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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 Follow-up Report on our 2004 Financial, Management, and Program Audits of the Rend Lake Conservancy District.

The audit was conducted pursuant to Legislative Audit Commission Resolution Number 133, which was adopted May 23, 2005. 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.

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
April 2007

REPORT DIGEST

FOLLOW-UP REPORT OF THE 2004 FINANCIAL, MANAGEMENT, AND PROGRAM AUDITS OF

REND LAKE CONSERVANCY DISTRICT

Released: April 2007



State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

The Rend Lake Conservancy District has made significant progress in implementing the recommendations contained in the Office of the Auditor General's September 2004 financial, management, and program audits. All of the 31 findings and recommendations have either been fully or at least partially implemented by the District. In addition, the District has significantly improved the operations of its business activities as of April 30, 2006.

Follow-up to the **management and program audit** showed that the District had fully implemented 12 recommendations and partially implemented 4 recommendations. Steps taken by the District include:

- Hiring an in-house Engineer and Legal Counsel;
- Approving policies and procedures for the District;
- Requiring Board members and employees to file conflict of interest forms annually with the District;
- Establishing a line-item budget;
- Implementing a new residential water billing system;
- Leasing farmland on a cash rent basis;
- Leasing the restaurant; and
- Establishing marketing goals.

Although the District has made significant progress in implementing the recommendations, there remain areas where more steps need to be taken, including installing dedicated water meters, obtaining signed sewer agreements, completing a comprehensive list of property, and developing a disaster recovery plan for information systems.

Follow-up to the **financial audit** showed that the District had fully implemented 9 findings and partially implemented 6 findings. The progress made by the District includes:

- All purchases tested were competitively procured;
- Timesheets were being reviewed and approved;
- Income producing contracts were being monitored;
- Employees were being enrolled in the pension plan;
- All adjusting entries had been recorded by the District;
- Significant purchases were recorded in accounts payable or accrued expenses at year end; and
- The District's grant accounting was in accordance with generally accepted accounting principles.

Although the District continues to make progress in implementing these recommendations, areas still exist in which improvements are needed. Examples of these include segregation of duties, controls over the property control system, and revenues and accounts receivable management.

REPORT CONCLUSIONS

The Rend Lake Conservancy District (District) has made significant progress in implementing the recommendations contained in the OAG's September 2004 financial, management, and program audits. All of the 31 findings and recommendations have either been fully or at least partially implemented by the District. In addition, the District has significantly improved the operations of its business activities as of April 30, 2006.

MANAGEMENT AND PROGRAM AUDIT FOLLOW-UP

The District has made significant progress in implementing the recommendations from our 2004 management and program audit. Our follow-up to the 2004 management and program audit showed that the District had either fully or partially implemented all 16 of the recommendations (12 were fully implemented; 4 were partially implemented). Some of the steps taken by the District include:

- Hiring an in-house Engineer and Legal Counsel;
- Approving policies and procedures for the District;
- Requiring Board members and employees to file conflict of interest forms annually with the District;
- Establishing a line-item budget;
- Implementing a new residential water billing system;
- Developing and approving a capital plan;
- Building up reserves in the Inter-City Water Fund of over \$8 million (as of April 30, 2006) which is invested in certificates of deposit;
- Establishing personnel policies and keeping appropriate information in personnel files;
- Implementing a new payroll system that tracks vacation and sick time;
- Establishing policies for entering into contracts that comply with the River Conservancy Districts Act;
- Changing farm leases to a cash rent basis during fiscal year 2006;
- Taking steps to reduce losses at the shooting complex and golf course, including raising rates and evaluating the number of staff needed in these areas;
- Leasing the restaurant; and
- Establishing marketing goals.

Although the District has made significant progress in implementing the recommendations, there remain areas where more steps need to be taken, including water, sewer, property, and information systems. Examples of these include:

- Installing dedicated meters for all residential water customers;
- Obtaining signed agreements from all sewer customers;
- Completing a comprehensive list of property; and
- Developing a written disaster recovery plan for the District's information systems.

FINANCIAL AUDIT FOLLOW-UP

The District has made progress in implementing the recommendations from our 2004 financial audit. Our follow-up to the 2004 financial audit showed that the District had either fully or partially implemented all 15 of the recommendations (9 were fully implemented; 6 were partially implemented). The progress made by the District includes:

- The District has approved comprehensive policies and procedures;
- All purchases tested were competitively procured;
- Timesheets were being reviewed and approved;
- Income producing (farm, oil, and gas) contracts were being monitored;
- Employees were being enrolled in the pension plan as appropriate;
- All adjusting entries had been recorded by the District;
- Significant purchases were recorded in accounts payable or accrued expenses at year end; and
- The District's grant accounting was in accordance with generally accepted accounting principles.

Although the District continues to make progress in implementing the recommendations from the 2004 financial audit, areas still exist in which improvements are needed. Examples of these include:

- The District has made much progress related to segregation of duties; however, there are still some areas which need improvement;
- The District has developed a property control system; however controls are not yet fully implemented; and
- The District has made improvements in revenues and accounts receivable management; however, 5 of 60 residential water customers sampled were being charged incorrectly related to in-district and out-of-district rates.

BACKGROUND

The Rend Lake Conservancy District (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 (to the south) and Mt. Vernon (to the north) on interstate highway I-57. The District provides water, sewage collection, and recreation facilities such as golfing, trap shooting, lodging, and dining.

The Illinois Auditor General's Office conducted financial, management, and program audits of the Rend Lake Conservancy District pursuant to Public Act 93-0275. These audits, released in September 2004, contained a total of 31 recommendations to the District, 15 from the financial audit and 16 from the management and program audit. In May 2005, the Legislative Audit Commission adopted Resolution Number 133 directing the Auditor General to follow up on these audits. The Resolution stipulated that the follow-up should commence on or after May 1, 2006.

Current Management

The District has undergone significant changes in the composition of the Board and management team since September 2004. In June 2005, Public Act 94-0064 amended the River Conservancy Districts Act and effectively ended the terms of all District Board members. It also added provisions for removal of Board members by the appointing party for incompetence, neglect of duty, or malfeasance.

Of the seven members who were serving on the District's Board at the end of our previous audit, only two remain. The District has replaced the General Manager and Comptroller. The District has also hired a full-time in-house Legal Counsel and Engineer. These functions were previously performed by independent contractual consultants.

Business Activities

The District has made significant changes that have led to a turn around in its business activities. Net revenues from business activities have increased nearly 80 percent overall since FY 2004 (see Digest Exhibit 1). In fiscal year 2004, the District lost \$893,620 from operating its recreational activities. For fiscal year 2006, the District had positive revenues for recreational activities. The District was able to achieve this primarily by reducing expenses.

The District has made significant changes that have led to a turn around in its business activities.

Digest Exhibit 1 COMPARISON OF NET REVENUES BY BUSINESS ACTIVITY Fiscal Years 2004 and 2006				
Business Activity	Net Revenue		Difference	
	FY 2004 ¹	FY 2006	\$	%
Water	\$2,572,736	\$2,808,729	\$235,993	9.2%
Recreation	\$(893,620)	\$16,911	\$910,531	101.9%
Sewage	\$(146,060)	\$(74,899)	\$71,161	48.7%
Total	\$1,533,056	\$2,750,741	\$1,217,685	79.4%

Note: ¹ In FY 2004 indirect expenses of \$211,597 and \$265,760 were allocated to water and recreational activities respectively. Since the allocation of these costs was discontinued at the end of FY 2005, these expenses are not included for FY 2006.
Source: OAG analysis of FY 2004 and FY 2006 Financial Audits of the Rend Lake Conservancy District.

The District also increased net revenue for water operations. This was achieved again primarily by cutting expenses. In fiscal year 2004, water expenses were \$5,228,577, but in fiscal year 2006, these expenses were \$4,826,201. For sewage, although the District continued to lose money in fiscal year 2006, the loss was reduced by raising sewer rates. (pages 3-5)

MANAGEMENT AND PROGRAM AUDIT

The District has made significant progress in implementing the recommendations from the 2004 management and program audit.

The District has made significant progress in implementing the recommendations from the management and program audit of the District. Of the 16 recommendations in our 2004 management and program audit, 12 were fully implemented and the other 4 had been partially implemented. Although the District has made significant progress in implementing the recommendations, there remain areas where more steps need to be taken, including:

- Installing dedicated water meters;
- Obtaining signed sewer agreements;
- Completing a comprehensive list of property; and
- Developing a disaster recovery plan for the District's information systems.

Digest Exhibit 2 is a summary of the individual findings and recommendations and the status of each at the time the follow-up was conducted. (pages 9-30)

Digest Exhibit 2 STATUS OF MANAGEMENT AND PROGRAM AUDIT FINDINGS & RECOMMENDATIONS From the September 2004 Audit of the Rend Lake Conservancy District			
Finding and Recommendation Description	Implemented	Partially Implemented	Not Implemented
Legal and Engineering Departments	√		
Board of Trustees	√		
Planning	√		
Financial Management	√		
Expenditures	√		
Water Billing		√	
Capital Plan	√		
Reserve Fund	√		
Sewage		√	
Personnel	√		
Contracts	√		
Lease Revenues	√		
Property, Equipment, and Vehicles		√	
Information Systems		√	
Golf, Shooting, and Hunting	√		
Lodge and Restaurant	√		
Total	12	4	0
Source: OAG summary of follow-up for the management and program audit released September 2004.			

FINANCIAL AUDIT

The District has made significant progress in implementing the findings from the financial audit. Our financial audit for the period ended April 30, 2004, contained 15 findings to the District. In June 2006, our special assistant auditors followed up on these findings. Of the 15 findings in our 2004 audit, 9 were fully implemented and the other 6 had been partially implemented. Although the District continues to make progress in implementing these recommendations, areas still exist in which improvements are needed. Examples of these include:

- Segregation of duties;
- Controls over the property; and
- Revenues and accounts receivable management.

Digest Exhibit 3 is a summary of the individual findings and recommendations and the status of each at the time the follow-up was completed in June 2006. (pages 31-46)

The District has made significant progress in implementing the findings from the 2004 financial audit.

Digest Exhibit 3
STATUS OF FINANCIAL AUDIT FINDINGS & RECOMMENDATIONS
From the September 2004 Audit of the Rend Lake Conservancy District

Finding and Recommendation Description	Implemented	Partially Implemented	Not Implemented
Inadequate Segregation of Duties		√	
Policy and Procedure Manual	√		
Noncompliance with Competitive Bidding Requirements	√		
Payroll Timesheet Approvals	√		
Lack of Monitoring of Income Producing Contracts	√		
Pension Plan Enrollment	√		
Property Control		√	
Failure to Record Prior Year Journal Entries	√		
Accounts Payable	√		
Cash Disbursements		√	
Purchase Orders and Receiving Reports		√	
Revenues and Accounts Receivable Management		√	
Grant Accounting	√		
Completed Construction in Progress Assets Not Placed into Service	√		
Accumulated Depreciation Reconciliations		√	
Total	9	6	0

Source: OAG summary of follow-up for the financial audit released September 2004.

