

WASHINGTON, PITTMAN & McKEEVER, LLC

*CERTIFIED PUBLIC ACCOUNTANTS AND
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**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT**

June 30, 2009

**Performed as Special Assistant Auditors for
the Auditor General, State of Illinois**

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT**

June 30, 2009

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**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

AGENCY OFFICIALS

Marc Miller	Director (effective February 6, 2009)
Kurt Granberg	Acting Director (effective January 21, 2009 through February 5, 2009)
Sam Flood	Acting Director (January 1, 2006 through January 20, 2009)
John Rogner	Assistant Director
Leslie Sgro	Deputy Director
Deborah Stone	Deputy Director
Ellen King-Pietrzak	Chief Fiscal Officer
William K. Richardson	General Counsel
J. J. Pohlman	Office Director of Administration
John Evans	Acting Office Director of Architecture, Engineering & Grants
Tony Mayville	Office Director of Land Management & Education
Leigh Ann Vanausdoll	Office Director of Legislation
Rafael Gutierrez	Office Director of Law Enforcement
Joe Angleton	Office Director of Mines and Minerals
Kristin Vacek	Office Director Public Services
Tom Flattery	Office Director of Realty and Environmental Planning
Mike Conlin	Office Director of Resource Conservation
Damon Stotts	Office Director of Scientific Research and Analysis
Dave Cassens	Acting Office Director of Special Events, Programs & Promotions
Gary Clark	Office Director of Water Resources

Department main headquarters is located at:

One Natural Resources Way
Springfield, Illinois 62702-1271

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

FINANCIAL REPORT

SUMMARY

The audit of the accompanying Schedule of Capital Assets of the State of Illinois, Department of Natural Resources (Department) was performed by Washington, Pittman & McKeever, LLC.

Based on their audit, the auditors expressed an unqualified opinion on the Department's Schedule of Capital Assets.

SUMMARY OF FINDING

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the Schedule of Findings on pages 13-15 of this report, as finding 09-1, Internal Control Weaknesses.

EXIT CONFERENCE

The financial report was reviewed by Ellen King-Pietrzak, Chief Fiscal Officer. The Department waived a formal exit conference. The response to the recommendation was provided by Marc Miller, Director in a correspondence dated March 29, 2010.

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Schedule of Capital Assets of the State of Illinois, Department of Natural Resources as of June 30, 2009. This schedule is the responsibility of the State of Illinois, Department of Natural Resources' management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Capital Assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the schedule presents only the Capital Asset Account and does not purport to, and does not, present fairly the financial position of the State of Illinois, Department of Natural Resources as of June 30, 2009, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule of Capital Assets referred to above presents fairly, in all material respects, the Capital Asset Account of the State of Illinois, Department of Natural Resources, as of June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2010 on our consideration of the State of Illinois, Department of Natural Resources' internal control over financial reporting of the Capital Asset Account and on our tests of the State of Illinois, Department of Natural Resources compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters as they relate to the Capital Asset Account. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Schedule of Capital Assets of the State of Illinois, Department of Natural Resources. The accompanying Schedule of Changes in Capital Assets is presented for the purpose of additional analysis and is not a required part of the Schedule of Capital Assets. The Schedule of Changes in Capital Assets has been subjected to the auditing procedures applied in the audit of the Schedule of Capital Assets and, in our opinion, is fairly stated in all material respects in relation to the Schedule of Capital Assets taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Washington, Pittman & McKeever, LLC

WASHINGTON, PITTMAN & MCKEEVER, LLC

Chicago, Illinois
March 29, 2010

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

Schedule of Capital Assets

**June 30, 2009
(expressed in thousands)**

Capital Assets not being depreciated:	
Land and land improvements	\$ 366,046
Total Capital Assets not being depreciated:	<u>366,046</u>
Capital Assets being depreciated:	
Site improvements	415,188
Building and building improvements	258,215
Infrastructure	49,169
Equipment	64,868
Total Capital Assets being depreciated:	<u>787,440</u>
Less Accumulated Depreciation for:	
Site improvements	204,356
Building and building improvements	114,992
Infrastructure	25,873
Equipment	54,476
Total Accumulated Depreciation	<u>399,697</u>
Total Capital Assets being depreciated, net	<u>387,743</u>
Total Capital Assets, net	<u><u>\$ 753,789</u></u>

The accompanying Notes to Schedule of Capital Assets
are an integral part of this schedule.

