
REPORT DIGEST

DEPARTMENT OF
NATURAL RESOURCES

FINANCIAL AUDIT OF THE SCHEDULE OF CAPITAL ASSETS

For the Year Ended:
June 30, 2009

Release Date:
April 15, 2010



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

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SYNOPSIS

This digest covers our audit of the Department of Natural Resources (Department) Schedule of Capital Assets for the year ended June 30, 2009. The auditors expressed an unqualified opinion on the Schedule of Capital Assets. A two year compliance attestation examination of the Department will be performed for the period ending June 30, 2010.

The auditors identified one finding where weaknesses were identified in the Department's internal control structure related to the recording and reporting of State property.

{Capital Asset Activity is summarized on the reverse page.}

DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT – SCHEDULE OF CAPITAL ASSETS
June 30, 2009

SCHEDULE OF CAPITAL ASSETS (Expressed in thousands)	June 30, 2009	June 30, 2008
Capital Assets not being depreciated:		
Land and land improvements	\$366,046	\$360,962
Total Capital Assets not being depreciated:.....	<u>366,046</u>	<u>360,962</u>
Capital Assets being depreciated:		
Site improvements	415,188	411,050
Building and building improvements	258,215	262,529
Infrastructure.....	49,169	46,726
Equipment	64,868	74,442
Capital leases – equipment	<u>0</u>	<u>26</u>
Total Capital Assets being depreciated:	<u>787,440</u>	<u>794,773</u>
Less Accumulated Depreciation for:		
Site improvements	204,356	192,600
Buildings and building improvements	114,992	109,802
Infrastructure.....	25,873	24,959
Equipment	54,476	63,481
Capital leases – equipment	<u>0</u>	<u>15</u>
Total Accumulated Depreciation.....	<u>399,697</u>	<u>390,857</u>
Total Capital Assets, being depreciated, net	<u>387,743</u>	<u>403,916</u>
Total Capital Assets, net	<u>\$753,789</u>	<u>\$764,878</u>

AGENCY DIRECTOR(S)

During Audit Period: Marc Miller (effective February 6, 2009); Kurt Granberg (Effective January 21, 2009 through February 5, 2009); Sam Flood (January 1, 2006 through January 20, 2009)

Currently: Marc Miller

**FINDING, CONCLUSION AND
RECOMMENDATION**

**INTERNAL CONTROL WEAKNESSES 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 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 amount 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. The correction of this error resulted in understating depreciation expense in fiscal year 2009. The amount of the error did not necessitate the auditors to propose a correcting adjustment.
- 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.

**Current year depreciation
expense understated
\$1,393,000**

**Current year depreciation
expense understated
\$223,602**

**Documentation could not
be provided to support
conveyance**

An important element of internal control is the accurate review, reconciliation and reporting of accounting data.

Department noted exceptions occurred due to management oversight

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. (Finding 09-1, pages 13-15)

We recommended 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 are being performed to identify errors. Further, the Department should improve its efforts to ensure supporting documents on all disposals of capital assets are maintained.

Department partially agrees

Department officials partially agreed with the finding and recommendation. The Department indicated their internal control system detected the errors, and did agree that the errors occurred. The Department indicated the \$223,602 infrastructure depreciation overstatement was done as directed by the external audit firm, Office of the Auditor General and the Illinois Office of the Comptroller.

Auditor's comment

In an auditor's comment, we noted 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.

AUDITORS' OPINION

Our special assistant auditors stated that the Department's Schedule of Capital Assets as of June 30, 2009 is presented fairly in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:RPU:pp

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this engagement were Washington, Pittman & McKeever, LLC.