RECOMMENDATIONS

This audit contains follow-up to the 31 findings and recommendations contained in the financial, management, and program audits of the District that were released in September 2004. Of the 31 findings and recommendations, 21 have been fully implemented and 10 have been partially implemented. The District's responses to the follow-up can be found in Appendix C.

WILLIAM G. HOLLAND
Auditor General

WGH:MP
April 2007

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Chapter One

INTRODUCTION AND BACKGROUND

REPORT CONCLUSIONS

The Rend Lake Conservancy District (District) has made significant progress in implementing the recommendations contained in our September 2004 financial, management, and program audits. All of the 31 findings and recommendations have either been fully or at least partially implemented by the District. In addition, the District has significantly improved the operations of its business activities as of April 30, 2006.

MANAGEMENT AND PROGRAM AUDIT FOLLOW-UP

The District has made significant progress in implementing the recommendations from our 2004 management and program audit. Our follow-up of the 2004 management and program audit showed that the District had either fully or partially implemented all 16 of the recommendations (12 were fully implemented; 4 were partially implemented). Some of the steps taken by the District include:

- Hiring an in-house Engineer and Legal Counsel;
- Approving policies and procedures for the District;
- Requiring Board members and employees to file conflict of interest forms annually with the District;
- Establishing a line-item budget;
- Implementing a new residential water billing system;
- Developing and approving a capital plan;
- Building up reserves in the Inter-City Water Fund of over \$8 million (as of April 30, 2006) which is invested in certificates of deposit;
- Establishing personnel policies and keeping appropriate information in personnel files;
- Implementing a new payroll system that tracks vacation and sick time;
- Establishing policies for entering into contracts that comply with the River Conservancy Districts Act;
- Changing farm leases to a cash rent basis during fiscal year 2006;
- Taking steps to reduce losses at the shooting complex and golf course including raising rates and evaluating the number of staff needed in these areas;
- Leasing the restaurant; and
- Establishing marketing goals.

Although the District has made significant progress in implementing the recommendations, there remain areas where more steps need to be taken including water, sewer, property, and information systems. Examples of these include:

- Installing dedicated meters for all residential water customers;
- Obtaining signed agreements from all sewer customers;
- Completing a comprehensive list of property; and
- Developing a written disaster recovery plan for the District's information systems.

FINANCIAL AUDIT FOLLOW-UP

The District has made progress in implementing the recommendations from our 2004 financial audit. Our follow-up of the 2004 financial audit showed that the District had either fully or partially implemented all 15 of the recommendations (9 were fully implemented; 6 were partially implemented). The progress made by the District includes:

- The District has approved comprehensive policies and procedures.
- All purchases tested were competitively procured.
- Timesheets were being reviewed and approved.
- Income producing (farm, oil, and gas) contracts were being monitored.
- Employees were being enrolled in the pension plan as appropriate.
- All adjusting entries had been recorded by the District.
- Significant purchases were recorded in accounts payable or accrued expenses at year end.
- The District's grant accounting was in accordance with generally accepted accounting principles.

Although the District continues to make progress in implementing the recommendations from the 2004 financial audit, areas still exist in which improvements are needed. Examples of these include:

- The District has made much progress related to segregation of duties; however, there are still some areas which need improvement.
- The District has developed a property control system; however controls are not yet fully implemented.
- The District has made improvements in revenues and accounts receivable management; however, 5 of 60 residential water customers sampled were being charged incorrectly related to in-district and out-of-district rates.

BACKGROUND

The Rend Lake Conservancy District (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 (to the south) and Mt. Vernon (to the north) on interstate highway I-57. The District provides water, sewage collection, and recreation facilities such as golfing, trap shooting, lodging, and dining. The District's annual revenues exceeded \$12 million in fiscal year 2004.

The Illinois Auditor General's Office conducted financial, management, and program audits of the Rend Lake Conservancy District pursuant to Public Act 93-0275. These audits contained a total of 31 recommendations to the District, 15 from the financial audit and 16 from the management and program audit. Although the management and program audit had 16 recommendations, many of these were multifaceted. In total, the management and program audit recommended more than 70 specific actions to the District. The Legislative Audit Commission heard the audits at its May 10, 2005 hearing.

REND LAKE FOLLOW-UP AUDIT RESOLUTION

On May 23, 2005, the Legislative Audit Commission adopted LAC Resolution No. 133 directing the Auditor General to follow-up on the 2004 financial, management, and program audits of the Rend Lake Conservancy District. The resolution asks the Auditor General to determine (see Appendix A):

- The status of the District's implementation of the recommendations contained in the September 2004 financial audit and management and program audit; and
- What obstacles the District has faced in implementing those reports' recommendations.

Although LAC Resolution No. 133 was adopted in May 2005, the resolution stipulated that the Auditor General commence the follow up audit on or after May 1, 2006. Follow up for the financial audit was completed in June 2006.

MANAGEMENT AND PROGRAM AUDIT

The District has made significant progress in implementing the recommendations from the management and program audit of the District. Of the 16 recommendations in our 2004 management and program audit, 12 were fully implemented and the other 4 had been partially implemented. Exhibit 1-1 is a summary of the individual findings and recommendations and the status of each at the time the follow-up was conducted. Chapter Two contains a detailed overview of each finding and recommendation and the progress made toward implementation.

Exhibit 1-1 STATUS OF MANAGEMENT AND PROGRAM AUDIT FINDINGS & RECOMMENDATIONS From the September 2004 Audit of the Rend Lake Conservancy District			
Finding and Recommendation Description	Implemented	Partially Implemented	Not Implemented
Legal and Engineering Departments	√		
Board of Trustees	√		
Planning	√		
Financial Management	√		
Expenditures	√		
Water Billing		√	
Capital Plan	√		
Reserve Fund	√		
Sewage		√	
Personnel	√		
Contracts	√		
Lease Revenues	√		
Property, Equipment, and Vehicles		√	
Information Systems		√	
Golf, Shooting, and Hunting	√		
Lodge and Restaurant	√		
Total	12	4	0
Source: OAG summary of follow-up for the management and program audit released September 2004.			

Current Management

The District has undergone significant changes in the composition of the Board and management team since the program and management audit was released in September 2004. In June 2005, Public Act 94-0064 amended the River Conservancy Districts Act and effectively ended the terms of all District Board members. It also added provisions for removal of Board members by the appointing party for incompetence, neglect of duty, or malfeasance.

Of the seven members who were serving on the District's Board at the end of our previous audit, only two remain. The District has replaced the General Manager and Comptroller. The District has also hired a full-time in-house Legal Counsel and Engineer. These functions were previously performed by independent contractual consultants.

Business Activities

The District has made significant changes that have led to a turn around in its business activities. Net revenues from business activities have increased nearly 80 percent overall since fiscal year 2004 (see Exhibit 1-2). The most dramatic turn around occurred in recreational activities.

Recreation includes the operations of the golf course, lodge/condo complex, the shooting complex, and undeveloped and leased property (rent from leasing the restaurant, farm land, oil royalties, and a land lease). In fiscal year 2004, the District lost \$893,620 from operating its

Exhibit 1-2 COMPARISON OF NET REVENUES BY BUSINESS ACTIVITY Fiscal Years 2004 and 2006				
Business Activity	Net Revenue		Difference	
	FY 2004	FY 2006	\$	%
Water	¹ \$2,572,736	\$2,808,729	\$235,993	9.2%
Recreation	¹ \$(893,620)	\$16,911	\$910,531	101.9%
Sewage	\$(146,060)	\$(74,899)	\$71,161	48.7%
Total	\$1,533,056	\$2,750,741	\$1,217,685	79.4%
Note: ¹ In FY 2004 indirect expenses of \$211,597 and \$265,760 were allocated to water and recreational activities respectively. Since the allocation of these costs was discontinued at the end of FY 2005, these expenses are not included for FY 2006. Source: OAG analysis of FY 2004 and FY 2006 Financial Audits of the Rend Lake Conservancy District.				

recreational activities. For fiscal year 2006, the District had positive revenues for recreational activities. The District was able to achieve this primarily by reducing expenses. Recreational expenses for fiscal year 2004 were \$3,891,833 compared to \$2,475,375 for fiscal year 2006. Fiscal year 2004 includes indirect expenses allocated to water and recreational activities. For fiscal year 2004, these amounts were \$211,597 for water and \$265,760 for recreation. The allocation of these costs was discontinued at the end of fiscal year 2005. Therefore, these expenses are not included for fiscal year 2006.

The District also increased net revenue for water operations. This was achieved again primarily by cutting expenses. In fiscal year 2004, water expenses were \$5,228,577, but in fiscal year 2006, these expenses were \$4,826,201. For sewage, although the District continued to lose money in fiscal year 2006, the loss was reduced by raising sewer rates. Examples of specific steps the District has taken include:

- **Leasing the Restaurant** - In fiscal year 2004, the restaurant lost more than \$250,000 before depreciation. The Restaurant was leased in January 2006 creating rent income instead of an operating loss.
- **Competitively Bidding Farm Land and Changing to a Cash Rent Basis** - In fiscal year 2004, the District’s farm land was leased on a sharecropping basis. These contracts were competitively bid in December 2005 on a cash rent basis. The total value of the new leases is more than \$100,000.
- **Increasing Sewage Rates** - The District increased sewage rates in June 2005. Even though this activity did not show positive revenue, the loss was reduced by almost half.

The District increased sewage rates again in May 2006 in order to offset the continuing loss.

Another sign that the District's financial condition has improved is the amount of earnings from investments. In fiscal year 2004, the District had income from earnings on investments of \$77,656, however, for fiscal year 2006 this increased to \$385,187. As of April 30, 2006, the District had more than \$8 million in certificates of deposit.

FINANCIAL AUDIT

The District has made significant progress in implementing the findings from the financial audit. Our financial audit of the Rend Lake Conservancy District (District) for the period ended April 30, 2004 contained 15 findings to the District. In June 2006, our special assistant auditors followed up on these findings. Of the 15 findings in our 2004 audit, 9 were fully implemented and the other 6 had been partially implemented. Exhibit 1-3 is a summary of the individual findings and recommendations and the status of each at the time the follow-up was completed in June 2006. Chapter Three contains a detailed overview of each finding and recommendation and the progress made toward implementation.

