

LEGISLATIVE AUDIT COMMISSION



Rend Lake Conservancy District
Financial Audit
Year Ended April 30, 2004

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REVIEW: 4220
REND LAKE CONSERVANCY DISTRICT
FINANCIAL AUDIT
YEAR ENDED APRIL 30, 2004

RECOMMENDATIONS - 15

ACCEPTED - 15

Background and Report Conclusions

Pursuant to PA93-0275, the auditors conducted a financial audit of the Rend Lake Conservancy District in accordance with generally accepted procedures and *Governmental Auditing Standards*. The auditors stated that the financial statements were presented fairly. However, the auditors noted certain matters involving the internal control over financial reporting that were reportable conditions. Other tests disclosed instances of noncompliance under *Government Auditing Standards*.

The Rend Lake Conservancy District was created in 1955 to provide a dependable supply of water to Franklin and Jefferson counties. Rend Lake was built as a joint project of the Illinois Department of Conservation, the Rend Lake Conservancy District, and the U.S. Army Corps of Engineers. Construction of the 18,900 acre reservoir cost \$60 million and took five years to complete. 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. The District has one governmental fund, the general fund, and four proprietary funds. A Statement of Net Assets is found in Appendix A.

Financial Audit Recommendations

- 1. Review the assigned duties of 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, develop compensating management oversight controls when a proper segregation of duties cannot be achieved.**

Findings: The auditors noted several accounting areas where the District has an inadequate segregation of duties.

Response: Accepted. The District has already begun to review duties performed, provide training for segregation of duties in each identified area, and implement more

Accepted - continued

controls over the accounting process. This activity will be completed by December 31, 2004.

2. The Board should take the following actions:

- **Complete the outstanding chapters of the policy and procedure manual.**
- **Develop fraud risk management policies and job descriptions to be included in the policies and procedures manual.**
- **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.**

Findings: The District had not completed its policy and procedure manual as of April 30, 2004.

Response: Accepted. The chapter on personnel matters has been approved and passed by the Board at the May 7, 2004, meeting of the Board of Trustees. The District will complete Chapter 4 on budget procedures and will include accounting procedures in this chapter.

The District will also develop fraud risk management policies and job descriptions and will include these in our policies and procedures manual.

The activity will be completed by December 31, 2004.

3. Comply with the competitive bidding requirements of the River Conservancy Districts Act.

Findings: Twenty-five purchases totaling \$1,011,704 were not competitively procured as required.

Response: Accepted. The District will establish procedures to insure there is compliance with all of the bidding requirements of the law.

Those procedures will be included in the policies and procedures manual by December 31, 2004.

4. Approve all time sheets in writing before they are submitted for payment.

Findings: Thirty-five of 40 employee time sheets did not include written evidence of the supervisor's review and approval of the time sheet.

Response: Accepted. The District has changed the procedures on this process, and supervisors now approve all time sheets in writing.

5. Contact farm and oil lessees and obtain any missing lease agreements. Obtain financial and production information from 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.

Findings: The District could not produce the lease documents for two of the farm tenants. Also the District does not have a complete list of oil and gas leases it has entered into over the years. Currently management does not receive any financial or production information from the farm tenants or oil and gas lessees in order to monitor their performance under these lease agreements.

Response: Accepted. The District is presently in the process of obtaining all missing lease agreements. The District will set up procedures for monitoring lease income by obtaining all necessary information from the lessees. The District is also investigating alternative methods of leasing farm ground and will compare alternatives to the "2/3 share" leasing method. The District has begun reviewing contracts with other farmers in this area in order to become familiar with contract prices and provisions.

All monitoring procedures will be in place by December 31, 2004.

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

Findings: The District is not enrolling its employees into the IMRF pension plan as required by regulation. The auditors noted 23 exceptions out of 51 employees tested that should have been enrolled into the IMRF plan.

Response: Accepted. The District will establish policies and procedures for identifying eligible employees in a more timely manner. The development of new job descriptions will help the District identify the positions that qualify for the pension plan and enable the District to enroll employees at the time of employment.

Accepted - continued

The District will also continue efforts to complete omitted service forms for those employees who have past service credits.

This activity will be completed by December 31, 2004.

7. Develop a system to tag movable property and equipment.

Findings: The District does not tag movable property and equipment.

Response: Accepted. The District is presently in the process of developing policies and procedures for this area of operation and has begun to request proposals for a software system to track and monitor assets.

