

REPORT DIGEST

MANAGEMENT AND PROGRAM AUDIT

FINANCIAL AUDIT
For the Year Ended:
April 30, 2004

REND LAKE CONSERVANCY DISTRICT

Summary of Findings:

Management and Program Audit: 16
Financial Audit: 15

Released: September 2004



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

To obtain a copy of the report contact:
Office of the Auditor General
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703
(217) 782-6046 or
TTY: (888) 261-2887

This Report Digest is also available on the
worldwide web at:
<http://www.state.il.us/auditor>

SYNOPSIS

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

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

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

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

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

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

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

SELECTED ASSET AND LIABILITY ACCOUNT BALANCES

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

GENERAL MANAGER

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

INTRODUCTION

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

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

MANAGEMENT AND PROGRAM AUDIT

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

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

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

BOARD OF TRUSTEES

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

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

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

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

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

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

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

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

Source: Rend Lake Conservancy District FY 2004 General Ledger.

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

Source: Rend Lake Conservancy District FY 2004 General Ledger.

Budget

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

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

Conflict of Interest Disclosure

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

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

Mission and Goals

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

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

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

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

Staffing Plan

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

FINANCIAL MANAGEMENT

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

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

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

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

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

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

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

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

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

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

WATER AND SEWAGE

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

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

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

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

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

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

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

PERSONNEL

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

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

The District's personnel files were incomplete.

CONTRACTS AND ASSETS

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

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

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

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

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

- The District did not have written policies and procedures for the acquisition, usage, and disposal of property and equipment. There was no complete, accurate, and comprehensive physical inventory of fixed assets and the District did not utilize a tagging system to track assets. The District did not know the total number of vehicles it owned, did not have titles for all its vehicles, and was not able to locate two vehicles that it had “given” to the Benton airport. (Management and program audit, pages 73-92; Financial audit finding 5, page 14, and finding 7, page 17)

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

GOLF, SHOOTING, AND HUNTING

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

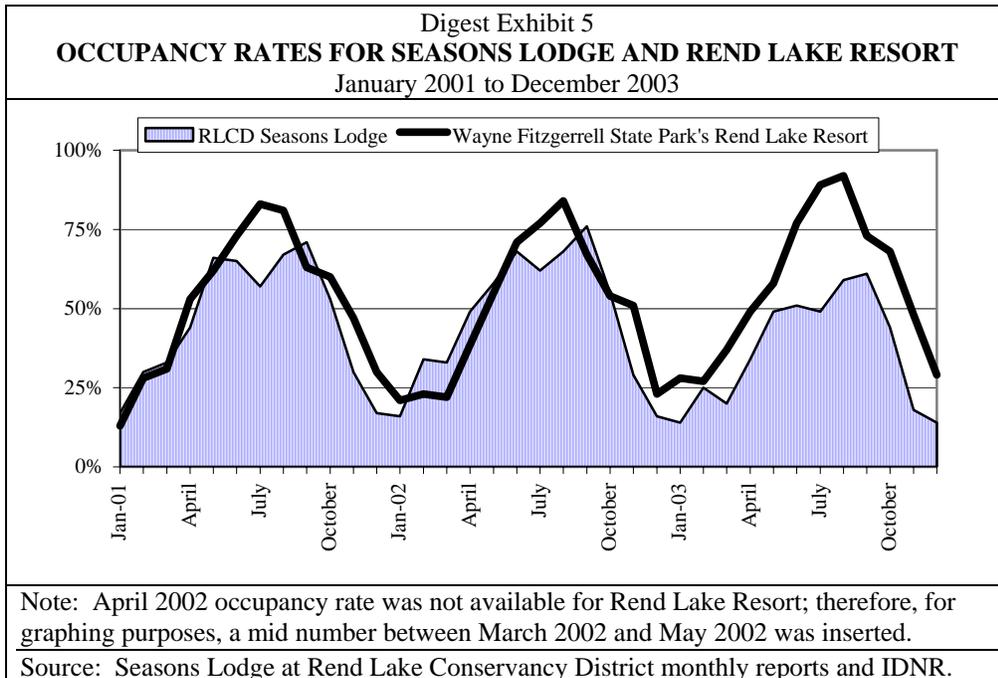
The Shooting Complex did not have a written plan to eliminate its losses.

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

LODGING AND RESTAURANT

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

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



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

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

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

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

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

FINANCIAL AUDIT

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

INADEQUATE INTERNAL CONTROLS

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

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

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

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

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

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

POLICY AND PROCEDURE MANUAL INCOMPLETE

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

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

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

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

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

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

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

DEFICIENT PENSION PLAN ENROLLMENT PRACTICES

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

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

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

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

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

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

PAYROLL TIMESHEET APPROVAL DOCUMENTATION ABSENT

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

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

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

INTERNAL CONTROL OVER CASH DISBURSEMENTS

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

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

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

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

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

No evidence that 159 invoices were reviewed for clerical accuracy.

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

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

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

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

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

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

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

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

OTHER FINDINGS

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

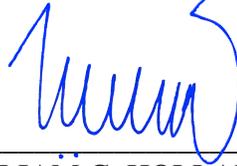
RECOMMENDATIONS

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

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

AUDITORS' OPINION

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



WILLIAM G. HOLLAND
Auditor General

WGH:AD:JF
September 2004

SPECIAL ASSISTANT AUDITORS

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