Exhibit 1-3 STATUS OF FINANCIAL AUDIT FINDINGS & RECOMMENDATIONS From the September 2004 Audit of the Rend Lake Conservancy District			
Finding and Recommendation Description	Implemented	Partially Implemented	Not Implemented
Inadequate Segregation of Duties		√	
Policy and Procedure Manual	√		
Noncompliance with Competitive Bidding Requirements	√		
Payroll Timesheet Approvals	√		
Lack of Monitoring of Income Producing Contracts	√		
Pension Plan Enrollment	√		
Property Control		√	
Failure to Record Prior Year Journal Entries	√		
Accounts Payable	√		
Cash Disbursements		√	
Purchase Orders and Receiving Reports		√	
Revenues and Accounts Receivable Management		√	
Grant Accounting	√		
Completed Construction in Progress Assets Not Placed into Service	√		
Accumulated Depreciation Reconciliations		√	
Total	9	6	0

Source: OAG summary of follow-up for the financial audit released September 2004.

AUDIT SCOPE AND METHODOLOGY

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. The audit’s objectives are contained in Legislative Audit Commission Resolution Number 133 (see Appendix A), which asks the Auditor General to follow up on the 2004 financial, management, and program audits of the Rend Lake Conservancy District.

Because this was a follow-up of audits previously conducted, the scope of the review was determining the status of the recommendations in the previous audits. In accordance with LAC Resolution Number 133, we also assessed obstacles that the District has faced in implementing the recommendations that were contained in the previous audits.

During this audit, we met with representatives of the Rend Lake Conservancy District, reviewed applicable State laws governing the District, and compliance with those laws to the extent necessary to meet the audit’s objectives. We also reviewed the District’s policies and procedures related to the follow-up issues. We reviewed management controls and assessed risk relating to the audit’s objectives. As part of our testing, we reviewed contracts, expenditures, water billing, sewer billing, and personnel files (See Appendix B).

REPORT ORGANIZATION

The remainder of this report is organized into the following chapters:

- **Chapter Two** discusses the follow-up of the Management and Program Audit of the Rend Lake Conservancy District.
- **Chapter Three** discusses the follow-up of the Financial Audit of the Rend Lake Conservancy District.

Chapter Two

MANAGEMENT AND PROGRAM AUDIT FOLLOW-UP

CHAPTER CONCLUSIONS

The District has made significant progress in implementing the recommendations from our 2004 management and program audit. Our follow-up of the 2004 management and program audit showed that the District had either fully or partially implemented all 16 of the recommendations (12 were fully implemented; 4 were partially implemented). Some of the steps taken by the District include:

- Hiring an in-house Engineer and Legal Counsel;
- Approving policies and procedures for the District;
- Requiring Board members and employees to file conflict of interest forms annually with the District;
- Establishing a line-item budget;
- Implementing a new residential water billing system;
- Developing and approving a capital plan;
- Building up reserves in the Inter-City Water Fund of over \$8 million (as of April 30, 2006) which is invested in certificates of deposit;
- Establishing personnel policies and keeping appropriate information in personnel files;
- Implementing a new payroll system that tracks vacation and sick time;
- Establishing policies for entering into contracts that comply with the River Conservancy Districts Act;
- Changing farm leases to a cash rent basis during fiscal year 2006;
- Taking steps to reduce losses at the shooting complex and golf course including raising rates and evaluating the number of staff needed in these areas;
- Leasing the restaurant; and
- Establishing marketing goals.

Although the District has made significant progress in implementing the recommendations, there remain areas where more steps need to be taken, including water, sewer, property, and information systems. Examples of these include:

- Installing dedicated meters for all residential water customers;
- Obtaining signed agreements from all sewer customers;
- Completing a comprehensive list of property; and
- Developing a written disaster recovery plan for the District's information systems.

Recommendation:	Legal and Engineering Departments
Recommendation No.:	1

Synopsis of
Prior Finding:

The Board of Trustees established bylaws in May 1955 to govern the District's operations. The bylaws created by 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 previous audit. 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.

We concluded that 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 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.

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

Status:
Implemented

We obtained an organizational chart, which included an Engineering Department and a Legal/Treasury Department. We also obtained a listing of all District employees which included the Legal Counsel and the District Engineer as full-time salaried employees. These are full-time positions located at the District's office.

Recommendation:	Board of Trustees
Recommendation No.:	2

Synopsis of
Prior Finding:

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 establish a specific budget for each operational area of the District although State law required the water plant and the recreational activities to cover the cost of their operations.

To ensure compliance with the River Conservancy Districts Act, the District's process for reporting potential conflicts of interest needed to be strengthened, not only for Board members, but also for District employees and outside consultants.

We recommended that the Board of Trustees should take the following actions:

- Abide by policies in ordinances (e.g., treasurer, expense committee);
- Enter into contracts which specify billing rates, responsibilities, and services;
- Establish a line-item budget;
- Prohibit trustees and employees from having a financial interest in District business; and
- Establish a conflict of interest disclosure form for trustees, employees, and consultants.

Status:
Implemented

In December 2005, the Board of Trustees passed Ordinance No. 213 which repealed all committees established by ordinance, resolution, policy or bylaws. Among the committees abolished by Ordinance No. 213 was the Expense Committee. According to a Rend Lake official, the Comptroller now reviews and reconciles all expenses but does not have signature authority. Signature authority has been delegated to the General Manager, Legal Counsel, and Engineer.

The District is entering into contracts that specify billing rates, responsibilities, and services to be performed. Auditors sampled seven contracts that the District entered into during fiscal year 2006. All contracts sampled contained specific billing rates as well as detailed explanations of the services to be provided.

The District has established a line-item budget by Department for fiscal year 2006.

The District has also established policies regarding trustees' and employees' conflicts of interest. Chapter 6 (Board of Trustees) of the District's Policies states that "No Trustee shall be directly or indirectly financially interested in any contract, work or business involving the district." Chapter 3 (Employment Policies) of the District's Policies states that "A District officer or employee shall not work on or represent the District in any transaction where he or she has any material connection or substantial financial interest." The policy also

defines what is considered a material connection. The policy also requires permanent employees and directors to annually complete a disclosure form.

As part of the follow-up conducted for the financial audit, auditors reviewed conflict of interest statements for trustees and other key employees. According to the auditors, no conflicts of interest existed for any of the 16 tested. According to a District official, conflict of interest statements are also required now for winning bidders for professional services contracts. The District also provided us with examples of conflict of interest statements that were filed by contractors.

Recommendation:	Planning
Recommendation No.:	3

Synopsis of
Prior Finding:

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.

We determined that performance reporting information could help direct and monitor the District’s operations and could be used to compare planned levels of performance with actual outputs and outcomes, and also benchmark to other comparable entities. It could also be used to evaluate managers’ work performance and reward them.

Many organizations also have annual reports that provide basic information to stakeholders.

Overall, we concluded that the District lacked an adequate number of professional managers which have 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, and nearly 150 employees.

We recommended that the Board of Trustees should take the following actions:

- Establish a written mission statement;
- Establish goals and objectives;
- Establish a policy and procedures manual;
- Establish required performance reports on District operations;
- Issue an annual report; and

- Establish a written staffing plan that specifies the skills and training needed for personnel.

Status:
Implemented

We obtained a mission statement, goals and objectives, a policy and procedures manual and a written staffing plan from the District. The District presents monthly performance and financial reports to the Board. The District has been presenting these reports to the Board since May 2005. The District released its annual report for 2005/2006 on its website on October 31, 2006.

Recommendation:	Financial Management
Recommendation No.:	4

Synopsis of
Prior Finding:

In fiscal year 2004, the District's income was nearly \$2 million, mainly from the water system. Recreational areas lost money and have been supported by the sale of water in the past. Although the District as a whole had a positive income in fiscal year 2004, the recreational areas lost approximately \$900,000 after depreciation.

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.

We recommended that the Rend Lake Conservancy District should take the following actions:

- 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.

Status:
Implemented

We obtained policies and procedures manuals that included sections detailing the District's policies and procedures of its accounting function. We also obtained a line-item budget with revenues and expenditures for each division.

Since the release of the 2004 management and program audit, the District has increased rates and charges to cover the cost of operating

the recreational activities. For instance, rates for an 18-hole round of golf for May through September increased from \$39.00 to \$43.00 (10%) on weekdays and from \$43.00 to \$48.00 (12%) on the weekends. The shooting complex also increased rates. The rates for trap and skeet shooting (25 targets) increased from \$3.50 to \$4.50 (29%). These new rates were presented to the Board on June 27, 2005. However, as of October 2006, the shooting complex had been leased.

For fiscal year 2006 (ending April 30, 2006), recreation activities had net revenues of \$16,911. This is a significant improvement over the fiscal year 2004 losses of \$893,620.

Recommendation:	Expenditures
Recommendation No.:	5

Synopsis of
Prior Finding:

The District did not have written policies and procedures for the accounting and approval of expenditures. Without proper procedures and restrictions on allowable expenses, the District could not ensure that all purchases are properly authorized and benefit the District's programs.

In 50 of the 100 expenditures we sampled, there was a lack of supervisory review. Some of the expenditures in our sample did not appear to benefit the programs and functions of the District.

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. A \$6,950 legal bill from an outside firm did not contain a specific list of services provided.

We recommended that 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.

Status:
Implemented

We tested 27 expenditures from fiscal years 2005-2006. All 27 expenditures tested were supported by adequate documentation such as billing invoices, purchase orders, and a copy of the check.

We found that all expenditures were reviewed by an appropriate supervisor, charged to the correct account, and generally beneficial to the programs of the District.

According to Rend Lake officials, the allocation of costs noted in the 2004 management and program audit was discontinued at the end of the fiscal year 2005.

Recommendation:	Water Billing
Recommendation No.:	6

Synopsis of
Prior Finding:

The District’s billing systems for water and sewer customers had many problems noted in the previous audit. The billing system for residential customers was separate from the billing system for municipal and commercial customers. In addition, neither system used billing software to generate bills and track payments.

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

The previous audit also identified problems, including customers not having their own meters, commercial water contract provisions that were not being followed, and billing for incorrect water main sizes. In addition, the District had not mapped meter locations, developed policies for leak allowances or termination of service for delinquent water customers, and was not charging the minimum charge to some meters that were inactive.

