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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 14, 2009

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Natural Resources for the year ended June 30, 2008.

The Department has the primary responsibility for state parks and forests, protecting the environment and managing energy, fish, wildlife, land and water resources in the state.

Vaudt recommended the Department review policies and procedures covering internal control over receipts at field offices and capital assets. The Department should develop written procedures for the reconciliation of receipts for the online reservation system. In addition, the Department should ensure a detailed, up-to-date capital asset listing is maintained by Central Office to accurately report information required for financial statement presentation. Vaudt also reported the Department had not complied with certain statutory requirements concerning its operations during the year ended June 30, 2008. The Department's responses are included in the report.

A copy of the report is available for review in the Iowa Department of Natural Resources, in the Office of Auditor of State and on the Auditor of State's website <http://auditor.iowa.gov/reports/reports.htm>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF NATURAL RESOURCES**

JUNE 30, 2008

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA
Auditor of State**

0960-5420-BR00



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David A. Vaudt, CPA
Auditor of State

July 10, 2009

To the Members of the Iowa Environmental Protection
and Natural Resource Commissions:

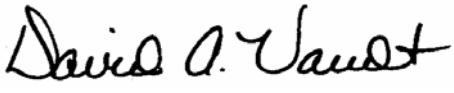
The Iowa Department of Natural Resources is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2008.

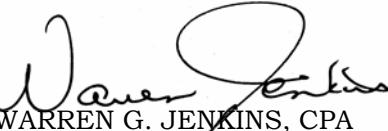
In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations, which are reported on the following pages. We believe you should be aware of these recommendations which include those reported in the State's Single Audit Report and the State's Report on Internal Control, as well as other recommendations pertaining to the Department's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

The Iowa Department of Natural Resources' responses to the findings identified in our audits are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Natural Resources' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Natural Resources, citizens of the State of Iowa and other parties to whom the Iowa Department of Natural Resources may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 15 and they are available to discuss these matters with you.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor
Director, Department of Management
Glen Dickinson, Director, Legislative Services Agency

Report of Recommendations to the Iowa Department of Natural Resources

June 30, 2008

Finding Reported in the State's Single Audit Report:

CFDA Number: 66.458 – Capitalization Grants for Clean Water State Revolving Funds

Agency Number: C519000107

Federal Award Year: 2008

CFDA Number: 66.468 – Capitalization Grants for Drinking Water State Revolving Funds

Agency Number: F599759307

Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-EPA-542-1

Federal Financial Reports – Per Title VI Section 606 of the Clean Water & Safe Water Drinking

Acts, states are required to submit an annual report each fiscal year not later than 90 days after the end of the fiscal year. The Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) report was submitted 52 days late.

Recommendation – The Department should develop procedures to ensure annual reports are submitted within 90 days after the end of the reporting period.

Response and Corrective Action Planned – The Department and Iowa Finance Authority (IFA) are both keenly aware the state revolving fund annual report is due to the United States Environmental Protection Agency (USEPA) within 90 days of the close of the fiscal year and it is the Department's intent to comply. The financial exhibits are provided by IFA and reviewed by the Department. This year, USEPA Region VII asked state administration expenses paid from fees collected outside the State Revolving Fund be included in the financial reporting, contrary to a position taken at the onset of the program. This required IFA to go back several years to adjust the balance brought forward from 2007 and was the significant reason for the delay in the submittal of this year's annual report. The Department received the initial CWSRF financial exhibits from IFA on September 17, 2008 and DWSRF financials on September 26, 2008 and had numerous comments on subsequent versions of the documents over the next several months before agreement was finally reached and the report was submitted on November 21, 2008. The Department could not have envisioned reconciliation would have taken so long but remains committed to complying with the deadline going forward.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Natural Resources

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Findings Reported in the State's Report on Internal Control:

- (1) Financial Reporting – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS – SAE) on a GAAP package. The GAAP package is to be submitted to DAS – SAE by the first week of September each year. Findings were noted as follows:
 - (a) The GAAP package was submitted October 1, 2008, which was not timely.
 - (b) Loans receivable for three funds were reported on the GAAP package twice, once on an individual loan receivable page and again on the summary page of other accounts receivable in the amounts of \$6,081,808, \$320,345 and \$725,000. This was properly adjusted for reporting purposes.
 - (c) Supporting documentation was not provided to determine whether the amounts reported in the GAAP package as unearned revenue were proper.
 - (d) There were several other GAAP package pages with immaterial errors noted.