All movable property and equipment will be tagged by December 31, 2004.

8. Post all adjusting journal entries made by external auditors to the books and records. Reconcile the ending fund balance accounts to the audited financial statements.

Findings: The district failed to record 3 of the 17 adjusting journal entries for the year ended April 30, 2003 on its books and records. This caused the April 30, 2003 beginning fund balances in the general fund to be understated by \$18,804 in two funds, and overstated by \$1,281 in another fund.

Response: Accepted. All journal entries from external auditors will be posted and all external audit reports will be reconciled and checked for accuracy to the District's balances. This will be an ongoing process.

9. Review and revise procedures to ensure that all significant purchases for goods and services prior to year-end are recorded in accounts payable at year-end.

Findings: The District did not record approximately \$64,000 in accounts payable at April 30, 2004.

Response: Accepted. The District will revise its procedures to ensure that all accrual adjustments be made accurately.

This will be an ongoing process.

10. Take the following steps to strengthen controls over cash disbursement:

- 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), 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 statute.
- A computer check run edit report should be compared 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. The 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.

Findings: The District failed to establish proper internal controls over cash disbursements. When the auditors tested 159 invoices, they discovered the following exceptions:

- Department supervisors did not always approve invoices in writing;
- There was no documentation by accounts payable personnel to evidence that clerical accuracy and bidding information were checked;
- Six invoices were not paid until 60 days after receipt;
- Two invoices totaling \$9,473 were paid twice;
- In four instances, the invoice amount did not agree to the check amount;
- In two instances, the invoice was posted to the wrong general ledger account number; and
- Petty cash reimbursement checks are made out to "cash".

Response: Accepted. The District will develop and implement new policies and procedures to strengthen control over cash disbursements. The District will also ensure that there is a proper segregation of duties in performing this process. The activity will be completed by December 31, 2004.

11. Use purchase orders to document the authorization of all significant non-water department purchases. Use receiving reports to document the verification of receipt of goods and services. The person completing the receiving report should be independent of the purchasing function.

Accepted - concluded

Findings: The district does not use purchase orders for non-water department purchases and does not use receiving reports for any type of purchase.

Response: Accepted. The District will evaluate and implement a purchase order system for the entire district in accordance with the recommendations. The District will also ensure that there is a proper segregation of duties in performing this process.

This activity will be completed by December 31, 2004.

12. The District should take the following actions:

- **Install recently purchased software to maintain the accounts receivable records of residential water customers.**
- **Send customer remittance forms with all water and sewer bills.**
- **Direct a designated official to review and approve all credit memoranda.**
- **Prepare reports of uncollected and delinquent accounts to assist in collection efforts and to provide management with useful information for analysis.**
- **Begin assessing late fees to delinquent accounts as specified in District ordinances.**

Findings: The District does not properly manage its revenues and accounts receivable accounts.

Response: Accepted. The software has been installed at the water plant for residential customers and the same software is now being considered for use with wholesale customers at the administration office. Once this process is completed, the District will then be able to send out customer remittance forms, provide management with better information and assess late fees more easily and accurately.

This activity will be completed by December 31, 2004.

13. Record grant revenues and expenses in accordance with generally accepted accounting principles.

Findings: The District incurred \$48,134 of grant expenses under a cost reimbursement grant agreement during FY03. However, the expenses and the related grant revenue were recorded on the financial records in FY04.

Response: Accepted. The District will record all grant revenues and expenses in accordance with generally accepted accounting principles.

This is an ongoing process.

14. Transfer construction in progress items to depreciable capital asset accounts and begin depreciation of those assets on the date construction is completed.

Findings: Building improvements in the Recreation Fund completed during 1999 were not reclassified from construction in progress to depreciable assets until 2004. As a result depreciation expense and beginning net assets were overstated by about \$121,000. Capital improvements in the Inter-City Water Fund placed in service prior to FY04 were not reclassified until FY04 resulting in an overstatement of \$70,000 in beginning net assets.

Response: Accepted. The District will monitor all construction in progress projects and will transfer these items immediately upon completion.

This is an ongoing process

15. Perform accumulated depreciation reconciliations in an accurate manner and have a responsible District official review the reconciliation.

Findings: The District is not performing the reconciliation of their detailed accumulated depreciation records to the general ledger account totals in an accurate manner.

Response: Accepted. The Controller will periodically review accumulated depreciation records and reconcile them to the general ledger.

This will be an ongoing activity.