We recommended that the Rend Lake Conservancy District should take the following actions:

- Establish one billing system for all water plant customers of the District;
- Implement electronic billing to track accounts and delinquencies;
- Require customers to pay monthly or assess a late fee or penalty;
- Provide customers with return payment stubs;
- Ensure each customer has their own meter;
- Review contracts to ensure they are current and follow all contract provisions;
- Review all water main sizes to ensure the proper amount is being charged;
- Map the residential customers so that meters can be easily located;
- Develop policies for leak allowances and termination of services in case of a delinquency; and

- Review inactive meters and charge the minimum rate or pull the meter.

Status:

Partially Implemented

Since the last audit, the District has implemented a new billing system for residential water customers which includes sending a payment stub each month to the customer. The billing software currently being used allows the District to track payments and identify delinquent customers. However, at the time of our testing, the wholesale water and sewer customers were not billed using this or any other software package. These customers' billings are calculated in a spreadsheet and are simply billed by invoice. The District purchased new billing software in October 2006. According to District officials, once implemented, it will include all water and sewer customers.

Although all residential water customers still do not have their own dedicated meter, some additional meters have been installed by the District and others are planned to be installed over the next several years. The District provided us with a list of more than 60 customers they have identified with multiple taps which need to be addressed.

According to District officials, meters have been reviewed to ensure that the correct size of meter is being used for billing purposes. During testing we found a customer with a meter size listed incorrectly. However, this did not affect their billing. According to District officials, they are converting to a radio read system and, during this conversion, they are going to check each meter in the field to the computer record.

In our testing of water billing for the audit period, we found that all bills were calculated correctly. Our review also showed that the District is assessing penalties to customers when appropriate.

Our testing of wholesale and commercial water customers showed that all bills were calculated correctly. According to a District official, commercial customers are up-to-date with the exception of one. That customer is currently on a payment plan where they pay each month's bill plus an additional \$500 a month and should be paid up in about two years.

According to a District official, wholesale water contracts are currently being reviewed and renegotiated by the District's Legal Counsel to ensure that water customers intend to use the District for a long period of time (40 years) in order for the District to justify the water plant upgrades.

The District provided us with documentation that meters have been located and mapped using a GPS. Each meter now has a location number that can be used to locate the meter using GPS.

The District has developed a written policy regarding leak allowances for residential customers and forms to be filed with the District for those requesting an allowance. The District has also developed a written policy for water billing, including a policy for termination.

There are physical and financial obstacles to installing dedicated meters for all residential customers. According to District officials, it costs between \$10,000 and \$20,000 to achieve the infrastructure to install each meter.

Rend Lake
Conservancy District's
Response:

Finding is accepted. The District's new billing software is now fully functional and being used for all customers. The District continues the multi year effort to install separate meters for all water users as resources allow. All expired water contracts have been renewed to verify customer commitment prior to the expansion of the water treatment plant capacity.

Recommendation:	Capital Plan
Recommendation No.:	7

Synopsis of
Prior Finding:

According to District personnel, the 30-year-old water plant needed 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, including some established by the outside engineer, but there was no comprehensive document that showed their funding mechanisms or approval by the trustees.

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 decided to seek bids for designing and building a new \$20 million water plant.

We recommended that the Rend Lake Conservancy District should:

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

Status:
Implemented

We obtained a copy of the Rend Lake Conservancy District’s current Five Year Capital Improvement Plan for the period of fiscal year 06/07 through fiscal year 10/11. This included fiscal year dates for the project, priority, dollar amounts, funding source, and descriptions of projects for the next five years. Board meeting minutes from May 19, 2006 showed that the five-year capital plan was approved by the Board.

Recommendation:	Reserve Fund
Recommendation No.:	8

Synopsis of Prior Finding:

The water system needed significant updating and maintenance as the water plant is more than 30 years old. In some cases, maintenance has been deferred to the point where there is the potential for significant problems.

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 improvements to the water system. Failure to segregate funds did not allow the District to accumulate reserves to make major capital improvements.

There were no operational reports on water and sewage billing to inform management of problems. The District did 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.

We recommended that 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.

Status:
Implemented

Although the District does not have a reserve fund as such, the District does set funds aside now in laddered CDs, and sources that are immediately liquid. According to the District’s fiscal year 2006 financial audit, the Intercity Water Fund has approximately \$8,149,727 (as of April 30, 2006) invested in certificates of deposit. The District also has an additional \$4,189,483 in cash and cash equivalents.

Performance reports are also now presented to the Board on a monthly basis to report the performance of the District’s operations, including those of the water plant.

Recommendation:	Sewage
Recommendation No.:	9

Synopsis of
Prior Finding:

We identified problems with the billing by the District for sewer services it provides. There were only seven customers, and none of them were 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 needed to be replaced because they were inaccurate and that it was the decision of the previous management to bill based on water usage rather than a meter dedicated to sewage.

Although Ordinance No. 112 set 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.

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.

We recommended that 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.

Status:
Partially Implemented

The District has attempted to amend the contracts of those sewer customers that were required to be billed by a master meter. The District has been unsuccessful, on two occasions, in getting the Illinois Department of Corrections to sign a new sewage agreement. In May 2005, the District made a formal request to Big Muddy Correctional Center to change the basis of sewer charges to 94 percent of water consumption each month instead of by meter. In June 2006, the District again contacted Corrections officials to obtain a signed copy of the request. The District also provided us with documentation which showed that the 94 percent rate was based on past usage when the amount of sewage was metered.

The District obtained a signed informal agreement to amend the sewer contract for the Wayne Fitzgerald State Park in June 2006 to change the basis to 85 percent of water consumption each month instead of by

meter. However, the District was unable to provide any documentation to support the 85 percent basis.

The sewer rates, per ordinance, specifically establish a different rate for the Village of Ewing. According to District officials this is because the Village provides its own infrastructure. The District increased rates in June 2005 and May 2006.

We tested all eight sewer customer billings for April 2006 and found that all customers were being billed in accordance with the District's ordinance in effect at the time. However, different customers are still billed at different percentages of consumption. Although the billing system for sewer customers has not been updated to use a billing software, the customer identified in our 2004 audit that was not being charged for sewage has been added and a settlement reached regarding payment for past sewer usage. The District also purchased new billing software in October 2006.

Rend Lake
Conservancy District's
Response:

Finding is accepted. The District believes that the Department of Corrections will review and approve the contract amendment as time allows and that they are currently directing their efforts to department priorities.

Recommendation:	Personnel
Recommendation No.:	10

Synopsis of
Prior Finding:

The District did not have job descriptions, a pay plan for non-union employees, a formal staffing plan, or written personnel policies and procedures. The District had been following personnel policies that were established in 1990 but rescinded in 2001.

- More than half of the 30 personnel files did not have complete job application forms.
- There was little documentation related to recruitment that could demonstrate that the best candidates were selected (e.g., job postings, required/desired skills, interview records, reference checks).
- The District had weak controls over employees' time keeping records, such as vacation time and compensatory time, and did not perform supervisory reviews of the employees' timesheets.
- The District lacked complete training records.
- Confidential information, such as personnel or medical information, was not kept locked during the day.

We recommended that 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;
- Improve controls over employees' time records;
- Retain complete records on employees' training; and
- Keep confidential records appropriately locked.

Status:

Implemented

The District has established written personnel policies for District employees. These policies include among others, requirements for job descriptions, supervision, personnel records, annual completion of conflict of interest statements, and annual performance evaluations for all permanent employees.

We tested District personnel files for 12 employees to determine if the District was keeping complete records on its employees. Job descriptions were available for all employees. Additionally, all employees hired after the previous audit was released, except one, had an application or resume in their personnel file. All files for permanent employees sampled contained an annual performance evaluation.

We also reviewed additional folders that contained hiring information for two of the employees sampled that did not contain a job application. Each file contained documents showing where and when the jobs were advertised, cover letters, resumes, correspondence, interview notes and a spreadsheet containing a calculation of the evaluation.

The financial audit follow-up conducted found that all 60 time sheets tested had appropriate documentation of the supervisor's review and approval. We reviewed how the District tracks sick, vacation, and compensatory time. According to District officials, in July 2005, the District implemented a new payroll system. The new system tracks sick, vacation, and personnel time and prints the amount of each on the employee's pay stub each pay period. According to officials, the District has discontinued the use of compensatory time as a practice.

Evidence of training was contained in 11 of the 12 personnel folders reviewed. The only employee that did not contain evidence of training was a seasonal employee.

District policies require that all personnel records be stored in locked file cabinets. We observed that the personnel files are now maintained in locked file cabinets.

Recommendation:	Contracts
Recommendation No.:	11

Synopsis of
Prior Finding:

The previous audit found significant weaknesses in the District’s administration of contracts.

- The 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.
- 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.
- The District lacked a list of all the contracts that it had entered into and was legally bound to honor. Contract files were not kept in a centralized location.

We recommended that 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.

Status:
Implemented

The District has established policies for entering into contracts that comply with the River Conservancy Districts Act. The policies and procedures state that whenever the total price of a construction or capital improvement contract exceeds the statutory limits of the Illinois Statute 70 ILCS 2105/16 (River Conservancy Districts Act), the contract shall be awarded through a competitive bidding or proposal process. The policies and procedures also include provisions for bid security and bonding.

For procuring professional services, the District follows Illinois Statute 50 ILCS 510 (Local Government Professional Services Selection Act) in conducting the selection process. However, the

policies and procedures do not include provisions for monitoring and evaluating contractor performance. According to a District official, monitoring of contractors is included in the bid specifications for each contract.

As part of the follow-up conducted for the financial audit, auditors reviewed purchases over \$2,500. According to the auditors, purchases over \$2,500 are being competitively bid as required by the River Conservancy Districts Act.

We sampled seven contract agreements as part of our testing of contracts. All seven agreements were found in the files and all of the contracts contained specific billing rates and the services to be performed. The District has also developed a Contractor and Professional Service Performance Evaluation form to assess contractor performance. According to District officials these forms are maintained and reviewed before awarding contracts to firms who have previously had contracts with the District.

Recommendation:	Lease Revenues
Recommendation No.:	12

Synopsis of
Prior Finding:

The District did not have a system to monitor the performance of contractors and lessees. No employee was assigned to monitor these contracts to ensure that the correct amount was being paid to the District.

- The District did not have complete records and did not adequately monitor oil well production and revenue generated from current oil leases. Lessees were not required to provide reports showing the amount of oil sold.
- 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.

We recommended that the 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.

Status:
Implemented

The procedures manual now requires that farm leases be changed to cash rent basis and segregation of duties procedures be implemented. It requires newly negotiated leases to include provisions for the District to better monitor lease payments. It also requires that oil leases be monitored in terms of production by dollars and barrels by the accounting department.

