71,914	\$78,396	\$76,349	\$67,030	\$448,809
Beverage Sales	33,529	25,724	24,624	24,201	26,456	17,728	152,261
Other Sales	2,232	4,047	1,781	278	629	295	9,263
Misc. Income	4,573	24	2,238	2,320	3,821	4,130	17,105
<b>Total Revenues</b>	\$122,684	\$102,565	\$100,556	\$105,194	\$107,254	\$89,184	\$627,439
<b>EXPENDITURES</b>							
Allocations	\$7,467	\$6,571	\$11,021	\$6,052	\$5,789	\$7,805	\$44,705
Wages	52,668	37,467	35,710	35,752	35,955	61,865	259,417
Non-Wages	78,930	63,628	71,907	84,667	61,476	28,572	389,181
<b>Total Expenses</b>	\$139,066	\$107,665	\$118,638	\$126,472	\$103,220	\$98,242	\$693,303
<b>PROFIT (LOSS)</b>							
<b>Total Profit (Loss)</b>	<b>(\$16,382)</b>	<b>(\$5,100)</b>	<b>(\$18,082)</b>	<b>(\$21,277)</b>	<b>\$4,034</b>	<b>(\$9,058)</b>	<b>(\$65,865)</b>
Note: Total may not add due to rounding.							
Source: Rend Lake Conservancy District restaurant.							

### Policies and Procedures

The District had some policies and procedures regarding restaurant operations, but additional procedures and controls are necessary. The restaurant had a Host and Hostess Handbook that was formerly used by the previous restaurant manager for all staff. The handbook is approximately five pages and briefly discusses expectations of the employee and restaurant. The last page included a space for the employee to sign an agreement saying they are willing to comply with the District's rules and uphold the contents of the handbook. We also received procedures regarding server and busser preparation and cleaning.

Additional written policies and procedures are needed to cover other aspects of operations and improve the monitoring of cash receipts and costs such as inventory, purchasing, and personnel.

### Controls

The District has increased controls over the restaurant operations; however, additional improvements are necessary. According to the Restaurant Manager during our audit, few controls were in place over liquor prior to December 2003 but now daily liquor inventories include open liquor, which is inventoried to the tenth of a bottle, as well as bottled beer. Previously liquor was free-poured into drinks but now is measured.

Since Summer 2003, a server needs to provide a receipt to the bartender to get alcohol for his/her table. The receipt shows that the alcoholic beverage was entered into the system and was charged. Servers are required to bring their own money to make change for their tables.

We reviewed liquor inventory documentation for March 2004. There were few discrepancies and when counts were off an explanation was written by either the bartender or the manager and then initialed. As of June 2004, the executive chef was responsible for ordering food products. He set the menu prices and explained that they have not changed in over a year. In June 2004, the executive chef noted there was not enough supervision or cooperation in getting employees to fill out food inventory forms. He said it may be done for a few days in a row, but not consistently; therefore they are unable to identify what products are short and during which shifts.

The restaurant did not use profit and loss forms. According to the Restaurant Manager at the time of our audit, a report was generated from the computer system each night. The following day the accounts payable clerk counted the deposit and informed the restaurant if the deposits were consistent with the report. We reviewed deposit reports for April 2004. Each day was accounted for and variances were minimal.

Security cameras are located throughout the restaurant area. During our tour of the restaurant on January 29, 2004, we noticed that the view of at least one camera was obstructed. Also, employees were allowed to enter and exit through two doors that were kept unlocked, which presents opportunities for theft. Meat products and some dry storage were kept in a separate small building immediately behind the restaurant. According to the Restaurant Manager at the time, this building's door is kept locked at all times; however, at the time of our tour, the padlock was unlocked.

The District had a consultant review their restaurant operations in 2004 who found similar problems. The consultant concluded that the restaurant was not adequately tracking its food costs. Rather the restaurant needed to establish baseline food costs and then monitor their actual costs against the baselines. The consultant noted that the *"importance of knowing what your costs are in order to run a profitable unit"* could not be stressed enough. The consultant also noted that food and liquor needed to be inventoried more frequently and access to outside coolers and freezers was not sufficiently restricted.

### **Employee Discounts**

All District employees received a 40 percent discount at the restaurant for sandwiches. The discount was available only while the employee was working his or her shift. However, it was not verified whether or not the person was actually working at the time the discount was given. An employee receiving the discount must sign the receipt. Only the restaurant manager and assistant manager could authorize this discount in the computer system. According to the Restaurant Manager during our audit, the accounts payable clerk reviewed all discount tickets.

### Gift Certificates and Vouchers

The District sold gift certificates for use at its various recreational activities. However, the process for tracking the gift certificates was complicated which could create problems. Different units of the District sold gift certificates and they were not always redeemable at all the District’s recreational areas; they were also tracked in different ways. A decentralized method of record keeping and accounting for gift certificates can result in errors and duplicative effort by recreational activities. The District should consider streamlining this process by centralizing the accounting and control of gift certificates. For example, one method would be to issue a gift certificate that could be used at any of the District’s recreational activities with record keeping and accounting handled by the administrative office. The District should consider establishing expiration dates for gift certificates.

### Qualifications of Chefs

We met with officials at the Illinois Department of Natural Resources (IDNR) and requested information on chefs of restaurants at State lodges. They informed us that the chefs and other food preparation workers at most resorts are graduates of culinary arts programs and the chefs have appropriate credentials. One of the executive chefs did not have formal culinary education while the file for the other Executive Chef was incomplete. According to IDNR, their lease agreements state that *“lessee agrees to join and maintain membership status in good standing in a hotel/motel industry association approved by [I]DNR.”* Seasons Restaurant does not belong to any association.

### Conclusion

The Restaurant Manager during our audit noted that there was high customer satisfaction with their food. She provided a copy of a banquet survey form that evaluated the customers’ perception of items, such as the helpfulness of the event coordinator, the appearance of the banquet room, seating, food quality, and server efficiency. The banquet surveys were first started in December 2003 and all completed surveys reviewed through the end of fiscal year 2004 in April 2004 contained positive comments.

