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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

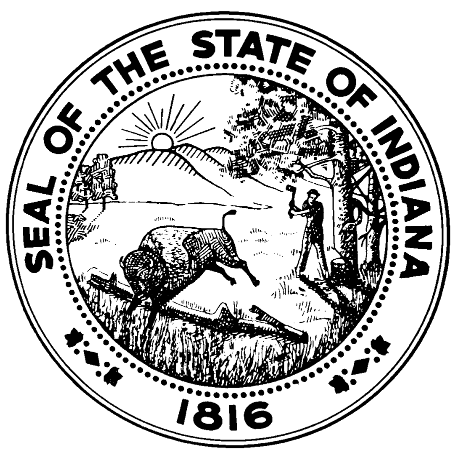
REVIEW REPORT

OF

DEPARTMENT OF NATURAL RESOURCES

STATE OF INDIANA

May 1, 2005 to July 31, 2007



FILED
05/15/2008

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AGENCY OFFICIALS

Office	Official	Term
Director	Kyle Hupfer	02-21-05 to 11-20-06
	Robert E. Carter, Jr.	11-21-06 to 01-11-09
Chairman of the Commission	Michael Kiley	01-20-04 to 09-20-05
	(Vacant)	09-21-05 to 01-17-06
	Richard Cockrum	01-18-06 to 12-31-06
	(Vacant)	01-01-07 to 01-15-07
	Bryan W. Poynter	01-16-07 to 01-15-09

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE DEPARTMENT OF NATURAL RESOURCES

We have reviewed the receipts, disbursements, and assets of the Department of Natural Resources for the period of May 1, 2005 to July 31, 2007. The Department of Natural Resources' management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Department of Natural Resources are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

March 13, 2008

DEPARTMENT OF NATURAL RESOURCES
REVIEW COMMENTS
July 31, 2007

SPECIAL REPORT

Due to a cash shortage, we reviewed and issued a separate report, Report B31081, on the Department of Natural Resources (DNR) for the period January 1, 2007 to August 15, 2007, which addressed the shortage of funds and related internal control issues. Those comments are not repeated in this report.

SDO RECONCILIATIONS

The DNR had not performed reconciliations of its Special Disbursing Officer (SDO) advance in a timely manner. As of April 21, 2008, reconciliations had not been performed since 2006.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

ATTENDANCE REPORTS

As stated in our prior reports (most recently, Reports B17947 and B25779), we observed the DNR employee attendance reports signed, dated, or approved prior to the last day worked. In our current review, we found that 22% of employee attendance reports tested were signed, dated, or approved prior to the last day worked.

The attendance report is to be completed accurately, and be signed and dated by the employee. After being completed by the employee, the attendance report should be reviewed, signed, and dated by the immediate supervisor of the employee, or by another designated individual who has knowledge of the employee's attendance. Employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 9)

FIXED ASSET INVENTORY

As stated in our prior reports (most recently, Reports B17947 and B25779), the fixed asset inventory of the DNR was not complete as to additions and retirements and assets had not been consistently tagged upon receipt. Additionally, an annual physical inventory of assets owned had not been conducted.

Each state agency is required to report to the Auditor of State all additions and retirements of assets with a cost of $20,000 or more. Assets costing more than $500 but less than $20,000 must be maintained on an asset control system at the agency. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

Assets at the minimum level of $500 must be tagged. Assets should be tagged upon receipt. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from its asset control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

HUNTING LICENSES – UNREALIZED REVENUE

Hunting licenses can be purchased through the DNR on-line licensing system. In May 2006, the DNR decided to offer the second deer bonus antlerless hunting license at a discounted price to those who had previously purchased a full-priced bonus antlerless license.

Prior to that time, the on-line licensing system allowed the applicant to designate which type of deer bonus antlerless hunting license to purchase and the price for the first or second license was the same. When the discounted second bonus antlerless license became available, the licensing system was not programmed to detect whether a full-priced license had been previously purchased before permitting the purchase of a discounted license. This flaw in the licensing system allowed hunters to buy the lower-priced second bonus antlerless license without having purchased the first one at full-price. The on-line application system control to allow an applicant to purchase a discounted second license only after the purchase of a full-price license was not corrected until January 2007.

Therefore, although the DNR did receive additional revenue due to the spiked increase in the number of deer bonus antlerless hunting licenses purchased, the DNR received less revenue than it should have if applicants who purchased the first bonus antlerless license had paid the appropriate full-price fee rather than the discounted price. For the time period of May 2006 through January 2007, the DNR calculated unrealized revenue in the amount of was $72,612.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

DEPARTMENT OF NATURAL RESOURCES
EXIT CONFERENCE

The contents of this report were discussed on April 22, 2008, with Robert E. Carter, Jr., Director; and Ann Walker, Chief Financial Officer. The official response has been made a part of this report and may be found on pages 7 through 9.

