

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

REVIEW REPORT
OF
DEPARTMENT OF NATURAL RESOURCES
STATE OF INDIANA
August 1, 2007 to March 31, 2012



FILED
10/05/2012

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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Robert E. Carter Jr.	11-21-06 to 01-13-13
Chairman of the Commission	Bryan W. Poynter	01-16-07 to 06-30-11*

*The Chairman's appointed term expired on 06-30-11 but he continues to serve at the pleasure of the Governor.



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF DEPARTMENT OF NATURAL RESOURCES

We have reviewed the activities related to the receipts, disbursements, and assets of the Department of Natural Resources for the period of August 1, 2007 to March 31, 2012. 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. Federal programs are included in the scope of our statewide single audits as reflected in the Statewide Single Audit Reports.

Based on our review, nothing came to our attention that caused us to believe that the activities related to 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.

The Department of Natural Resources' response to the Review Comments identified in our review is described in the accompanying section of the report entitled Official Response. We did not review the Department of Natural Resources' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department of Natural Resources' management and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office reviewed.

STATE BOARD OF ACCOUNTS

June 11, 2012

DEPARTMENT OF NATURAL RESOURCES
REVIEW COMMENTS
March 31, 2012

SDO FUND RECONCILIATIONS

As stated in our prior report B32015, the Department of Natural Resources did not properly perform reconciliations of its Special Disbursing Officer (SDO) advance. Items used in the reconciliations are not adequately documented. In addition, the validity of some outstanding checks from 2006 and 2007 are questionable. Therefore, we were unable to determine the balance of the SDO checking account.

At all times the unreimbursed disbursements plus any advances to office cash plus the SDO checking account must equal the local purchase advance. If the reconciled SDO advance is less than the amount originally advanced, the SDO officer may be personally responsible for the amount needed to balance the advance. The reconciliation of the SDO advance must be formally documented at least monthly. The best control is provided when the reconciliation is provided or reviewed by staff independent of the functions of preparing checks or maintaining the check register. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4.10.10.10)

LATE PAYMENT PENALTY

Auditor of State accounting records reflect late payment penalties paid to vendors and charged to accounts of the Department of Natural resources as a result of untimely payment of claims. Total penalties for the fiscal year 2011 were \$21,879.86 and for the current fiscal year through April 30 penalties were \$7,280.29. These penalties are an unnecessary use of public funds..

Indiana Code 5-17-5 requires a state agency to ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency . . . fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, 6.4.7.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Organizational Overview – General Guidelines and Policy, IV. Summary of Agency Accounting Responsibilities)

DEPARTMENT OF NATURAL RESOURCES
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2012, with Mike Smith, Deputy Director, and Chari Burke, Chief Administrative Officer. The Official Response has been made a part of this report and may be found on pages 6 through 8.

September 20, 2012

Mr. Bruce Hartman, C.P.A.
State Examiner
Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

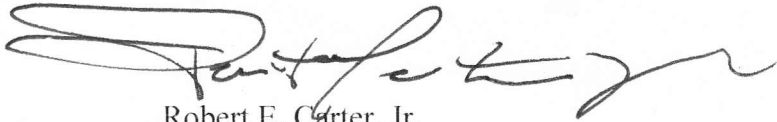
BRUCE
Dear Mr. Hartman:

Auditors from your agency have completed their routine review of the Indiana Department of Natural Resources for the period August 1, 2007 through March 31, 2012.

Please see the attached document containing the DNR response to the audit comments provided by your staff.

We appreciate the efforts of you and your agency.

Sincerely,



Robert E. Carter, Jr.
Director

**INDIANA DEPARTMENT OF NATURAL RESOURCES
RESPONSE TO REVIEW COMMENTS
FROM STATE BOARD OF ACCOUNTS AUDIT
FOR THE PERIOD OF AUGUST 1, 2007 TO MARCH 31, 2012**

The DNR responses to the SBOA review are below. Audit review comments have been repeated in their entirety under the appropriate headings. The DNR responses related to the comments are identified under the audit comments.

SDO FUND RECONCILIATION

Review Comment:

As stated in our prior report B32015, the Department of Natural Resources did not properly perform reconciliations of its Special Disbursing Office (SDO) advance. Items used in the reconciliations are not adequately documented. In addition, the validity of some outstanding checks from 2006 and 2007 are questionable. Therefore, we were unable to determine the balance of the SDO checking account.

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DNR Response:

At the time of this audit, DNR was still putting the finishing touches on the cleanup of prior issues. We believe that DNR has reconciled appropriately our SDO account every month since the last audit, with one exception: October 2011 had no activity and was reconciled with November 2011.

All items in the reconciliation, with the exception of the individual "cash box" or "change fund" accounts are represented in Encompass and are referenced on the reconciliation by their Encompass check numbers. "Cash box" and "change fund" accounts are currently represented in their totality, not individually in Encompass, but the reconciliation contains an individual list of holders which is reconciled back to the total in Encompass account 110610. Therefore, we believe all items on the SDO reconciliation are supported by documentation within the Encompass system.

We concur that there are outstanding checks from 2006 and 2007 that should be either voided or escheated. We have already been able to void some and are working to determine which, if any, should be escheated. We are very confident that the balance in the checking account is accurate and know it will remain so as we work to resolve the outstanding checks issue and continue our regular reconciliation of the account.

Currently, the employee performing the reconciliations does not prepare or sign checks. Additionally, the person who prepares the checks does not sign them, and yet another person reviews the monthly reconciliations. This arrangement gives us several layers of internal controls; we feel this is a satisfactory separation of duties.

LATE PAYMENT PENALTY

Review Comment:

Auditor of State accounting records reflect late payment penalties paid to vendors and charged to accounts of the Department of Natural Resources as a result of untimely payment of claims. Total penalties for the fiscal year 2011 were \$21,879.86 and for the current fiscal year through April 30 penalties were \$7,280.29. These penalties are an unnecessary use of public funds.

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Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview – General Guidelines and Policy, IV, Summary of Agency Accounting Responsibilities.).

DNR Response:

It is the standard operating procedure of the DNR to work to ensure that all payment requests and documents are submitted in a timely manner to the Auditor of State for appropriate payment to our vendors and contractors. As taxpayers ourselves, we are also concerned with the conscientious expenditure of dollars entrusted to us by our state legislature and our constituents.

DNR has numerous properties throughout the State of Indiana. Each of these properties is responsible for submitting their purchase order and claim voucher payments to a centralized location in our DNR Division of Accounting for processing. The Administrative Bureau works throughout the year with the operating and regulatory divisions of DNR to educate and train employees regarding the importance of submitting payments in a timely manner.

It should be noted that despite the size of our agency and the large volume of our payments, late penalties continue to decrease year after year. In fiscal years 2006, 2007, and 2008, DNR's late penalties reached all time highs partly as a result of a transition to a new financial system. Since then, late penalties have dropped by 91 percent.

During fiscal year 2011, DNR processed close to \$56 million in payments. Interest penalties of \$21,879.86 during that year account for only 0.0392 percent of total dollars processed in payments. In FY12, we improved even more as we processed over \$59 million in payments, with only \$9,369.19 in late penalties or 0.0158 percent of total dollars processed, showing another clear decrease from the previous year.

As we have experienced only \$642.11 in late penalties so far this fiscal year, we foresee that this trend will continue toward the positive as we strive to work in partnership with our properties and vendors and as we experience continued improvement to our financial system.