<b>BANQUET SURVEYS</b>
<ul style="list-style-type: none"> <li>• Started in December 2003</li> <li>• All 23 surveys that were completed contained positive comments</li> </ul>



<b>LODGE AND RESTAURANT</b>	
<p><b>RECOMMENDATION NUMBER</b></p> <p style="font-size: 2em;"><b>16</b></p>	<p><i>The Rend Lake Conservancy District should take the following actions:</i></p> <ul style="list-style-type: none"> <li>• <i>Establish a comprehensive plan of action to significantly reduce losses from the restaurant;</i></li> <li>• <i>Establish a plan to improve the profitability of the lodge after accounting for depreciation;</i></li> <li>• <i>Develop written financial and marketing goals for the lodge and restaurant with specific timetables;</i></li> <li>• <i>Collect and review statistics to closely monitor and report the performance of the lodge and restaurant against goals;</i></li> <li>• <i>Review the method for issuing and recording gift certificates to simplify the process; and</i></li> <li>• <i>Explore alternatives to managing these facilities, such as leasing them to third parties to operate.</i></li> </ul>
<p><b>REND LAKE CONSERVANCY DISTRICT'S RESPONSE</b></p>	<p>The District concurs with the findings and recommendations and will reorganize the restaurant and lodging operations to eliminate losses. Such reorganization will take into consideration the overall mission of the District, which includes the promotion of recreation and tourism as an integral part of the region's economy balanced against the need to have each operation be self supporting. The District has already segregated the Inter City Water funds and restricted their use to water plant and distribution needs only.</p> <p>Management will present to the Board at the September Board meeting a comprehensive plan of action with written financial and marketing goals to accomplish the District's mission.</p> <p>This activity will be completed by December 31, 2004.</p>



**APPENDIX A**  
**AUDIT AUTHORITY**  
**(Public Act 93-0275)**  
Effective July 22, 2003



1 AN ACT concerning audits.

2 Be it enacted by the People of the State of Illinois,  
3 represented in the General Assembly:

4 Section 5. The Illinois State Auditing Act is amended by  
5 changing Section 3-1 as follows:

6 (30 ILCS 5/3-1) (from Ch. 15, par. 303-1)

7 Sec. 3-1. Jurisdiction of Auditor General. The Auditor  
8 General has jurisdiction over all State agencies to make post  
9 audits and investigations authorized by or under this Act or  
10 the Constitution.

11 The Auditor General has jurisdiction over local  
12 government agencies and private agencies only:

13 (a) to make such post audits authorized by or under  
14 this Act as are necessary and incidental to a post audit  
15 of a State agency or of a program administered by a State  
16 agency involving public funds of the State, but this  
17 jurisdiction does not include any authority to review  
18 local governmental agencies in the obligation, receipt,  
19 expenditure or use of public funds of the State that are  
20 granted without limitation or condition imposed by law,  
21 other than the general limitation that such funds be used  
22 for public purposes;

23 (b) to make investigations authorized by or under  
24 this Act or the Constitution; and

25 (c) to make audits of the records of local  
26 government agencies to verify actual costs of  
27 state-mandated programs when directed to do so by the  
28 Legislative Audit Commission at the request of the State  
29 Board of Appeals under the State Mandates Act.

30 In addition to the foregoing, the Auditor General may  
31 conduct an audit of the Metropolitan Pier and Exposition

1 Authority, the Regional Transportation Authority, the  
2 Suburban Bus Division, the Commuter Rail Division and the  
3 Chicago Transit Authority and any other subsidized carrier  
4 when authorized by the Legislative Audit Commission. Such  
5 audit may be a financial, management or program audit, or any  
6 combination thereof.

7 The audit shall determine whether they are operating in  
8 accordance with all applicable laws and regulations. Subject  
9 to the limitations of this Act, the Legislative Audit  
10 Commission may by resolution specify additional  
11 determinations to be included in the scope of the audit.

12 In addition to the foregoing, the Auditor General must  
13 also conduct a financial audit of the Illinois Sports  
14 Facilities Authority's expenditures of public funds in  
15 connection with the reconstruction, renovation, remodeling,  
16 extension, or improvement of all or substantially all of any  
17 existing "facility", as that term is defined in the Illinois  
18 Sports Facilities Authority Act.

19 The Auditor General may also conduct an audit, when  
20 authorized by the Legislative Audit Commission, of any  
21 hospital which receives 10% or more of its gross revenues  
22 from payments from the State of Illinois, Department of  
23 Public Aid, Medical Assistance Program.

24 The Auditor General is authorized to conduct financial  
25 and compliance audits of the Illinois Distance Learning  
26 Foundation and the Illinois Conservation Foundation.

27 As soon as practical after the effective date of this  
28 amendatory Act of 1995, the Auditor General shall conduct a  
29 compliance and management audit of the City of Chicago and  
30 any other entity with regard to the operation of Chicago  
31 O'Hare International Airport, Chicago Midway Airport and  
32 Merrill C. Meigs Field. The audit shall include, but not be  
33 limited to, an examination of revenues, expenses, and  
34 transfers of funds; purchasing and contracting policies and

1 practices; staffing levels; and hiring practices and  
2 procedures. When completed, the audit required by this  
3 paragraph shall be distributed in accordance with Section  
4 3-14.

5 The Auditor General shall conduct a financial and  
6 compliance and program audit of distributions from the  
7 Municipal Economic Development Fund during the immediately  
8 preceding calendar year pursuant to Section 8-403.1 of the  
9 Public Utilities Act at no cost to the city, village, or  
10 incorporated town that received the distributions.

11 The Auditor General must conduct an audit of the Health  
12 Facilities Planning Board pursuant to Section 19.5 of the  
13 Illinois Health Facilities Planning Act.

14 The Auditor General must conduct audits of the Rend Lake  
15 Conservancy District as provided in Section 25.5 of the River  
16 Conservancy Districts Act.

17 (Source: P.A. 90-813, eff. 1-29-99; 91-782, eff. 6-9-00;  
18 91-935, eff. 6-1-01.)

19 Section 10. The River Conservancy Districts Act is  
20 amended by adding Section 25.5 as follows:

21 (70 ILCS 2105/25.5 new)

22 Sec. 25.5. Rend Lake; audits. The Auditor General of  
23 the State of Illinois must conduct a financial audit,  
24 management audit, and program audit of the Rend Lake  
25 Conservancy District and file a certified copy of the report  
26 of the audits with the Governor and with the Legislative  
27 Audit Commission.

28 The Rend Lake Conservancy District must reimburse the  
29 Auditor General for the cost of the audits.

30 Notwithstanding Sections 6 and 8 of the State Mandates  
31 Act, no reimbursement by the State is required for the  
32 implementation of any mandate created by this Section.