The contents of this report were also provided by e-mail on April 29, 2008, to Kyle Hupfer, prior Director.

DNR Indiana Department of Natural Resources

Mitchell E. Daniels, Jr., Governor
Robert E. Carter, Jr., Director

May 2, 2008

Mr. Bruce Hartman, C.P.A.
State Examiner
Indiana State Board of Accounts
IGCS, Room E 418
Indianapolis, IN 46204

Dear Bruce:

Audit staff from your agency has recently completed their audit work on the Department of Natural Resources for the period May 1, 2005, through July 31, 2007.

The audit was extensive and thorough and the audit comments contain several suggestions for the DNR to improve various practices. We appreciate the efforts of you and your audit staff.

The pages attached are the DNR responses to the audit comments.

Sincerely,

Robert E. Carter, Jr.
Director

STATE BOARD OF ACCOUNTS AUDIT
FOR THE PERIOD MAY 1, 2005 THROUGH JULY 31, 2007
DEPARTMENT OF NATURAL RESOURCES
RESPONSE TO AUDIT RESULTS AND COMMENTS
MAY 2, 2008

The DNR response is in the order of the audit comments. Because of the length of the comments they are not repeated in their entirety, but rather identified by the comment heading and a brief description. The DNR response and corrective action are identified under each heading.

SPECIAL REPORT

Audit Comment: Comments not repeated

DNR Response: Response is included with the original audit report and is not repeated in this report.

SDO RECONCILIATIONS

Audit Comment: Two reconciliations must be performed for the SDO fund each month and as of April 21, 2008, reconciliations had not been performed since 2006.

DNR Response: On March 1, 2006, DNR changed financial systems. The tools to support balancing and reconciliation of the SDO fund did not perform as intended.

Corrective Action: The balancing and reconciliation tools have now been modified and improved and a team of accountants has been assigned to complete the reconciliation. This should be completed within the next 90 days for prior periods. Additionally, the Director of Accounting is re-implementing and insuring the monthly process to complete the timely monthly reconciliation.

ATTENDANCE REPORTS

Audit Comment: 22% of employee attendance reports tested were signed, dated, or approved prior to the last day worked.

DNR Response: Prior to December 2007, DNR utilized multiple time keeping systems that required a long lead time to further key employee's time into the payment system used by the Auditor of State. In order to assure accuracy the paper A-4 was needed early in the process.

Two of the four payroll sample groups tested for this audit were payrolls the Auditor of State required be submitted on an accelerated basis due to holidays. This accelerated schedule essentially forced employees into filing A-4's in advance of their last day worked or to file a temporary timesheet in advance of the end of the pay period and then file a final one on or after their last day worked. The alternative was rarely used in the case of accelerated payrolls due to the high cost of the duplicitous effort.

Subsequent to the dates tested in the audit, DNR has dropped all timekeeping systems except PeopleSoft Time and Labor. This system uses the electronic data keyed by the employee that generates the paper A-4 and thus reduces the processing time and the reliance on the paper A-4 early in the process. The paper A-4 now can be signed and filed on or after the last day worked in a pay period without delaying the preparation of payroll.

Corrective Action: DNR will review and revise its SOP's to reflect the new process and will offer training through its Human Resources division to DNR employees with respect to the policies and appropriate procedures for signing, dating and approving time sheets.

FIXED ASSET INVENTORY

Audit Comment: The fixed asset inventory was not complete and had not been consistently tagged. Additionally, an annual physical inventory of assets owned had not been conducted.

DNR Response: In recognition of the need to better manage fixed assets, DNR created a new Asset Management Division in June 2007.

Corrective Action: DNR divisions of Asset Management, Purchasing and Accounting are working with the DNR mission divisions, the Auditor of State and the ENCOMPASS team to update and correct DNR's fixed asset inventory. Once the inventory is corrected a physical inventory will be conducted annually.

HUNTING LICENSES – UNREALIZED REVENUE

Audit Comment: DNR had unrealized revenue due to a flaw in the on-line licensing system.

DNR Response: DNR acknowledges the system failure and corrected the problem as soon as practicable when we became aware of the problem.

Corrective Action: While this problem has been corrected, DNR is working to develop a more thorough program of testing changes to its on-line systems prior to implementing changes.