The policy manual also now states that the District’s Legal Counsel shall be responsible for monitoring all income producing contracts. Some of the oil leases date back as far as 1977. According to a District official, the District’s Legal Counsel has reviewed the oil leases. According to the District, the oil leases are perpetual as long as the wells are producing and therefore not subject to renewal or amendment of terms. Additionally, the District receives a report from a third party purchaser of the oil that shows total production and the royalty percentage earned by the District. This royalty percentage is based on an industry standard for mineral rights owners. The District now maintains a list of all oil wells that includes output in barrels, income, and check number for each particular well.

In total, the District currently leases an estimated 1,058.5 acres of farmland. The District has changed all farm leases to a cash rent basis. These contracts were competitively bid in December 2005. The total value of the new leases is more than \$100,000. Income from oil leases for fiscal year 2006 was \$27,639.

Effective January 1, 2006, the District leased the restaurant to a private individual. The restaurant lease agreement clearly lists the lease payments for rent, use of land, equipment, fixtures, and facilities. The contract also contains provisions that allow the District to monitor the lease, such as having the lessee provide the lessor copies of all sales tax within ten days of filing.

Recommendation:	Property, Equipment, and Vehicles
Recommendation No.:	13

Synopsis of
Prior Finding:

The District did not have written policies and procedures for the acquisition, usage, and disposal of property and equipment. There was also 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 have a central purchasing agent, which resulted in employees making some purchases with District credit cards, such as supplies from local retail stores.

The District also did not know the total number of vehicles it owned and lacked adequate records and policies and procedures to monitor and control the District's fleet.

We recommended that the 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 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.

Status:

Partially Implemented

The Rend Lake Policy Manual contains guidelines for the acquisition, usage, and disposal of property and equipment. The policy manual also includes procedures for tagging equipment. The Procedure Manual covers usage of some property and equipment, but not all. According to the financial audit follow-up, tagging equipment has been only partially implemented (10 of the 60 assets did not have tags). According to District officials, to solve the problem of lost or missing tags, a new procedure includes using a painted-on stencil for property and equipment, such as for lawn mowers for the golf course.

The policy manual also outlines requirements for inventory of District property, including an annual audit of the property control list. The District could not provide evidence that an annual audit of inventory had been completed.

A purchasing procedure has been implemented as outlined in the procedure manual, and a central purchasing agent position has been established. The primary job responsibilities are to maintain fixed assets and purchase order systems. During the audit, this employee was on medical leave.

No policy exists relating to vehicle usage. However, in May 2006, vehicle usage logs were initiated for the pro shop, the lodge, and the administrative office. Keys are kept under the responsibility of assigned department staff. Additionally, the only person with a take home vehicle is the Water Superintendent and the Assistant Water Superintendent, depending upon who is on call for the specific date.

The District could not provide a complete current list of property. According to District officials, currently the District uses the

depreciation schedule as their list of property. However, they are in the process of building a database of property to include all property regardless of whether it can be depreciated or not. The District employee previously mentioned as being on medical leave during the audit period is responsible for tracking property.

Rend Lake Conservancy District's Response:

Finding is accepted. The District continues to strengthen property tagging and inspection efforts.

Recommendation:	Information Systems
Recommendation No.:	14

Synopsis of Prior Finding:

We identified weaknesses in the information systems used by the District, including the lack of written policies and procedures and a lack of segregation of duties as the Comptroller also had authority and responsibility to print checks.

- **Physical Security.** Building security is the only security for the LAN servers.
- **Access Security.** No written policies regarding user access to the IS system.
- **Disaster Recovery.** No written disaster recovery for its critical accounting system in the administrative office.
- **Service Provider.** A service provider handles duties such as purchasing and installing software, installing hardware, and tracking software licenses. These services were procured without a competitive bid.

We recommended that the Rend Lake Conservancy District should take the following actions:

- Establish policies and procedures for IS that at a minimum include file backup, security, passwords, user access, and the 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 information systems service provider as required by ordinance;
- Update the computer system at the lodge; and
- Establish a disaster recovery plan for its critical computer applications.

Status:
Partially Implemented

The District has established policies and procedures for administrative information systems security. These policies discuss the types of

electronic information, access to information, and security. The policies also address some segregation of duties issues. The policies and procedures state that the department heads are responsible for requesting system access for their employees. The Comptroller assigns that access except for cash account transfers and access which is assigned by the Treasurer.

The administrative servers are located at the District administration building and access is limited to those who have passwords. The District's procedures require passwords be changed every 120 days, weekday backups, and monthly offsite storage.

The District has hired a computer consultant on an hourly rate basis. The consultant was originally selected through a request for proposal. However, according to District officials, it was in the best interest of the District not to enter into a custom agreement but rather have them work under an hourly rate on an as needed basis.

The District has not updated the computer system at the lodge or established a disaster recovery plan. Although a written disaster recovery plan has not been established for its critical applications, according to District officials, they have purchased new backup hardware and software and have run a successful test to insure data could be recovered from the current backup system.

Rend Lake
Conservancy District's
Response:

Finding is accepted. The lodge computer system will be replaced as funding and priorities allow. The District operates within a balanced budget and limits spending accordingly. Priorities at the District are based upon business needs and recreational customer satisfaction. Functions completed by the lodging software could be completed manually if needed. Computer information is routinely saved and stored at an offsite location. Additional procedures will be created to better define how to replace hardware and software components in the event of a fire or other loss of buildings.

Recommendation:	Golf, Shooting, and Hunting
Recommendation No.:	15

Synopsis of
Prior Finding:

In fiscal year 2004, golf operations lost \$62,600 before depreciation and the shooting complex lost \$165,000 before depreciation. We concluded that:

- The shooting complex lacked written goals, objectives, policies and procedures to guide its operations. Shooting did not have a plan to eliminate its losses and also lacked a marketing plan with specific goals or timetables.

- Golf did not have written policies and procedures regarding inventory, employee discounts, or training requirements.

We recommended that the Rend Lake Conservancy District should take the following actions:

- Establish a comprehensive plan of action to eliminate losses by golf and shooting;
- 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;
- Establish written operating procedures for golf, shooting, and hunting;
- Collect and review statistics to monitor and report the performance of golf, shooting, and hunting against established goals; and
- Segregate duties so that family members do not have direct reporting relationships, or provide additional controls.

Status:

Implemented

The District has taken steps to reduce losses at the shooting complex and golf course. This includes raising rates and evaluating the number of staff needed in these areas. The District has also considered leasing the shooting complex and, effective November 1, 2006, the shooting complex was leased. According to the District's budget comparisons, the golf course recorded a profit of \$156,388 before depreciation in fiscal year 2006 (ended April 30, 2006) and the shooting complex also recorded a profit of \$3,248 before depreciation for fiscal year 2006.

The District has established a business plan for fiscal year 2006/2007. This includes marketing plans for golf and shooting as well as a financial forecast. According to the forecast, golf revenues are expected to be strong and the shooting complex returned to profitability in fiscal year 2005/2006.

New rates for the shooting complex and the golf course were presented to the Board during the June 27, 2005 meeting. The golf rates were based upon a comparison of rates with area courses and several out-of-state courses of comparable size. The new shooting rates are middle-range when compared to similar facilities. As was discussed in our follow-up to Recommendation No. 4, these rates have increased substantially.

The District has adopted written operating procedures for golf and shooting. Performance reports are also now presented to the Board on a monthly basis to report the performance of the golf course and shooting complex.

Family members no longer have direct reporting relationships. The shooting complex was leased to a private club effective November 1, 2006.

Recommendation:	Lodge and Restaurant
Recommendation No.:	16

Synopsis of
Prior Finding:

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/types of advertisements), and timelines.

The 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.

We recommended that the District should take the following actions:

- Establish a comprehensive plan of action to reduce losses from the restaurant;
- Establish a plan to improve the profitability of the lodge;
- Develop written financial and marketing goals for the lodge and restaurant with specific timetables;
- Collect and review statistics to closely monitor and report the performance of the lodge and restaurant against goals;
- Review the method for issuing gift certificates to simplify the process; and
- Explore alternatives to managing these facilities, such as leasing them.

Status:
Implemented

In order to reduce losses, the restaurant was leased beginning January 1, 2006. The lease contains specific information pertaining to the leasing of the restaurant, lounge, banquet room, vending machines, and beverage carts. It also contains provisions for rent, which guarantees there will be no loss to the District.

The procedures manual approved since the last audit was conducted lists many actions designed to improve the records and procedures of daily activities in the lodge. According to District officials, in order to improve profitability of the lodge, the District uses the budget as an overall guiding plan that details how expenses are allocated and which revenues are used to cover expenses. Performance reports and financial reports of the lodge are presented to the Board. We reviewed an example of these reports for August 2005 that contained details of actual statistics to compare against the budget plan. Although no comprehensive written plan exists, Board meeting minutes and

packets contain discussions and information regarding reducing losses and increasing profits. The District also provided auditors with goals and objectives to eliminate losses in other recreation areas. Since the last audit, the District has successfully begun implementing the budget plan to reduce losses and continues to take actions. For example, the District passed rate increases in June 2005 and May 2006 to further minimize losses in the Sewage Treatment Fund.

Marketing goals have been established in the District's Annual Business Plan and Budget that include multiple types of advertising. Costs for these tasks are included in the District's budget.

According to District officials, gift certificates are now only issued by the lodge for use at the lodge, pro shop, and shooting range. Procedures establish that gift certificates are numbered in sequence and recorded in the ledger for later verification upon redemption. The procedures manual also lists guidelines for the purchase and redemption of gift certificates. According to District officials, gift certificates are now recorded as "advanced deposits" when purchased. When they are redeemed, the appropriate fund is credited.

Chapter Three

FINANCIAL AUDIT FOLLOW-UP

CHAPTER CONCLUSIONS

The District has made progress in implementing the recommendations from our 2004 financial audit. Our follow-up of the 2004 financial audit showed that the District had either fully or partially implemented all 15 of the recommendations (9 were fully implemented; 6 were partially implemented). The progress made by the District includes:

- The District has approved comprehensive policies and procedures. (04-02)
- All purchases tested were competitively procured. (04-03)
- Timesheets were being reviewed and approved. (04-04)
- Income producing (farm, oil, and gas) contracts were being monitored. (04-05)
- Employees were being enrolled in the pension plan as appropriate. (04-06)
- All adjusting entries had been recorded by the District. (04-08)
- Significant purchases were recorded in accounts payable or accrued expenses at year end. (04-09)
- The District's grant accounting was in accordance with generally accepted accounting principles. (04-13)

Although the District continues to make progress in implementing the recommendations from the 2004 financial audit, areas still exist in which improvements are needed. Examples of these include:

- The District has made much progress related to segregation of duties; however, there are still some areas which need improvement. (04-01)
- The District has developed a property control system; however controls are not yet fully implemented. (04-07)
- The District has made improvements in revenues and accounts receivable management; however, 5 of 60 residential water customers sampled were being charged incorrectly related to in-district and out-of-district rates. (04-12)

Finding:	Inadequate Segregation of Duties
Finding Code No.:	04-01

Synopsis of
Prior Finding:

During fiscal year 2004, several accounting areas of the District had inadequate segregation of duties without adequate compensating controls. We noted the following control weaknesses:

Revenue and Cash Receipts

For the residential water system the same employee prepared the bills and maintained the residential accounts receivable ledger. In addition, this employee also received the drop box payments made by customers directly and investigated customer complaints about their bills.