1 Section 90. The State Mandates Act is amended by adding  
2 Section 8.27 as follows:

3 (30 ILCS 805/8.27 new)

4 Sec. 8.27. Exempt mandate. Notwithstanding Sections 6  
5 and 8 of this Act, no reimbursement by the State is required  
6 for the implementation of any mandate created by Section 25.5  
7 of the River Conservancy Districts Act.

8 Section 99. Effective date. This Act takes effect upon  
9 becoming law.



**APPENDIX B**  
**AUDIT SAMPLING METHODOLOGY**



## **APPENDIX B AUDIT SAMPLING METHODOLOGY**

The General Assembly enacted Public Act 93-0275, effective July 22, 2003, directing the Auditor General to conduct financial, management, and program audits of the Rend Lake Conservancy District (see Appendix A). As part of the management and program audit we conducted testing in several areas of the District's operations including expenditures, assets, personnel, and water billing. The following is an overview of the sampling methodology used in the audit for each area.

### **Expenditure Sampling Methodology**

We tested and reviewed expenditures to verify that they were appropriate, documented, and properly authorized. The testing concentrated on the District's fiscal year ending April 30, 2004. Based on the District's General Ledger, we judgmentally selected a total of 100 expenditures for testing.

The General Ledger is comprised of different funds including the General Fund, Intercity Water System Fund, Land Improvement and Development Fund, Recreation Fund and Sewage Treatment Facility Fund. The Recreation Fund includes payments for the different areas of operation at the District such as the golf course, restaurant, hotel/condos and shooting/hunting complex. To ensure that expenditures are reviewed appropriately and consistently across the areas of operation, we sampled expenditures from each area.

Within each area we reviewed expenditures that appeared to be high risk. Inherently high-risk areas/transactions include: mileage/travel reimbursements, credit card statements, recreation and crafts, memberships and dues, office supplies, equipment, maintenance, related party transactions, and payments directly to employees.

### **Fixed Asset Sampling Methodology**

We conducted two types of asset tests at the District. In one test we verified items selected from the master fixed assets list that was provided by the District. We also conducted a reverse test in which we selected items in different areas of the District and verified them to the master fixed assets list. In total we sampled 50 fixed assets.

#### **Master Fixed Asset Testing**

Auditors judgmentally selected 30 items from the master fixed asset listing. The following divisions at Rend Lake Conservancy District were visited to inspect the sample items: water plant, golf course maintenance and pro shop, administration, shooting complex, lodge, and restaurant. The District does not utilize a tagging system with its fixed assets. The fixed asset listing contains the asset number, brief asset description,

purchase date, cost, depreciation taken, and book value. Therefore, we used brand name and model to identify the items.

### Reverse Fixed Asset Testing

Auditors randomly chose 20 items for reverse fixed asset testing from the following locations at Rend Lake Conservancy District: water plant, restaurant, pro shop, administration, lodge, and shooting complex. We then attempted to match these 20 items to the master fixed assets listing as of March 2004, categorized by location, provided by the District.

### Personnel Sampling Methodology

We judgmentally sampled 30 personnel files of the 109 employees listed on the District's organizational chart as of January 22, 2004. In selecting the sample we looked at information such as title, division, wage, and years employed.

Since there were only 15 salaried employees, all salaried employees were chosen with the exception of the General Manager. The sample included 14 salaried employees and 16 hourly employees. As shown in the

Division	Number Sampled			Total Employees	Percent Sampled
	Hourly	Salary	Total		
Administration	5	0	5	8.5	59%
Water Plant	3	1	4	25	16%
Golf Course	1	2	3	6	50%
Pro Shop	0	3	3	15.5	19%
Restaurant	2	4	6	22	27%
Lodge	3	2	5	20	25%
Shooting Complex	2	1	3	11	27%
Marketing	0	1	1	1	100%
	<b>16</b>	<b>14</b>	<b>30</b>	<b>109</b>	

Note: One of the 15 salaried employees at the time of our sample later became an hourly union employee.

exhibit to the right, employees from all divisions were sampled. We examined the personnel files to determine if employees met the qualifications of the job descriptions, if performance evaluations were performed, and if employees received any training. We also reviewed employee salaries, pay raise information, and whether employees had been subject to any disciplinary or corrective actions by management.

### Water Bill Sampling Methodology

The District has two billing systems, one for municipal and commercial customers, and another system for residential customers.

### Municipal and Commercial Water Customers

We obtained information from the District that showed the municipal and commercial customers as of March 2004. The information showed that there were 48 municipal and commercial customers. The customers included cities, water districts,

government entities, and private companies. We obtained billing information for three fiscal years (2001-2003) that showed water used each month and the amount billed. We also obtained this information for the first three months of calendar year 2004. The data for the first three months of calendar year 2004 was summarized in a spreadsheet and sorted to identify trends in billing.

Based on billing information from the first quarter of 2004, we sampled a total of 20 municipal and commercial customers. We sampled a total of 20 municipal and commercial customers: the five cities which purchased the most water from the District, five water districts/commissions, five commercial customers, and five other customers selected judgmentally.

We examined a 12-month period for each customer sampled and copied all documentation in the billing files. We had intended to test the District's most recent fiscal year (May 2003-April 2004), however, because the April 2004 payments had not been processed at the time of our fieldwork testing, the time period reviewed was April 2003 through March 2004. We made copies of the invoices for the 12-month period. We reviewed these billings for water usage, charges, timeliness of payment, and other related problems. We then completed a data collection instrument for each case sampled. In order to test the billing data, we asked for and received documents outlining the criteria used to compute the water bills, including meter sizes and contracts.

### **Residential Water Customers**

We reviewed a total of 30 residential customers that were judgmentally selected based primarily on the types of problems and issues that we had discussed with District officials. These issues included among others leak allowances, having more than one customer on a single meter, and delinquent customers.



**APPENDIX C**  
**APPROPRIATION ORDINANCE FOR FY 2004**





ORDINANCE NO. 194

ANNUAL BUDGET AND APPROPRIATION ORDINANCE OF THE REND LAKE  
CONSERVANCY DISTRICT, AN ILLINOIS MUNICIPAL  
CORPORATION WITH ITS PRINCIPAL OFFICE IN FRANKLIN  
COUNTY, ILLINOIS, FOR THE FISCAL YEAR BEGINNING  
MAY 1, 2003, AND ENDING APRIL 30, 2004

BE IT ORDAINED BY THE REND LAKE CONSERVANCY DISTRICT AND  
BY THE BOARD OF TRUSTEES OF THE REND LAKE CONSERVANCY DISTRICT, AN  
ILLINOIS MUNICIPAL CORPORATION WITH ITS PRINCIPAL OFFICE IN FRANKLIN  
COUNTY, ILLINOIS:

Section 1: That the following Sums of money in the total amount of TWENTY  
FOUR MILLION SEVEN HUNDRED EIGHTEEN THOUSAND, EIGHT HUNDRED  
SIXTY-FIVE DOLLARS (\$24,718,865.00) or so much thereof as may be authorized by law and  
necessary to defray all expenses and liabilities of the Rend Lake Conservancy District, be and  
the same are hereby appropriated for the corporate purposes and objects of the said Rend Lake  
Conservancy District, an Illinois Municipal Corporation, as hereinafter specified, for the fiscal  
year beginning May 1, 2003 and ending April 30, 2004.

