

REPORT DIGEST

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

REND LAKE CONSERVANCY DISTRICT

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Office of the 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.

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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.

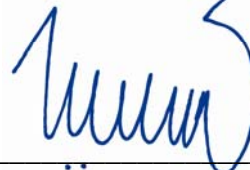
Digest Exhibit 3
STATUS OF FINANCIAL AUDIT FINDINGS & RECOMMENDATIONS
From the September 2004 Audit of the Rend Lake Conservancy District

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.



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Auditor General

WGH:MP
April 2007