For the shooting complex, the same employee ran the cash register, prepared and made the deposit, and prepared the daily report to be posted to the general ledger.

For the hotel/condominium, the same employee reconciled the daily sales reports summary and prepared the deposit slip.

For the restaurant and pro shop, the same employee prepared the daily sheets that are posted to the general ledger and also prepared and made the daily deposit. In addition, this employee had full access to the restaurant and pro shop computer systems.

The employee who prepared commercial water bills, matched the cash receipts tape to the deposits, posted the revenue activity to the general ledger for the shooting complex, pro shop, restaurant and hotel/condominium also reconciled the bank accounts and investigated NSF deposits.

The employee who prepared the deposit for the commercial and residential water revenue accounts also posted these receipts to the general ledger and maintained the commercial water accounts receivable ledger.

Payables and Cash Disbursements

The same employee who entered the accounts payable transactions into the computer system also mailed the vendor checks.

The same employee who entered the accounts payable transactions into the computer system also reconciled the vendor statements to the bills.

Petty cash funds were not reconciled by personnel independent of the custodian.

Payroll Transactions

The same employee who entered timekeeping and payroll changes into the payroll system had access to the general ledger, reviewed and printed the payroll checks, and received returned payroll checks.

Inventory

Inventory counts were performed by personnel who were also the custodian of the inventory.

General Accounting

The person who maintained or had access to subsidiary ledgers such as commercial receivables, accounts payable and fixed assets also had access to the general ledger.

Compensating Control Weaknesses

Completed bank reconciliations were not reviewed by anyone in the organization.

Someone independent of the payroll preparation and timekeeping functions did not approve payroll before it was paid.

There was no independent review of all non-cash journal entries by management.

We recommended that the District review the assigned duties of its personnel to achieve an adequate segregation of duties. An adequate segregation of duties would include separating the duties of those who have access to physical assets from those whose duties include maintaining the books and records. In addition, those whose duties include reconciling subsidiary records to the general ledger should be segregated from access to the physical assets and from access to the books and records. Further, we recommended that compensating management oversight controls be developed when a proper segregation of duties cannot be achieved.

Status:

Partially Implemented

Revenue and Cash Receipts

The same employee still prepares the bills and maintains the residential accounts receivable ledger; however, a reconciliation between the

general ledger and subsidiary ledger is performed and reviewed. Deposits made on the bank records and deposits posted to the general ledger are also compared. This employee no longer collects drop box payments or investigates customer complaints. This is fully implemented.

At the shooting complex, the same employee still runs the cash register, prepares the daily reports, and prepares and makes the deposit. This is not implemented.

At the lodge/condominium, different employees prepare the deposit and reconcile the daily sales reports. The daily reports are also reviewed. This is fully implemented.

At the pro shop, the same employee no longer prepares the deposit and the daily sheets. This employee no longer has access to the pro shop computer system. The daily reports are reviewed. This is fully implemented.

One employee receives all payments and electronically deposits them into the bank account. Another employee prepares the commercial and residential water bills. This employee also posts the revenue activity to the general ledger for the shooting complex, pro shop, and lodge/condominium. A different employee reconciles the bank accounts. Both the employee who reconciles the bank accounts and the employee who prepares the water bills have access to the general ledger and investigate NSF deposits. This is partially implemented.

One employee receives all payments and electronically deposits them into the bank account. This employee does not have access to the general or subsidiary ledgers. Another employee posts the receipts to the general ledger; this employee has access to both the general ledger and accounts receivable ledger. The accounts receivable ledger is reconciled to the general ledger, and this reconciliation is reviewed. The deposits made on the bank records are compared to the deposits posted to the general ledger. This is fully implemented.

Payables and Cash Disbursements

The same employee who enters the accounts payable transactions into the computer system still mails the vendor checks; however, once this employee enters them, another employee reviews them and transfers them to another stage in the computer program. The first employee does not have access to this stage and cannot change the checks once they have been transferred. This is fully implemented.

Different employees now enter the accounts payable transactions into the computer system and reconcile the vendor statements to the bills. This is fully implemented.

Petty cash funds are reconciled by their custodian and another employee. This is fully implemented.

Payroll

The same employee who enters timekeeping and payroll changes into the payroll system also has access to the general ledger and prints the checks. Pay rate information is given to this employee in written form. The timekeeping information is reviewed before the checks are printed by another employee. Department managers also review pay rate changes. Another employee receives returned payroll checks. This is fully implemented.

Inventory

The custodians of the inventory still perform the inventory counts. At year end, the inventory count is coordinated with the external auditors. This is not implemented.

General Accounting

Two employees have access to at least one subsidiary ledger and the general ledger. The Board of Trustees and the General Manager conduct a monthly review of financial reports and budget to actual analysis. Based on this compensating management control, this is fully implemented.

Compensating Control Weaknesses

One employee reconciles the bank statements and another employee reviews them. This is fully implemented.

After one employee enters the hours from the department time sheets and calculates the payroll proof reports, another reviews these reports and reconciles total payroll to the department time sheets. The employee who entered the hours then prints the checks and gives them to a third employee for signatures. This is fully implemented.

The District has not fully implemented an independent review of all non-cash journal entries. This is not implemented.

Rend Lake Conservancy District's Response: As indicated by the audit findings, 10 of the 14 sub findings in this area have been resolved. Additional planned improvements to resolve 100% of the findings are discussed below.

A. Revenue and Cash Receipts:

Shooting Complex: Finding is accepted. Although the Shooting Complex only has one full-time employee who will need to continue to run the cash register, prepare daily reports and make deposits, compensating controls will be put in place to compare sales, deposits, and purchases to the number of shooting rounds.

Investigate NSF checks: This has been implemented. If Treasury receives a NSF check, Treasury requests that the check be "investigated" by Accounting. To assist auditors in identifying appropriate internal controls, Treasury will maintain documentation that they receive and retain control of NSF checks until resolved.

B. Inventory: Finding is accepted. Year end inventory counts will be performed by an employee from the administrative staff.

C. Compensating Control Weaknesses: Finding is accepted. The District will evaluate the use of independent personnel to review non-cash journal entries.

Finding:	Policy and Procedure Manual
Finding No.:	04-02

Synopsis of Prior Finding: During fiscal year 2004, the District was in the process of completing its policy and procedure manual, which was missing crucial information about personnel matters and the budget process. Also, the manual did not contain information about accounting policies, a fraud risk management program, or employee job descriptions. The manual also lacked reference to the conflict of interest policy as it applied to employees, and two potential conflicts of interest were in existence.

We recommended the following actions be taken by the Board:

- They complete the outstanding chapters of the policy and procedure manual.
- They develop fraud risk management policies and job descriptions to be included in the policies and procedures manual.
- They develop accounting policies and procedures to be included in the policies and procedures manual that address the following broad areas:
 - Payroll Processing

- Receipts, Revenue and Receivables
- Property and Equipment
- Purchasing and Contracting
- Expenditure Control
- Inventories
- Electronic Data Processing
- They 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.

Status:
Implemented

We viewed current policy and procedure manuals. The updated manuals included the missing information on personnel matters, the budget process, accounting policies, fraud risk management, and employee job descriptions. Also, the conflict of interest policy has been updated to apply to employees, and no conflicts of interest were noted.

Finding: **Noncompliance with Competitive Bidding Requirements**
Finding Code No.: **04-03**

Synopsis of
Prior Finding:

During fiscal year 2004, the District was not in compliance with the competitive bidding requirements of the River Conservancy Districts Act (70 ILCS 2105/16), which requires all purchases greater than \$2,500 to be competitively bid, except for professional service contracts.

We recommended that the District comply with the competitive bidding requirements of the Act.

Status:
Implemented

We tested a sample of 23 vendor purchases from January 2005 through April 2006 from a total of 60 vendor purchases that were required to be bid in accordance with the River Conservancy Districts Act. The total of all purchases tested equaled \$1,478,782. All purchases tested were competitively procured.

Finding: **Payroll Time Sheet Approvals**
Finding Code No.: **04-04**

Synopsis of
Prior Finding:

During fiscal year 2004, the District was not adequately documenting the review of time sheets used to prepare payroll. Of the 40 time sheets tested, 35 did not include written evidence of the supervisor's review and approval.

We recommended that supervisors approve all time sheets in writing before they are submitted for payment.

Status: All 60 time sheets we tested from January 2006 through April 2006 had appropriate documentation of supervisor's review and approval.
Implemented

Finding:	Lack of Monitoring of Income Producing Contracts
Finding Code No.:	04-05

Synopsis of Prior Finding: During fiscal year 2004, the District was not monitoring its income producing contracts related to both farm ground and oil and gas leases. The District could not produce the lease documents for 2 of 4 of its farm leases and did not have a record of its oil and gas leases. Also, the District did not receive any financial or production information from its lessees.

We recommended that the District contact the farm and oil and gas lessees and obtain any missing lease agreements. We also recommended that they obtain financial and production information from the lessees in order to monitor their performance under the lease agreements and to ensure that the District is receiving the income it is entitled to receive under the agreements.

Status: During our testing, we pulled all of the farm (9) and oil and gas leases (5) and checked to see if the District was keeping documentation on the amounts it was receiving in income. We also traced that the amounts received were in agreement with the lease documents on file. All leases were located. For the most recent cash rent farm leases, the District received \$52,099 during fiscal year 2006. This amount was \$31 (.06%) less than the amount that should have been received in accordance with the leases. The remaining payments from these farm leases (50% or about \$52,000) were not due until November 2006.
Implemented

Finding:	Pension Plan Enrollment
Finding Code No.:	04-06

Synopsis of Prior Finding: During fiscal year 2004, the District was not properly enrolling employees into the Illinois Municipal Retirement Fund (IMRF) in accordance with regulations established by IMRF. Twenty-three of 51 employees who qualified for IMRF had not been enrolled. Also, employees were not being enrolled in a timely manner. In addition, the District was to follow up on their employees identified during the April 30, 2004 audit who were incorrectly not allowed to participate in IMRF.