I. GENERAL CORPORATE PURPOSES

CAPITAL EXPENDITURES

Purchase of Machinery and Equipment	\$ 420,000.00
Purchase of Autos	60,000.00
Building Improvement	1,500,000.00
Construction of Buildings	700,000.00
Construction of sewer treatment facility	262,500.00
Additions to water distribution system	<u>52,500.00</u>
	\$2,995,000.00

SALARIES AND WAGES

Administrative Salaries	\$ 82,500.00
Clerical Salaries	115,500.00
Operations-Supervision	110,250.00
Operations-Labor	246,500.00
Maintenance-Supervision	125,000.00
Maintenance-Labor	475,000.00
Restaurant Wages	630,000.00
Hotel Wages	393,750.00
Trap Field Wages	195,000.00
Security Wages	65,000.00
Trustees' Salaries	<u>18,500.00</u>
	\$2,457,000.00

FEES

Legal Fees	\$ 65,000.00
Auditing Fees	40,000.00
Engineering Fees	40,000.00
Planning Fees	75,000.00
Promotion Fees	99,500.00
Appraisal Fees	8,000.00
Labor Relations	<u>31,500.00</u>
	\$ 359,000.00

UTILITIES

Telephone	\$ 57,750.00
Electricity	125,000.00
Water	<u>210,000.00</u>
	\$ 392,750.00

INSURANCE

Commercial Package Policy	\$ 78,500.00
Worker's Compensation Insurance	112,500.00
Official Bond	7,500.00
Hospitalization Insurance	275,000.00
Autofleet Policy	<u>45,000.00</u>
	\$ 518,500.00

TAXES

Real Estate Tax	\$ 60,000.00
Unemployment Insurance	<u>26,500.00</u>
	\$ 86,500.00

MAINTENANCE

Maintenance of Grounds	\$ 170,000.00
Maintenance of Buildings	65,000.00
Maintenance of Machinery and Equipment	185,500.00
Maintenance of Vehicles	42,000.00
Housekeeping Supplies	14,500.00
Maintenance of Meters, Mains and Distribution System	9,000.00
Purchase of Maintenance Tools	<u>13,000.00</u>
	\$ 499,000.00

OPERATING EXPENSES

Operation Supplies and Expense	\$ 85,000.00
Purification Supplies	2,000.00
Nursery Supplies	8,000.00
Farming Expense	8,500.00
Trap Expense	275,000.00
Hunting Preserve Expense	55,000.00
Restaurant Expense	725,000.00
Hotel Expense	<u>250,000.00</u>
	\$1,408,500.00

OTHER EXPENSES

Miscellaneous Expense	\$ 82,500.00
Office Equipment and Supplies	40,000.00
Office Equipment Rental	4,000.00
Postage	16,500.00
Travel	38,500.00
Seminars, Schools and Conferences	6,000.00

Dues and Subscriptions	10,500.00
Advertising	125,000.00
Planning and Promotion	105,000.00
Licenses	6,500.00
Easements and Rights of way	7,000.00
Uniforms	42,500.00
Meetings	22,500.00
Special Events	<u>50,500.00</u>
	\$ 557,000.00

NON-OPERATING EXPENSE

Interest Expense	\$ <u>500,000.00</u>
	\$ 500,000.00

TOTAL APPROPRIATION	\$9,773,250.00
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II. OPERATION AND MAINTENANCE OF INTERCITY  
WATER SYSTEM

CAPITAL EXPENDITURES

Purchase of Machinery and Equipment	\$ 425,000.00
Purchase of Autos	70,500.00
Building Improvement	2,225,000.00
Additions to water distribution system	<u>3,000,000.00</u>
	\$5,720,500.00

SALARIES AND WAGES

Administrative Salaries	\$ 200,000.00
Clerical Salaries	215,000.00
Operations-Supervision	90,500.00
Operations-Labor	750,000.00
Maintenance-Supervision	75,000.00
Maintenance-Labor	600,000.00
Security	30,000.00
Trustees' Salaries	<u>18,500.00</u>
	\$1,979,000.00

FEES

Legal Fees	\$ 225,000.00
Auditing Fees	100,000.00
Engineering Fees	110,000.00
Planning Fees	50,000.00
Promotion Fees	9,000.00
Labor Relations	33,075.00
Appraisal Fees	<u>14,500.00</u>
	\$ 541,575.00

UTILITIES

Telephone	\$ 136,500.00
Electricity	<u>1,360,000.00</u>
	\$ 1,496,500.00

INSURANCE

Commercial Package Policy	\$ 136,500.00
Worker's Compensation Insurance	330,750.00
Official Bond	7,500.00
Hospitalization Insurance	300,000.00
Autofleet Policy	<u>45,000.00</u>
	\$ 819,750.00

TAXES

Real Estate Tax	\$ -0-
Unemployment Insurance	<u>11,000.00</u>
	\$ 11,000.00

MAINTENANCE

Maintenance of Grounds	\$ 65,000.00
Maintenance of Buildings	31,500.00
Maintenance of Machinery and Equipment	200,000.00
Maintenance of Vehicles	75,000.00
Housekeeping Supplies	9,000.00
Maintenance of Meters, Mains and Distribution System	105,000.00
Purchase of Maintenance Tools	<u>11,000.00</u>
	\$ 496,500.00

OPERATING EXPENSES

Operation Supplies and Expense	\$ 178,500.00
Purification Supplies	<u>700,000.00</u>
	\$ 878,500.00

OTHER EXPENSES

Miscellaneous Expense	\$ 26,500.00
Office Equipment and Supplies	15,750.00

Office Equipment Rental	1,365.00
Postage	15,750.00
Travel	27,500.00
Seminars, Schools and Conferences	3,150.00
Dues and Subscriptions	3,675.00
Advertising	4,500.00
Licenses	1,350.00
Easements and Rights of way	36,750.00
Uniforms	38,500.00
Meetings	6,000.00
Lake operation and maintenance charges	<u>199,500.00</u>
	\$ 380,290.00

NON-OPERATING EXPENSE

Depreciation Fund	\$ -0-
Interest Expense	1,050,000.00
Interest Reserve	-0-
Principal Reserve	500,000.00
Capital Reserve	<u>500,000.00</u>
	\$2,050,000.00

TOTAL INTERCITY WATER \$14,373,615.00

Funds for the "Operation and Maintenance of Intercity Water System" under Division II above are to be derived from revenues from the Intercity Water System of the District and the amount appropriated for said operation and maintenance will not be raised through the levy of taxes.