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

**NOTES TO SCHEDULE OF CAPITAL ASSETS
June 30, 2009**

1. DESCRIPTION OF CAPITAL ASSET ACCOUNT

The State of Illinois, Department of Natural Resources (the Department) maintains a Capital Asset Account. Capital assets include land and land improvements, site improvements, buildings, building improvements, infrastructure, equipment, and all other tangible assets that are used in operations and that have expected useful lives extending beyond a single reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Capital Assets maintained by the Department has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the schedule, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the capital asset account does not have component units, nor is it a component unit of any other entity. However, because the Capital Asset Account is not legally separate from the State of Illinois (State), it is included in the financial statements of the State. The State's Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

**NOTES TO SCHEDULE OF CAPITAL ASSETS (Continued)
June 30, 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The schedule presents only the capital assets administered by the Department and does not purport to, and does not, present fairly the financial position of the Department as of June 30, 2009 and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

The Capital Asset Account balances are reported in the State's Comprehensive Annual Financial Report. For its reporting purposes, the Department has presented the Schedule of Capital Assets using a columnar format that presents capital assets, net of accumulated depreciation, as of June 30, 2009.

(c) Basis of Accounting

The Capital Asset Account is reported using the economic resources measurement focus and the accrual basis of accounting.

(d) Use of Estimates

The preparation of the Schedule of Capital Assets in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and accumulated depreciation at the date of the schedule. Actual results could differ from those estimates.

(e) Valuation

Capital assets are reported at cost or estimated historical cost or, if donated, at their fair value at the time of acquisition. Historical costs include the amount paid for the asset and ancillary charges necessary to place the asset into its intended location and condition for use. Assets acquired in various amounts for a single purpose which may not individually meet the capitalization threshold are capitalized if the estimated total of the project exceeds the capitalization threshold.

For capital assets that are depreciated, expenditures that extend the useful lives of capital assets beyond their initial estimated useful lives (preservation costs) or improve their efficiency (improvements) or capacity (additions) are capitalized, whereas expenditures for repairs and maintenance are expensed.

Capital assets are depreciated using the straight-line method.

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

**NOTES TO SCHEDULE OF CAPITAL ASSETS (Continued)
June 30, 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(f) Capitalization Policies

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	\$ 100,000	N/A
Infrastructure	250,000	30
Site Improvements	25,000	30
Buildings	100,000	30
Building Improvements	25,000	30
Equipment	5,000	7
Capital Leases - Equipment	5,000	7

(g) Infrastructure

The Department maintains infrastructure assets, including waterways, dams, tunnels, and drainage systems. The Department maintains certain infrastructure networks, composed of all assets that provide a particular type of service for the Department.

In the majority of cases, a legal title document was not created when these assets were constructed or placed into service. The Department capitalizes all infrastructure assets supported by purchasing documentation (e.g., contracts, requisitions, purchase orders, payment documents, etc.). In cases where infrastructure assets are jointly developed or constructed by the Department and neighboring states or local municipalities, the Department capitalizes only those assets, which are maintained by the Department and legal title has not been established by another legal entity.

(h) Historical Treasures and Works of Art

The Department maintains extensive collections of historical treasures and works of art. Items meeting the following conditions are not capitalized: 1) held for public exhibition, education, or research in furtherance of public service, rather than financial gain; 2) protected, kept unencumbered, cared for, and preserved; and 3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. All the Department's historical treasures and works of art meet these conditions, and therefore, are not capitalized in the Schedule of Capital Assets.

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

**NOTES TO SCHEDULE OF CAPITAL ASSETS (Continued)
June 30, 2009**

3. CAPITAL ASSET MANAGEMENT SYSTEM

The Department maintains a capital asset management system which includes, for all capital assets, the major asset category, description of asset, date of acquisition, method of acquisition, cost or other value, responsible organizational unit, location of asset, identification of applicable network or subsystem (for infrastructure assets), estimated life, estimated salvage value, annual and accumulated depreciation, and appropriation.

4. REPORTING REQUIREMENTS

The Department is required to complete and submit the *SAMS TO GAAP Reconciliation – Capital Assets* (SCO-537) and *Capital Asset Summary* (SCO-538) forms to the Illinois Office of the Comptroller as part of the year-end reporting process related to capital assets. Amounts reported on these forms have been reconciled to the Schedule of Capital Assets.