We recommended that the District establish policies and procedures to more accurately identify employees eligible for enrollment into the IMRF plan in accordance with 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.

Status:
Implemented

We read the District policies and procedures regarding the criteria for employees eligible for enrollment into IMRF. We tested all new full-time hires (12) from January 1, 2005 through April 30, 2006 to verify IMRF pension contributions had been deducted in the first pay period after the date of hire. The results of our procedures disclosed no exceptions. Also, we tested 60 employee files for individuals who were not participating in IMRF to determine that they should be excluded. We noted no instances where the excluded employees qualified for IMRF participation. Also, we reviewed the District's procedures and actions taken to follow up with employees who were incorrectly excluded from IMRF enrollment identified during the April 30, 2004 audit. The actions the District took appeared to be reasonable and appropriate.

Finding:	Property Control
Finding Code No.:	04-07

Synopsis of
Prior Finding:

During fiscal year 2004, the District was not tagging movable property and equipment that it owned. Also, the District did not have an accurate fixed asset listing, and three of the pieces of equipment listed on the detailed fix asset listing could not be located.

We recommended that the District develop a system to tag movable property and equipment.

Status:
Partially Implemented

The District has developed a system to tag movable property and equipment. After the District completed a physical inventory of its property and equipment, we performed an observation testing of 60 assets, 30 from the detailed fixed asset listing and 30 from various locations within the District. We found that 10 (17%) of the 60 assets tested did not have tags. These assets cost \$79,681. Also, one asset which cost \$5,000 was no longer at the District, but was still on the detailed fixed asset listing. One asset chosen from the grounds could not be found on the detailed fixed asset listing.

Rend Lake
Conservancy District's
Response:

Finding is accepted. Although the District has implemented a property control system, some tags placed on movable assets that work in harsh environments were no longer present. The District will improve the

system by placing severe duty identification tags on items exposed to harsh working environments. One fully depreciated dishwasher on the depreciation schedule had been junked several years before. The District will review all assets to insure that all of the items in the depreciation schedule are still in service and that all appropriate items in our possession are on the inventory list.

Finding:	Failure to Record Prior Year Journal Entries
Finding Code No.:	04-08

Synopsis of Prior Finding: During fiscal year 2004, the District did not record 3 of the 17 adjusting entries proposed by the auditors from the April 30, 2003 financial audit.

We recommended that the District post all adjusting journal entries made by its external auditors to its books and records. We also recommended the District reconcile its ending fund balance accounts to the audited financial statements.

Status:
Implemented During our testing, we compared the audited fiscal year 2005 financial statements to the ending financial records of the District. All adjusting entries had been recorded by the District.

Finding:	Accounts Payable
Finding Code No.:	04-09

Synopsis of Prior Finding: During fiscal year 2004, the District failed to record approximately \$64,000 worth of goods and services received prior to April 30, 2004 in its accounts payable accounts.

We recommended that the District review and revise its procedures to ensure that all significant purchases for goods and services prior to year end are recorded in accounts payable at year end.

Status:
Implemented For our testing, we selected all unpaid invoices and checks paid after year end greater than \$2,000. Out of the 44 invoices tested, all were included in accounts payable or accrued expenses at year end.

Finding:	Cash Disbursements
Finding Code No.:	04-10

Synopsis of Prior Finding: During fiscal year 2004, the District did not have proper internal controls established over cash disbursements. On 81 of 159 invoices, supervisors did not document their approval. Invoices were not

checked for clerical accuracy, paid within 60 days, posted to the correct general ledger account, or agreed to the check amount. In two instances, the invoice was paid twice. Also, we found that petty cash reimbursement checks were made out to "Cash."

We also noted that no District employee matched the invoice to a computer check run edit report to ensure that invoices were entered into the accounts payable system correctly. In addition, we noted the Finance Committee of the Board of Trustees did not receive the invoice or other supporting documentation for review before signing the checks.

We recommended that the District take the following steps to strengthen controls over cash disbursements:

- Department supervisors should document their review and approval of invoices for payment or prepare receiving reports to document their approval for goods and services received.
- Accounts payable personnel should document their review of invoices for clerical accuracy and bidding requirements.
- Invoices should be routed promptly to supervisors for approval (or matched to receiving reports - see Finding 04-11) and payables listing reviewed periodically to ensure approvals or disapprovals are made within 30 days and payment made within 30 days of approval in compliance with the Local Government Prompt Payment Act.
- A computer check run edit report should be compared back to the invoices and other supporting documentation after data entry into the accounts payable system to ensure the invoice date, payee, amount, account coding, due date and other pertinent information are entered correctly into the accounts payable system. This review should be done by someone other than the accounts payable clerk.
- The invoice and other supporting documentation should be presented to the Finance Committee Board members for review when signing the checks.
- Checks should be made payable to the custodian when petty cash reimbursements are requested.

Status:

Partially Implemented

During our testing, a sample of 60 expenditures (or 103 invoices) and all petty cash checks from January 2006 through April 2006 were pulled to test internal controls. From our testing, it appears the following controls are in place:

- Checks were compared to invoices before being signed, both by the Treasurer and by a member of the Finance Committee of the Board of Trustees;

- Invoices were checked for clerical accuracy and bidding requirements;
- Supervisors were documenting their approval of the invoice;
- Invoices were agreed to the check amount;
- Invoices were paid within 60 days;
- Petty cash reimbursement checks were not made out to "Cash"; and
- Invoices were compared to the accounts payable system before the checks were printed.

However, we also noted the following exceptions:

- One invoice for \$122 was paid twice, but was caught by the District;
- One invoice for \$145 was paid to the wrong vendor, but was caught by the District;
- One invoice for \$1,990 was posted to the wrong general ledger account number; and
- A vendor membership card was issued with only verbal approval and was used by the employee who applied for the card. The amount of this invoice was \$104.

Rend Lake
Conservancy District's
Response:

Subsequent to the follow-up procedures performed by the auditors, this has been fully implemented. Two mistakes were made by the District staff and were successfully found and corrected by District controls. The District has further improved the system by implementing new software controls that prevent activity on any processed items. Although one classification error out of a sample size of 60 should not constitute a rating of partially implemented, the District will strive for 100% accuracy. The membership card at Sam's Club was authorized and approved by the General Manager and used as authorized to purchase breakfast supplies for the lodge. Future account authorizations will be documented in writing to assist auditors verifying that proper approvals are obtained.

Finding:	Purchase Orders and Receiving Reports
Finding Code No.:	04-11

Synopsis of
Prior Finding:

During fiscal year 2004, the District did not use purchase orders for non-water department purchases and did not use receiving reports for any type of purchase.

We recommended that the District use purchase orders to document the authorization of all significant non-water department purchases and that the District use receiving reports to document the verification of receipt of goods and services. We also recommended that the person

completing the receiving report should be independent of the purchasing function.

Status:

Partially Implemented

During our testing, a sample of 60 expenditures (or 103 invoices) from January 2006 through April 2006 were pulled to test whether purchase orders and receiving reports were being used. All invoices tested included a purchase order, if applicable. We also noted the District utilizes the invoice or packing slip as a receiving report to be signed by a person independent of the purchasing process to acknowledge receipt of the items. We noted two invoices for \$449 during our testing where the District did not separate the responsibility of purchasing from approving the receipt of an item. We also noted five invoices that totaled \$292 that had no signatures acknowledging the receipt of the items.

Rend Lake

Conservancy District's

Response:

Subsequent to the follow-up procedures performed by the auditors, this has been fully implemented. A manager may need to receive incoming goods in some Recreation Departments since staffing levels are small and funds are not available for additional staff. Compensating controls are in place to compensate for this situation. These controls include reports to the General Manager and the Board that document inventory sales and the cost of goods sold. Additional controls will be put into place through the independent inventory counts discussed in item 04-01. All five invoices listed in the findings are for uniform laundry services that do not require receiving reports under District policies and procedures.

Finding:	Revenues and Accounts Receivable Management
Finding Code No.:	04-12

Synopsis of

Prior Finding:

During fiscal year 2004, the District was not properly managing its revenue and accounts receivable accounts. Remittance forms were not sent with water and sewer bills, credit memoranda were not approved by a responsible official before being issued, delinquent accounts were not being charged late fees, and accounts receivable balances were computed incorrectly. Delinquent accounts were only investigated when time permitted and periodic reports about uncollectible bills were not prepared for management.

We recommended that the District take the following actions:

- That recently purchased software be installed to maintain the accounts receivable records of residential water customers.
- That customer remittance forms be sent with all water and sewer bills.

- That a designated official review and approve all credit memoranda.
- That reports be prepared of uncollected and delinquent accounts to assist in collection efforts and to provide management with useful information for analysis.
- That District management begin assessing late fees to delinquent accounts as specified in District ordinances.

Status:

Partially Implemented

From our testing of a sample of 60 accounts receivable and 10 credit memoranda and other inquiries and observations of District personnel and records, it appears the following recommendations were implemented:

- The software program purchased during the prior audit to maintain the accounts receivable records of residential water customers was installed and is currently being utilized by the District;
- Remittance forms were sent with water and sewer bills;
- Credit memoranda were approved by a responsible official;
- Delinquent account reports were prepared for management; and
- Accounts receivable balances were computed correctly.

Although the District did not implement our recommendation to charge late fees, during the May 2006 Board of Trustees meeting, the Board approved Ordinance #217, which amends portions of Ordinances #40, #46, and #112. Ordinances #40, #46, and #112 required the District to charge late fees to water and sewer customers who paid their bill late. Ordinance #217 calls for the District to follow policies, procedures, rules, or regulations on file in the District office at the time of the billing. Currently, the District's policy is to send customers a delinquency notice after the bill is not paid in 20 days, then to send a termination notice after 15 days. Service is discontinued 15 days after the termination notice is sent. Based upon our testing the District appeared to be following this policy during January 2006 through April 2006; however, it was not charging late fees as required by ordinances in place at that time.

We also noted the following exceptions during our testing:

- The review of credit memorandum reports is not being documented;
- The review of delinquent account reports is not being documented;
- 3 (5%) of 60 residential water customers tested from January 2006 through April 2006 were charged an in-district rate and should have been charged an out-of-district rate. This resulted in an understatement of revenues of \$11 from January 2006 to April 2006; and
- 2 (3%) of 60 residential water customers tested were charged an out-of-district rate and should have been charged an in-district rate.

This resulted in an overstatement of revenue of \$14 from January 2006 to April 2006.