TOTAL APPROPRIATIONS \$24,146,865.00

Section 2. That in addition to the above amounts appropriated for corporate purposes, the following sum is hereby appropriated for the following special purposes for the fiscal year hereinabove mentioned, to wit:

SOCIAL SECURITY AND ILLINOIS MUNICIPAL RETIREMENT  
FUND CONTRIBUTIONS

For costs of participating in Federal Old Age and Survivors Insurance System	\$ 252,500.00
For costs of participating in Illinois Municipal Retirement Fund Contribution	\$ 319,500.00
For costs of participating in Federal and State Unemployment Compensation	\$ -0-
Total amount appropriated for Social Security and Illinois Municipal Retirement Fund Contributions and Federal and State Unemployment Compensation	\$ 572,000.00
 GRAND TOTAL OF ALL AMOUNTS APPROPRIATED FOR ALL PURPOSES IS	 \$24,718,865.00

Section 3. Each of said sums of money and the aggregate thereof are deemed necessary by the Board of Trustees of the Rend Lake Conservancy District to defray the necessary expenses and liabilities of the aforesaid Conservancy District during the fiscal year beginning May 1, 2003, and ending April 30, 2004, for the respective purposes above set forth.



Section 4. Any unexpended balance of any item of any appropriations made by this ordinance may be expended in making up any insufficiency in any other item of appropriation made by this ordinance.

Section 5. The invalidity of any item or section of this ordinance shall not affect the validity of the whole or any other portion thereof.

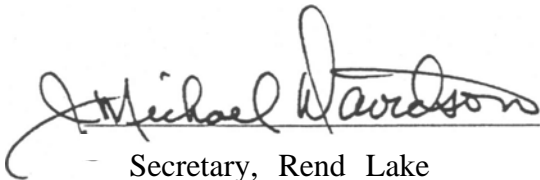
Section 6. All ordinances or parts of ordinances in conflict with any of the provisions of this ordinance be and the same are hereby repealed. .

Section 7. This ordinance shall be in full force and effect from and after its passage, approval, and publication as required by law.

PASSED: May 28, 2003

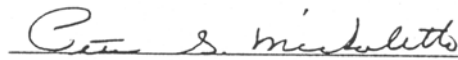
APPROVED: May 28, 2003

ATTEST:



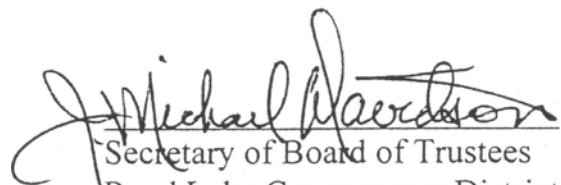
Secretary, Rend Lake  
Conservancy District.

(Corporate Seal)

  
\_\_\_\_\_  
President, Rend Lake Conservancy District,  
an Illinois Municipal Corporation

STATE OF ILLINOIS                    )  
  )  
COUNTY OF FRANKLIN                )     SS.

I, J. Michael Davidson, the duly qualified and acting Secretary of said Rend Lake Conservancy District, an Illinois Municipal Corporation, do hereby certify that the above and foregoing is a true, perfect and complete copy of Ordinance 194, the same being entitled “Annual Budget and Appropriation Ordinance of the Rend Lake Conservancy District,” an Illinois Municipal Corporation with its Principal Office in Franklin County, Illinois, for the Fiscal Year Beginning May 1, 2003, and Ending April 30, 2004, which Ordinance was duly passed and approved at a regular meeting of said Board of Trustees of Rend Lake Conservancy District, duly called and held on May 28, 2003.

  
Secretary of Board of Trustees  
Rend Lake Conservancy District

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Appropriation

**APPENDIX D**  
**ILLINOIS HUNTING PRESERVES**



**APPENDIX D**  
**Illinois Hunting Preserves**

<b>Preserve Name</b>	<b>Preserve Offerings</b>	<b>Charges</b>
1. Upland Hunt Club	P,C,Q,H,SC	Daily fee & membership
2. Rooster Heaven	P,Q	Daily fee & membership
3. Lick Skillet Hunt Club	P,Q	Daily fee
4. The Back Forty	P,Q	Daily fee
5. Buffalo Prairie Hunting Preserve	P,Q,C	Daily fee & membership
6. Timberland Hunts, Inc	P,Q,C	Daily fee & membership
7. The Quail Shed	P,Q,C	Daily fee & membership
8. Kaskaskia Quail Hunting Preserve	P,Q,C	Daily fee
9. Gobbler's Knob Hunting Preserve	P,Q,C	Daily fee
10. Tri R Shooting Preserve	P,Q,C	Daily fee & membership
11. Turkey Creek Lodge	P,Q,C	Daily fee
12. Ambraw Valley Outdoors	P,Q,C	Daily fee
13. Clear Water Prairie Preserve	P,Q,C	Daily fee & membership
14. Bluestem Agriculture Services	P,Q,C	Membership
15. Dewey's Hunt Club	P,Q,C	Daily fee & membership
16. Cranfill Shooting Preserve	P,Q,C	Daily fee
17. Wolfe Creek Hunt Club	P,Q,C	Daily fee
18. Schoonover's Wildcat Hunting Club	P,Q,C	Daily fee
19. Little Wabash Shooting Pres.	P,Q,C	Daily fee
20. Oak Ridge Sportsman's Club	P,Q,C	Daily fee & membership
21. Lick Creek Game Preserve	P,Q,C	Membership
22. TNT Hunting Preserve	P,Q,C	Daily fee
23. Four Boars Farm, LLC	P,Q,C	Daily fee
24. B & F Hunting Preserve	P,Q,C,H	Daily fee
25. Richmond Hunting Club	P,Q,C,H,M,T,SC	Daily fee & membership
26. Trail of Tears Lodge & Sports Resort	P,Q,C,H,SC	Daily fee
27. Pinewood Hunting Club	P,Q,C,H,SC, Trap	Membership
28. Coon Creek Hunt Club	P,Q,C,H,T	Membership
29. Rogers' Hunting Club	P,Q,C,H,T	Daily fee & membership
30. Macedonia Game Preserve	P,Q,C,H,T,M	Daily fee & membership
31. Pheasant Valley Sportsmens Club	P,Q,C,H,T,M,SC	Daily fee
32. Green Acres Sportsman's Club	P,Q,C,H,T,M,SC, Trap	Membership
33. Sand Prairie Farms	P,Q,C,T,H,SC	Membership
34. Rack and Wing	P,Q,C,SC	Daily fee & membership
35. Koeberlein's Hunting Preserve	P,Q,C,SC	Daily fee & membership
36. Country Air Kennel & Hunting Preserve	P,Q,C,SC	Daily fee
37. Rend Lake Conservancy District	P,Q,C,SC	Daily fee
38. Fortino Hunting Club L.T.A.	P,Q,C,SC	Daily fee & membership
39. Dailey Brothers Quail Farm	P,Q,C,SC	Daily fee
40. Panola Prairie Sportsmans Club	P,Q,C,SC, Hand Trap	Daily fee & membership