Recommendation – The Department should ensure the GAAP package is submitted timely and information reported is accurate and supported.

Response –

- (a) The GAAP package is due before all financial activity is final for the fiscal year. DNR has material financial transactions each fiscal year that take place in the time between the GAAP package due date and the cutoff date in the State's financial accounting system for the fiscal year accrual period activity (mid-September). If we were to submit the GAAP package according to the due date set by DAS-SAE (first week of September), it would not be materially correct. DAS-SAE's current policy is they will only accept GAAP packages with all pages completed and the package must be materially correct. DNR has offered to submit all pages on time except for the pages which have material activity after the due date (such as the capital assets, deferred revenue and receivables pages). Since this is not an option, the first week of September due date is not attainable.
- (b) When the State started using the GAAP package for gathering information for the preparation of the State's Comprehensive Annual Financial Report (CAFR), the Department was instructed by DAS-SAE to report these loans receivable amounts on both pages mentioned (loans receivable page and receivables summary page). These loans receivable totals are clearly labeled as "Loans" on both pages. DNR was never notified these loans should no longer be reported on the receivables summary page. As the Department's GAAP package is quite complex, we would recommend enhanced communication between DAS-SAE, the Office of Auditor of State and the Department to ensure these types of communication errors do not occur in the future.
- (c) The Department's funding shares spreadsheet, which is audited annually, is the basis for determining the amount of unearned revenue at year end. It is included as backup support for the unearned revenue GAAP package page. The items noted in testing included federal and non-federal grants which

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had work that was not complete at fiscal year end. Therefore, the amounts were properly shown as unearned revenues and were rolled forward on the I/3 system upon approval by the Department of Management. Grant and other supporting documentation for these unearned revenues does exist, but was not included in with the GAAP package documentation. We will work in the future to provide the Auditors with contact information sooner so that they can view this documentation prior to the completion of GAAP package testing.

- (d) The Department will continue to work to minimize immaterial errors on the GAAP package.

Conclusion – Response accepted.

- (2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. The following were noted:
- (a) The Department performs a monthly reconciliation of capital asset additions to I/3 expenditures. However, the following were noted:
- (1) The written procedures for the reconciliation process are outdated.
 - (2) The reconciliation is not reviewed by someone independent of the reconciliation process.
 - (3) Reconciliations were not always performed timely.
- (b) The Department utilizes an Access database and the MEGA system to track capital asset activity. These systems cannot generate a listing of additions and deletions or distinguish between infrastructure and land improvements for financial statement reporting. Information is downloaded and additions and deletions are determined for financial reporting independently. A reconciliation is not performed between the tracking systems and information reported in the GAAP package for financial reporting. The following variances were noted:
- (1) One project for \$93,043 reported on the GAAP package could not be traced to the MEGA system.
 - (2) One land addition for \$321,772 was not reported as an addition on the GAAP package.
 - (3) Supporting documentation was not available for \$52,712 of equipment additions to the GAAP package.
- (c) The Iowa Department of Transportation (DOT) pays for road projects within DNR parks and properties. This amount is compiled by DNR throughout the year and is reported on the GAAP package as additions to infrastructure. The amount compiled by DNR throughout the year did not reconcile to the addition reported on the GAAP package. There are no written procedures for a reconciliation process between additions reported in the GAAP package and the amount paid by DOT.

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- (d) The Honey Creek Premier Destination Park (Honey Creek) construction in progress is reconciled between additions reported in the GAAP package and expenditures reported in the I/3 system. There are no written procedures in the reconciliation process for Honey Creek construction in process.

Recommendation – The Department should update current written procedures and develop other written procedures to ensure a detailed, up-to-date capital asset listing is maintained and properly reported for financial statement purposes. Procedures should include, but not be limited to, a review of the reconciliation performed by accounting staff and a reconciliation between the Department's tracking system and amounts utilized on the GAAP package for financial reporting. These reconciliations should be performed timely and be reviewed by an independent person.

Response – During fiscal year 2009, the Department conducted a continuous process improvement event to address a number of the capital assets issues listed in this audit finding. As a result, we are currently in the process of revising our capital assets procedures along with implementing a new computer system which will replace our inadequate mainframe system. This new computer system is being designed so it will generate the proper reports needed for GAAP package reporting. In addition, this new, more flexible system will enable us to properly distinguish between infrastructure and land improvements and will allow us to properly summarize and report DNR's road projects so we no longer have to rely on obtaining information from DOT for our GAAP package. As a part of revising our system, we will rewrite our existing procedures to ensure applicable reviews and reconciliations are performed.