Rend Lake
Conservancy District's
Response:

Finding is accepted. The District acknowledges that ordinances should be updated prior to the policies or procedures that are associated with the ordinances. Ordinances, policies, procedures, and practices have now been brought into agreement. The General Manager will document the future review of the credit memorandum and delinquent account reports. All residential customer accounts have now been reviewed and corrected if needed. Credits will be applied where appropriate. The impact on financial statements was not material.

Finding:	Grant Accounting
Finding Code No.:	04-13

Synopsis of
Prior Finding:

During fiscal year 2004, the District had recorded grant expenses and their related revenues in the wrong accounting period.

We recommended that the District record grant revenues and expenses in accordance with generally accepted accounting principles.

Status:
Implemented

During our testing, we found one grant agreement in existence; however, no activity had occurred with the grant in fiscal year 2006, and no activity was recorded in the general ledger for fiscal year 2006.

Finding:	Completed Construction in Progress Assets not Placed into Service
Finding Code No.:	04-14

Synopsis of
Prior Finding:

During fiscal year 2004, the District did not place construction in progress assets into service and begin depreciating them at the time they were completed. Also, depreciation expense was overstated by approximately \$191,000 because assets were incorrectly depreciated from the time construction began.

We recommended that the District transfer construction in progress items to depreciable capital asset accounts and begin depreciation of those assets on the date construction is completed.

Status:
Implemented

We tested all construction in progress assets that were transferred as completed in fiscal year 2006 with a total cost of \$174,004 and determined that they had been moved from the construction in progress account to their corresponding fixed asset accounts and that depreciation was recorded from the date placed in service.

Finding:	Accumulated Depreciation Reconciliations
Finding Code No.:	04-15

Synopsis of
Prior Finding:

During fiscal year 2004, the District was not performing reconciliations of its detailed accumulated depreciation records to its general ledger accounts in an accurate manner.

We recommended that the accumulated depreciation reconciliations be performed in an accurate manner and this reconciliation be reviewed by a responsible District official.

Status:
Partially Implemented

We reviewed the reconciliations for the fixed asset and accumulated depreciation accounts for fiscal years 2005 and 2006. For both years, the detail fixed asset records agreed to their corresponding general ledger accounts. However, the District Comptroller prepares the reconciliations but the District did not have another responsible official review the reconciliations.

Rend Lake
Conservancy District's
Response:

Finding is accepted. At the end of each fiscal year, District management will review the reconciliation of Accumulated Depreciation.

Appendix A
LAC Resolution No. 133

Legislative Audit Commission

RESOLUTION NO. 133

Presented by Senator Lauzen

WHEREAS, in September 2004, the Auditor General released a financial audit and a management and program audit of the Rend Lake Conservancy District (the "District");

WHEREAS, those reports presented a combined total of thirty-one findings identifying significant deficiencies in virtually all aspects of the District's management, including: planning; water and sewage operations; personnel; contract management; property and equipment management; performance monitoring; and internal controls;

WHEREAS, since the audits were released, the District has introduced a new management team which is committed to implementing the Auditor General's recommendations;

WHEREAS, District management has stated that most of the reports' recommendations will be implemented by the end of calendar 2005;

WHEREAS, follow-up is necessary to determine whether and to what extent the Auditor General's recommendations have been implemented; therefore;

BE IT RESOLVED, BY THE LEGISLATIVE AUDIT COMMISSION that the Auditor General is directed to follow-up on its 2004 financial, management and program audit of the Rend Lake Conservancy District; and be it further

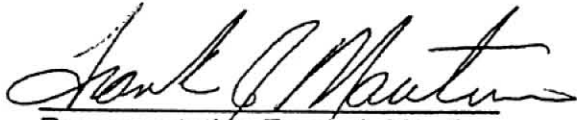
RESOLVED, that the audit include but not be limited to, the following determinations:

- The status of the District's implementation of the recommendations contained in the September 2004 financial audit and management and program audit; and
- What obstacles the District has faced in implementing those reports' recommendations; and be it further

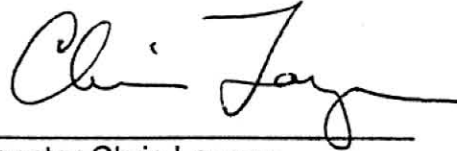
RESOLVED, that the Rend Lake Conservancy District and any other entity or person that may have information relevant cooperate fully and promptly with the Auditor General's Office in the conduct of the follow-up; and be it further

RESOLVED, that the Auditor General commence this follow-up on or after May 1, 2006, and distribute the report upon completion in accordance with Section 3-14 of the Illinois State Auditing Act.

Adopted this 23rd day of May, 2005.



Representative Frank J. Mautino
Co-chair



Senator Chris Lauzen
Co-Chair

Appendix B

Audit Sampling Methodology

Appendix B

AUDIT SAMPLING METHODOLOGY

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. The audit's objectives are contained in Legislative Audit Commission Resolution Number 133 (see Appendix A), which asks that the Auditor General to follow-up on the 2004 financial, management, and program audit of the Rend Lake Conservancy District. Because this was a follow-up to an audit previously conducted, the scope of the review was determining the status of the recommendations in the previous audits. In accordance with LAC Resolution Number 133, we also assessed obstacles that the District has faced in implementing the recommendations that were contained in the previous audit.

In conducting the follow-up of the management and program audit, we met with representatives of the Rend Lake Conservancy District, reviewed applicable State laws governing the District, and compliance with those laws to the extent necessary to meet the audit's objectives. We reviewed the District's policies and procedures related to the follow-up issues. We also reviewed management controls and assessed risk relating to the audit's objectives.

As part of the management and program audit follow-up, we conducted testing in the areas of contracts, expenditures, water, sewage, and personnel.

- **Contracts** - We reviewed seven contracts that the District entered into during fiscal year 2006. We assessed whether contracts contained specific billing rates as well as detailed services to be provided. We also evaluated if contractor performance was being assessed.
- **Expenditures** - We tested and reviewed 27 expenditures from FY05-06 to verify they were appropriate, documented, and properly authorized.
- **Water Billing** - We tested eleven commercial and wholesale customers and nine residential water customers and compared usage to the April 2006 billing to ensure that bills were calculated correctly and penalties were assessed to customers when appropriate.
- **Sewer Billing** - We tested all eight sewer customer billings for April 2006 to assess whether customers were billed in accordance with the District's ordinance in effect at the time.
- **Personnel** - We reviewed personnel files for 12 District employees to ensure the District was keeping complete records for all its employees, including job applications or resumes and training information.

The follow-up for the 2004 financial audit was completed in June 2006 by our special assistant auditors.

Appendix C

Agency Responses

Rend Lake Conservancy District Responses To
The Management and Program Audit Follow-Up
April 4, 2007

Recommendation No 6.

Finding is accepted. The District's new billing software is now fully functional and being used for all customers. The District continues the multi year effort to install separate meters for all water users as resources allow. All expired water contracts have been renewed to verify customer commitment prior to the expansion of the water treatment plant capacity.

Recommendation No 9.

Finding is accepted. The District believes that the Department of Corrections will review and approve the contract amendment as time allows and that they are currently directing their efforts to department priorities.

Recommendation No 13.

Finding is accepted. The District continues to strengthen property tagging and inspection efforts.

Recommendation No 14.

Finding is accepted. The lodge computer system will be replaced as funding and priorities allow. The District operates within a balanced budget and limits spending accordingly. Priorities at the District are based upon business needs and recreational customer satisfaction. Functions completed by the lodging software could be completed manually if needed. Computer information is routinely saved and stored at an offsite location. Additional procedures will be created to better define how to replace hardware and software components in the event of a fire or other loss of buildings.

The Financial Audit Follow-Up

Finding Code No. 04-01

As indicated by the audit findings, 10 of the 14 sub findings in this area have been resolved. Additional planned improvements to resolve 100% of the findings are discussed below.

A. Revenue and Cash Receipts:

Shooting Complex: Finding is accepted. Although the Shooting Complex only has one full-time employee who will need to continue to run the cash register, prepare daily reports and make deposits, compensating controls will be put in place to compare sales, deposits, and purchases to the number of shooting rounds.

Investigate NSF checks: This has been implemented. If Treasury receives a NSF check, Treasury requests that the check be "investigated" by Accounting. To assist auditors in identifying appropriate internal controls, Treasury will maintain documentation that they receive and retain control of NSF checks until resolved.

B. Inventory: Finding is accepted. Year end inventory counts will be performed by an employee from the administrative staff.

C. Compensating Control Weaknesses: Finding is accepted. The District will evaluate the use of independent personnel to review non-cash journal entries.

Finding Code No. 04-07

Finding is accepted. Although the District has implemented a property control system, some tags placed on movable assets that work in harsh environments were no longer present. The District will improve the system by placing severe duty identification tags on items exposed to harsh working environments. One fully depreciated dishwasher on the depreciation schedule had been junked several years before. The District will review all assets to insure that all of the items in the depreciation schedule are still in service and that all appropriate items in our possession are on the inventory list.

Finding Code No. 04-10

Subsequent to the follow-up procedures performed by the auditors, this has been fully implemented. Two mistakes were made by the District staff and were successfully found and corrected by District controls. The District has further improved the system by implementing new software controls that prevent activity on any processed items. Although one classification error out of a sample size of 60 should not constitute a rating of partially implemented, the District will strive for 100% accuracy. The membership card at Sam's Club was authorized and approved by the General Manager and used as authorized to purchase breakfast supplies for the lodge. Future account authorizations will be documented in writing to assist auditors verifying that proper approvals are obtained.

Finding Code No. 04-11

Subsequent to the follow-up procedures performed by the auditors, this has been fully implemented. A manager may need to receive incoming goods in some Recreation Departments since staffing levels are small and funds are not available for additional staff. Compensating controls are in place to compensate for this situation. These controls include reports to the General Manager and the Board that document inventory sales and the cost of goods sold. Additional controls will be put into place through the independent inventory counts discussed in item 04-01. All five invoices listed in the findings are for uniform laundry services that do not require receiving reports under District policies and procedures.

Finding Code No. 04-12

Finding is accepted. The District acknowledges that ordinances should be updated prior to the policies or procedures that are associated with the ordinances. Ordinances, policies, procedures, and practices have now been brought into agreement. The General Manager will document the future review of the credit memorandum and delinquent account reports. All residential customer accounts have now been reviewed and corrected if needed. Credits will be applied where appropriate. The impact on financial statements was not material.

Finding Code No. 04-15

Finding is accepted. At the end of each fiscal year, District management will review the reconciliation of Accumulated Depreciation.