<b>Preserve Name</b>	<b>Preserve Offerings</b>	<b>Charges</b>
41. Buck Valley Wildlife Preserve	P,Q,C,T	Daily fee
42. DeWitt County Hunt Club - Wendall Farm	P,Q,C,T	Daily fee & membership
43. Old Goat Bird Hunting, Inc.	P,Q,C,T	Daily fee & membership
44. Hopewell Views - Atlas and Summer Hill	P,Q,C,T	Daily fee & membership
45. Hickory Grove Hunt Club	P,Q,C,T	Membership
46. The Break Hunting Preserve	P,Q,C,T	Daily fee & membership
47. Big Oak Hunting Paradise	P,Q,C,T	Daily fee & membership
48. East Grove Game Farm	P,Q,C,H,T	Membership
49. Otter Creek Hunt Club	P,Q,C,T,H,SC	Daily fee & membership
50. Garden Plain Hunt Club	P,Q,C,T,H,SC	Daily fee & membership
51. Muddy River Shooting Preserve	P,Q,C,T,Hand Trap	Daily fee
52. Pheasant Run Of Southern Illinois	P,Q,C,T,M	Daily fee & membership
53. Rock Hollow Conservation Club	P,Q,C,T,M,H,SC	Daily fee & membership
54. Seneca Hunt Club	P,Q,C,T,M,SC, Archery	Daily fee & membership
55. Oakmount Game Club	P,Q,C,T,SC	Membership
56. Harpole's Heartland Lodge	P,Q,C,T,SC	Daily fee & membership
57. Boone & Crocket Hunting Preserve	P,Q,C,T,Trap	Daily fee
58. Lisk Hunting Services	P,Q,C,H,T	Daily fee
59. Bear Creek Ranch	P,Q,M	Daily fee
60. Smokin' Gun Hunting Club -	P,Q,SC	Daily fee & membership
61. Faller Farms and Hunt Club	P,Q,SC	Membership
62. Doctorman's Cache Core Hunting Preserve	P,Q,C,T	Daily fee
63. Briar Knoll Hunting & Fishing, Inc.	P,SC	Membership
64. Whispering Grass Quail Hunts	Q	Daily fee
<b>Legend</b>		
P – Pheasant	Q – Quail	C – Chukar
H – Hungarian	T- Turkey	M – Mallard
		SC – Sporting Clay
Source: Illinois Department of Natural Resources Website.		

**APPENDIX E**  
**REND LAKE CONSERVANCY DISTRICT**  
**RESPONSES**







## REND LAKE CONSERVANCY DISTRICT

P.O. BOX 907 ■ 11231 MARCUM BRANCH ROAD ■ BENTON, ILLINOIS 62812  
TELEPHONE: (618) 439-4321 ■ FAX: (618) 439-2400 ■ INTERNET: RLCD @ INTRNET.NET

September 1, 2004

Mr. William G. Holland  
Auditor General  
State of Illinois  
740 East Ash  
Springfield, IL 62703

Dear Mr. Holland:

I am enclosing a copy of the Rend Lake Conservancy District Board of Trustees' Response to the Auditor General's Audit.

The Board concurs with all of your findings and recommendations and has included responses where appropriate. The Board accepts this audit as a valuable management tool, which provides a roadmap for the future well-being of this District. The Board has already taken, in advance of your final report, many steps to correct deficiencies in financial and management areas.

We thank you for the excellent work of your auditors, for the helpful suggestions they have given to staff, and especially for the professionalism and civility with which they have conducted this audit.

I hope we can feel free to call on your office as we proceed to implement your recommendations.

Respectfully Yours,

REND LAKE CONSERVANCY DISTRICT

Glenn Poshard  
Managing Director

Enc.

*Serving Southern Illinois Since 1955*



# REND LAKE CONSERVANCY DISTRICT

P.O. BOX 807 ■ 11231 MARCUM BRANCH ROAD ■ BENTON, ILLINOIS 62812  
TELEPHONE: (618) 439-4321 ■ FAX: (618) 439-2400 ■ INTERNET: RLCD @ INTRNET.NET

## MANAGEMENT AND PROGRAM AUDIT – RESPONSE

### Recommendation #1

The Board of Trustees for the Rend Lake Conservancy District should establish legal and engineering departments pursuant to Ordinance No. 1.

### District Response

The Board concurs with the findings and recommendations and will proceed with a search for competent on-site in-house legal and engineering assistance.

This activity will be completed by December 31, 2004.

### Recommendation #2

The Board of Trustees for the Rend Lake Conservancy District should take the following actions:

- Abide by all policies that have been established by ordinances, such as those pertaining to having a treasurer and expense committee;
- Enter into contracts which specify billing rates, responsibilities, and services to be performed for all professional services;
- Establish a line item budget for each operational division that ensures that revenues cover the associated costs;
- Prohibit trustees and employees from having a financial interest in the district's business; and
- Establish its own conflict of interest disclosure form for all District trustees, employees, and outside consultants to complete.

### District Response

The Board concurs with the findings and recommendations and will abide by all policies that have been established by ordinances. The Board will review all ordinances and revise or repeal those that are no longer relevant or outdated.