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES

Schedule of Changes in Capital Assets

For the Year Ended June 30, 2009
(expressed in thousands)

	Balance At June 30, 2008	Additions	Deletions	Net Transfers	Balance At June 30, 2009
Capital Assets not being depreciated:					
Land and land improvements	\$ 360,962	\$ 7,173	\$ 2,089	\$ -	\$ 366,046
Total Capital Assets not being depreciated:	<u>360,962</u>	<u>7,173</u>	<u>2,089</u>	<u>-</u>	<u>366,046</u>
Capital Assets being depreciated:					
Site improvements	411,050	2,776	64	1,426	415,188
Building and building improvements	262,529	85	186	(4,213)	258,215
Infrastructure	46,726	2,443	-	-	49,169
Equipment	74,442	2,283	372	(11,485)	64,868
Capital leases - equipment	26	-	26	-	-
Total Capital Assets being depreciated:	<u>794,773</u>	<u>7,587</u>	<u>648</u>	<u>(14,272)</u>	<u>787,440</u>
Less Accumulated Depreciation for:					
Site improvements	192,600	11,820	64	-	204,356
Building and building improvements	109,802	8,125	36	(2,899)	114,992
Infrastructure	24,959	914	-	-	25,873
Equipment	63,481	1,874	338	(10,541)	54,476
Capital leases - equipment	15	-	15	-	-
Total Accumulated Depreciation	<u>390,857</u>	<u>22,733</u>	<u>453</u>	<u>(13,440)</u>	<u>399,697</u>
Total Capital Assets being depreciated, net	<u>403,916</u>	<u>(15,146)</u>	<u>195</u>	<u>(832)</u>	<u>387,743</u>
Total Capital Assets, net	<u>\$ 764,878</u>	<u>\$ (7,973)</u>	<u>\$ 2,284</u>	<u>\$ (832)</u>	<u>\$ 753,789</u>

See accompanying Independent Auditor's Report.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the Schedule of Capital Assets of the State of Illinois, Department of Natural Resources, as of and for the year ended June 30, 2009, and have issued our report thereon dated March 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Natural Resources' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule of Capital Assets, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Natural Resources' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Natural Resources' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State of Illinois, Department of Natural Resources' Schedule of Capital Assets will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in finding 09-1 in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Natural Resources' Schedule of Capital Assets is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Illinois, Department of Natural Resources' response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Natural Resources' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Illinois Department of Natural Resources' management, and is not intended to be and should not be used by anyone other than these specified parties.

Washington, Pittman & McKeever, LLC

WASHINGTON, PITTMAN & MCKEEVER, LLC

Chicago, Illinois
March 29, 2010

SCHEDULE OF FINDINGS

Current Findings - (Government Auditing Standards)

09-1 FINDING: Internal Control Weaknesses

Weaknesses were identified in the Illinois Department of Natural Resources (Department) internal control structure related to the recording and reporting of State property.

During testing of the Department's State property, a number of weaknesses were identified in the Department's internal control, particularly in the following areas:

- An overstatement of \$1,393,000 in accumulated depreciation associated with items transferred from the Department was not deducted from the *Capital Asset Summary* (SCO-538 Accounting Report Form) submitted to the Office of the State Comptroller. Further, this adjustment was not made to the June 30, 2008 audited Schedule of Capital Assets. To correct this error, the Department reduced the June 30, 2009 additions to depreciation expense, which understates the current year's actual depreciation expenses by \$1,393,000. The materiality of this error did not necessitate the auditors to propose a correcting adjustment.
- During fiscal year 2008, the Department changed its depreciation methodology. During this change, certain fully depreciated capital assets were included in the depreciation computation, ultimately overstating the June 30, 2008 depreciation expense by \$223,602. In fiscal year 2009, in order to correct the prior year error, the Department reduced depreciation expense by this same amount. The correction of this error resulted in understating depreciation expense in fiscal year 2009. The materiality of the error did not necessitate the auditors to propose a correcting adjustment.
- During testing of capital asset disposals, an instance was identified in which the Department could not provide documentation that authorized the disposal/conveyance of an asset. During fiscal year 2009, the Department conveyed a building, with improvements of \$167,287, to a local municipality. However, the Department could not provide documentation to support the conveyance officially occurred during fiscal year 2009.