Furthermore, the District is preparing a Strategic Management Plan which will drive organizational strategy and focus management on priority goals and objectives which will be measurable and time specific. The plan will provide the basis for establishing accountability throughout the organization and meeting the business goals of the district.

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**Recommendation #2 – District Response (Continued)**

Fiscal Year 2004-05 provided the district's first line item budget approved by the Board of Trustees. With this tool in place the District will be able to more accurately track expenditures and revenues for the individual operating units.

The District will complete a policies and procedures manual for the purpose of establishing standards of acceptable conduct for all District employees. Included in these guidelines will be a process by which employees, Board members and/or contractors disclose any potential conflict of interest or involvement with the Rend Lake Conservancy District.

These activities will be completed by December 31, 2004.

**Recommendation #3**

The Board of Trustees for the Rend Lake Conservancy District should take the following actions:

- Establish a written mission statement for the District;
- Establish goals and objectives for the District;
- Establish a policy and procedures manual for the District;
- Establish required performance reports on District operations;
- Issue an annual report for its stakeholders that summarizes the District's activities, successes, and challenges; and
- Establish a written staffing plan that specifies the skills and training needed for personnel who operate the various businesses managed by the District.

**District Response**

The Board concurs with the findings and recommendations and has begun the process of preparing a mission statement, goals and objectives for the organization. This document will reflect both a short-term and long-term plan for the District. The Board recognizes the value of policies and procedures that outline the business purposes for the District, and these will be reflected in the policy and procedures manual referred to in Recommendation #2.

In conjunction with the development of District goals and budget preparation, a staffing plan will be prepared that projects the needs of the various operational units. Consistent with revisions to the human resources management function, job descriptions will be completed/updated to more accurately reflect the knowledge, skills and abilities necessary for each position.

An annual report summarizing the district's activities, successes and challenges will be issued in order for the Board and management to make more informed judgments and to provide greater information sharing with the public.

Except for the annual report, which will be completed after the close of the fiscal year ending April 30, 2005, these activities will be completed by December 31, 2004.

**Recommendation #4**

The Rend Lake Conservancy District should establish detailed written policies and procedures for its accounting function, establish a line item budget with revenues and expenditures for each division, and set rates and charges to cover the cost of operating the recreational activities.

**District Response**

The District concurs with the findings and recommendations.

Written policies and procedures for District accounting functions will be incorporated into the policy and procedures manual in Chapter #4 (Budget Function and Procedures). These policies are currently being written.

The Board has approved the establishment of a line item budget with revenues and expenditures for each division for FY04-05. Rates and charges to cover the cost of operating the recreational activities will be established pending board consideration of options presented by management during the September board meeting. Cutting expenses, increasing charges and rates, as well as leasing will be options for Board consideration in order to cover costs of operating the recreational activities.

These activities will be completed by December 31, 2004.

**Recommendation #5**

The Rend Lake Conservancy District should develop specific procedures and guidelines for determining which types of expenses are allowable and unallowable. In addition, the District should ensure that expenditures are:

- Supported by adequate documentation;
- Reviewed by the appropriate supervisor;
- Allocated to the correct funds; and
- Beneficial to the programs of the District.

**District Response**

The District concurs with the findings and recommendations.

The District's policy and procedures manual will clearly reflect the types of expenses which are allowable and unallowable. The District has already required review of expenditures by the appropriate supervisors and allocation of expenditures to the correct funds. Board action on the remaining items will take place at the September Board meeting.

This activity will be completed by December 31, 2004.

**Recommendation #6**

The Rend Lake Conservancy District should take the following actions:

- Establish one billing system for all water plant customers;

**Management and Program Audit – Response**  
**August 31, 2004 – Page 4**

**Recommendation #6 (Continued)**

- Implement an electronic billing system that tracks each account and delinquencies;
- Require all customers to pay on a monthly basis or assess a late fee or penalty;
- Provide customers with return payment stubs with bills;
- Ensure that each customer has their own meter;
- Review all contracts to ensure that they are current and follow all contract provisions;
- Review all water main sizes to ensure that the proper amount is being charged;
- Map the residential customers so that meters can be easily located;
- Develop written policies for leak allowances and termination of services in case of delinquencies;
- Review all inactive meters and either charge the minimum rate each month or pull the meter; and
- Establish meters for all it sewage customers.

**District Response**

The District concurs with the findings and recommendations and has recently installed an automated billing system that provides much of the functionality suggested in the auditor's comments.

The Inter City Water staff is conducting an evaluation of the number of customers whose residences are not individually metered and will prepare a cost analysis for installing monitoring devices. The staff is evaluating options for mapping residential customer meter placement and will present its findings to the Managing Director (i.e. Global Positioning Survey, local map plotting, etc.) by November 30, 2004.

In coordination with the installation of the automated billing system, monthly billing will be established and returning payment stubs will be sent with bills.

Meters will be established for all sewage customers.

This activity will be completed by June 30, 2005.

**Recommendation #7**

The Rend Lake Conservancy District should take the following actions:

- Establish a single comprehensive capital construction plan for the water plant that specifies needs, benefits, projects, priorities, costs, revenue sources, and timeliness; and
- Have the capital plan reviewed and approved by its Board of Trustees.

**District Response**

The District concurs with the findings and recommendations.

The Water Plant Superintendent has identified major water plant and distribution system improvements, some of which are currently being addressed by engineering studies, which are being incorporated into a single comprehensive capital construction plan. The Board approved at its July 2004 meeting the solicitation of engineering firms to begin work on some of these projects because of their pressing nature.

The entire capital construction plan will be completed and approved by the Board of Trustees no later than the October 2004 Board meeting.

**Management and Program Audit – Response**  
**August 31, 2004 – Page 5**

**Recommendation #7 (Continued)**

Operational reports to assist management in appropriate decision-making, particularly on water and sewer billing and comparing Rend Lake Conservancy District operations with other utilities that provide water, will be developed by December 31, 2004.

**Recommendation #8**

The Rend Lake Conservancy District should accumulate adequate reserves that are dedicated to capital improvements and maintenance, and collect data that is needed to monitor and evaluate performance for the water plant.

**District Response**

The District concurs with the findings and recommendations.

The District is developing a capital budgeting plan that will provide a systematic process to plan for capital expenditures and identify funding sources. This will include the establishment of a Revenue Fund for capital improvements and maintenance.

The need for Rend Lake Conservancy District to conduct careful financial and management planning to maintain its capital assets is obvious. The plan will reflect the District's needs, objectives, expected growth and financial capabilities. The District has limitations for funding capital facilities; however, careful planning will assure that high priority projects will be built first.