An important element of internal control is the accurate review, reconciliation and reporting of accounting data. In addition, the Illinois Office of the Comptroller's Statewide Accounting Management System (SAMS) Manual (Procedure 27.20.38) requires a State agency to report capital assets and related accumulated depreciation to be included in the State of Illinois GAAP financial statements. Generally Accepted Accounting Principles and the SAMS Manual provide guidance for the disposals of capital assets. This includes maintenance and retention of documentation to support all transactions recorded in the capital asset accounts, as required by the State Records Act (5 ILCS 160).

Department personnel stated both internal and external reviews of capital asset information are being performed and the exceptions noted occurred due to management oversight. Regarding documentation not maintained to support the building conveyance, Department personnel stated this occurred due to a miscommunication between the Department's Office of Realty and Environmental Planning (OREP) and Capital Assets. The form that OREP uses is not totally explicit and Capital Assets did not realize from the form that all the property at the site was conveyed, not just the land.

Failure to maintain adequate controls over the recording and reporting of capital asset information can result in erroneous financial reporting. (Finding Code No. 09-1)

RECOMMENDATION:

We recommend the Department improve controls over their recording and reporting of capital assets to ensure the adequate review and reconciliation of property control records to external financial reports (SCO-538 and financial statements) are being performed to identify errors. We also recommend the Department improve its efforts to ensure supporting documents on all disposals of capital assets are maintained. In addition, we recommend the Department improve internal communications to ensure interdepartmental documents are clearly understood by all divisions.

DEPARTMENT RESPONSE:

The Department partially agrees. While we agree that these errors did occur, it is the Department's internal control system that detected the errors. The omission of \$1,393,000 of accumulated depreciation for transferred out equipment (of approximately \$391 million of FY08 total accumulated depreciation) was discovered by IDNR staff during the preparation of the FY09 statements, after the FY08 financial statements were audited. The error was corrected and footnoted on the FY09 statements per directions from the Illinois Office of the Comptroller. The net effect of this correction was \$0. IDNR overstated the FY08 infrastructure depreciation by \$223,602 (FY08 infrastructure addition to accumulated depreciation was \$1.3 million) as directed by the external audit firm, Office of the Auditor General, and the Illinois Office of the Comptroller. The adjustment amount was then systematically absorbed in FY09 to avoid over or under depreciation of the assets at the end of their useful lives. It was not reversed in order to correct the adjustment of the prior period. Nevertheless the net effect of this adjustment was \$0. The building with improvements was conveyed during FY09 because it was inadvertently not disposed during a previous period. The \$167,287 error (of approximately \$263 million beginning FY09 balance of building/building improvements) was discovered by IDNR through the annual certification process and the assets were conveyed as soon as the error was detected. IDNR did provide documentation for the conveyance of a building with improvements to a local municipality (consisting of a land conveyance form, a legal description and an intergovernmental agreement between IDNR and the municipality). Conveyance of land is a rare occurrence as the Department is in the business of acquiring land, not disposing of it; however, IDNR agrees that document was not specific or explicit as necessary.

AUDITOR'S COMMENT:

The Department agreed that the errors did occur. The external audit firm and the Office of the Auditor General proposed a correcting entry to the Department's Schedule of Capital Assets based on information provided by the Department, but did not direct the Department to overstate fiscal year 2008 infrastructure depreciation.

PRIOR FINDINGS NOT REPEATED

A FINDING: (Inadequate controls over capital assets)

During the prior audit, the State of Illinois, Department of Natural Resources (Department) did not maintain sufficient evidence to ensure the existence, valuation, and rights on amounts capitalized as Site Improvements for the Bikeways Project. The Department recorded \$454,607 for the Bikeways Project in FY08. As of June 30, 2008 assets totaling \$27,038,768 had been capitalized under the Bikeways Project. (Finding Code 08-1)

During the current year, the Department developed and implemented policies and procedures to obtain and maintain sufficient evidence to ensure the existence, valuation, and rights on amounts capitalized as Site Improvements for the Bikeways Project. Instead of obtaining information from Illinois Department of Transportation (IDOT), the Department receives invoices directly from the vendor through the Department's Office of Realty and Environmental Planning (OREP). Once the invoice is received, OREP sends an invoice to IDOT notifying IDOT of their payment amount.