These activities will be completed by December 31, 2004.

**Recommendation #9**

The Rend Lake Conservancy District should establish meters for all its sewage customers and implement a system to bill all the customers in accordance with rates that were established by ordinances and written contracts.

**District Response**

The District concurs with the findings and recommendations.

Sewage meters will be installed for all customers and billed in accordance with established rates.

This activity will be accomplished by March 31, 2005.

**Recommendation #10**

The Rend Lake Conservancy District should take the following actions:

- Establish a comprehensive written personnel policy;
- Keep complete records on all its employees, including comprehensive job descriptions, job applications, and recruitment and selection records;
- Conduct annual performance evaluations of all permanent employees;

**Recommendation #10 (Continued)**

- Improve controls over employees' time records;
- Retain complete records on employees' training; and
- Keep confidential records appropriately locked.

**District Response**

The District concurs with the findings and recommendations and will proceed to develop new personnel policies to ensure more complete employee files containing all relevant documentation. Management is currently reviewing policies and procedures as they relate to employee performance, compensation, and position changes.

The District is in the process of developing all policies and procedures in this area and will establish a related written policy for the personnel policies and procedures manual.

This activity will be completed by December 31, 2004.

**Recommendation #11**

The Rend Lake Conservancy District should take the following actions:

- Establish policies and procedures for entering into contracts that comply with the River Conservancy Districts Act;
- Ensure that these policies and procedures include competitive bidding for applicable contracts and a system to monitor and evaluate contractor performance;
- Perform an analysis to determine if any currently used vendors need contracts; and
- Keep complete records on all its contracts, including evidence of monitoring contractor performance.

**District Response**

The District concurs with the findings and recommendations and will develop such policies and procedures which comply with the River Conservancy District Act. The District will create and maintain a master list of all current District contracts and will update the list periodically for compliance. Deliverables will continue to be monitored to ensure timely receipt.

This activity will be completed by December 31, 2004.

**Recommendation #12**

The Rend Lake Conservancy District should take the following actions:

- Review its farm, oil and other leases to update their provisions and ensure that the District is receiving its appropriate contractual share;
- Determine the exact number of acres leased as farmland; and
- Obtain cash rents for farmland using competitive bids.

**Recommendation #12 (Continued)**

**District Response**

The District concurs with the findings and recommendations.

District staff is currently reviewing all farm and oil leases. All leases will be updated and evaluated for performance. Leases will be renegotiated if deemed appropriate by the Board.

This activity will be completed by November 30, 2004.

**Recommendation #13**

The Rend Lake Conservancy District should take the following actions:

- Establish policies and procedures for the acquisition, usage, and disposal of property and equipment;
- Tag all property and equipment with a unique inventory number;
- Take an annual inventory of its assets and ensure that all assets are accurately recorded and identifiable;
- Establish a central purchasing agent function;
- Ensure that vehicle listings are accurate, including lists used for insurance; and
- Improve controls over vehicle usage, such as unique numbers to easily identify vehicles, mileage logs, and sign-out sheets.

**District Response**

The District concurs with the findings and recommendations and has begun a program that will accurately identify and track the capital assets of the District. The District is developing a request for proposals to secure bar coded inventory tags and tracking equipment that will help with the monitoring of assets. Further, policies and procedures are being prepared that will outline specific requirements for the acquisition and disposal of any property and equipment.

A central purchasing agent function will be developed and staff trained appropriately for such duties.

This activity will be completed by April 30, 2005.

**Recommendation #14**

The Rend Lake Conservancy District should take the following actions:

- Establish policies and procedures for its information systems that at least include file backup, security, passwords, user access and use of non-licensed software;
- Segregate duties related to the administration of the computer system to the extent possible;
- Establish appropriate physical, logical and access security;
- Competitively bid the consulting contract for an IS service provider as required by ordinance;
- Update the computer system at the lodge; and
- Establish a disaster recovery plan for its critical computer applications.



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**Recommendation #14 (Continued)**

**District Response**

The District concurs with the findings and recommendations.

The reliance on technology has increased; therefore, the District is compelled to protect the integrity of its computing facilities and its users. The District will evaluate its existing structure and determine the most effective way to protect this asset. A computing policy will be included in the District's operating procedure that will provide for security, password management, appropriate software licensing, and disaster recovery.

This activity will be completed by December 31, 2004.

**Recommendation #15**

The Rend Lake Conservancy District should take the following actions:

- Establish a comprehensive plan of action to eliminate the losses by golf, shooting, and hunting;
- Develop written financial and marketing goals for golf, shooting and hunting with specific timetables;
- Review rates charged to ensure they cover the cost of operations, including alternatives such as memberships and variable rates;
- Establish written operating procedures for golf, shooting and hunting;
- Collect and review performance statistics to monitor and report performance of golf, shooting and hunting against established goals; and
- Segregate duties so that family members do not have direct relationships or provide additional controls.

**District Response**

The District concurs with the findings and recommendations and will reorganize the golf, shooting and hunting operations to eliminate losses. Such reorganization will take into consideration the overall mission of the District, which includes the promotion of recreation and tourism as an integral part of the region's economy balanced against the need to have each operation be self supporting. The District has already segregated Inter City Water funds and restricted their use to water plant and distribution needs only.

Management will present to the Board at the September Board meeting a comprehensive plan of action with written financial and marketing goals to accomplish the District's mission.

This activity will be completed by December 31, 2004.

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**Recommendation #16**

The Rend Lake Conservancy District should take the following actions:

- Establish a comprehensive plan of action to significantly reduce losses from the restaurant;
- Establish a plan to improve profitability of the lodge after accounting for depreciation;
- Develop written financial and marketing goals for the lodge and restaurant with specific timetables;
- Collect and review performance statistics to closely monitor and report performance of the lodge and restaurant against goals;
- Review the methods for issuing and recording gift certificates to simplify the process; and
- Explore alternatives to managing these facilities, such as leasing them to third parties to operate.

**District Response**

The District concurs with the findings and recommendations and will reorganize the restaurant and lodging operations to eliminate losses. Such reorganization will take into consideration the overall mission of the District, which includes the promotion of recreation and tourism as an integral part of the region's economy balanced against the need to have each operation be self supporting. The District has already segregated the Inter City Water funds and restricted their use to water plant and distribution needs only.

Management will present to the Board at the September Board meeting a comprehensive plan of action with written financial and marketing goals to accomplish the District's mission.

This activity will be completed by December 31, 2004.