Conclusion – Response accepted.

- (3) Payroll – Departments process and record payroll and personnel information on the Human Resources Information System (HRIS). The Human Resources Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. Individuals at the above entities have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Department should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll.

Response – The Department employs two Human Resources Associates in our payroll and personnel section. Because both of these employees must process and record payroll and personnel information and serve as each others' backup, it is not possible to completely segregate the duties of initiating and approving payroll actions on the HRIS system. We do plan to work with the Office of Auditor of State to develop and implement alternative methods of strengthening controls in this area.

Conclusions – Response accepted.

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Other Findings Related to Internal Control:

- (1) Field Offices – Twenty-nine sites were selected for on-site review, including nineteen state parks, two Wildlife Units, two Management Offices, two Forestry Offices, one Fish Hatchery, one Regional District Office and two Research Stations. During the on-site visits, internal controls were reviewed and certain receipts and capital assets were tested. The following were noted:

Capital Assets

- (a) Four sites had equipment with missing or damaged state identification tags. In addition, one site had equipment with a state tag which did not agree to the Central Office listing.
- (b) Four sites had equipment on site which was not included on the year end equipment listing.
- (c) Three sites had equipment on the listing which had been transferred, traded or disposed of prior to June 30, 2008.

Internal Control

- (a) Five sites lacked segregation of duties related to responsibilities for the collection, deposit and reconciliation of receipts. In addition, three sites did not maintain bank deposit slips.
- (b) Three sites did not prepare an initial receipts listing.
- (c) Three sites had more coupon books than Central Office had listed or Central Office had more coupon books listed than the auditor was able to verify through observation.
- (d) Three sites were not restrictively endorsing incoming checks upon receipt.

Recommendation – The Department should review policies and procedures to ensure adequate controls are in place and policies and procedures are communicated to field office personnel.

Response – The Department does have specific written policies and procedures in place regarding controls over capital assets and receipts and does regularly communicate the established policies and procedures to the outlying DNR field offices. Due to the widespread and large number of outlying locations and ongoing turnover in personnel, however, it is difficult to ensure field personnel are following all established internal control procedures 100 percent of the time. It should also be noted in field locations where there is only one full-time employee, segregation of duties is simply not practicable.

The capital asset listings are updated on an on-going basis as often as practicable throughout the year, but there will always be timing issues between when capital asset items are purchased, disposed of or transferred out in the outlying DNR locations versus when the capital assets listing is updated. We believe one of the primary reasons for these findings is the timing between the auditors' field visits versus the timing of the DNR's annual capital assets confirmation and related update of the

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listing. The results of the confirmation are typically not completely entered into the capital assets system until a month or so after the confirmation is conducted due to the workload of the inventory personnel. At the time the auditors chose to conduct their annual field visits, not all updated information from our annual confirmation had been entered. This would obviously increase the number of possible variances.

The Department does plan to review these issues with our field staff to underscore the importance of following our established policies and procedures. We are also in the process of reviewing our existing procedures in an effort to strengthen controls where necessary.

Conclusion – Response accepted.

- (2) Online Reservation Receipts – Online reservations are taken for campsites, cabins and lodges at State Park locations throughout Iowa. Payments for these reservations can either be made by credit card or mailed to a post office box. Iowa Interactive Development is under contract by the Department to collect the mail payments, deposit them and transfer the funds to the Department. The Department is not preparing a monthly reconciliation between the online Sales and Commission report and I/3.

Recommendation – The Department should develop written procedures and prepare a reconciliation between the online Sales and Commission report and I/3.

Response – The Department has recently developed business rules to address many of the issues with the current system and has been working with the Department of Administrative Services - Information Technology Enterprise in an attempt to resolve the ongoing issues relating to the State Parks Online Reservation System and Iowa Interactive Development.

Conclusion – Response accepted.

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Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Code Compliance – The Department was not in compliance with the following provisions of the Code of Iowa during the year ended June 30, 2008:

- (a) Toll Free Reporting Number – Chapter 455B.116 states the Department shall create a toll-free number to allow citizens to report instances resulting in the pollution of the environment or damage to natural resources.

The Department has not established the required toll free number.

- (b) Compliance Advisory Panel – Chapter 455B.150 states the Department shall create a compliance advisory panel pursuant to Title V, section 507(e) of the Federal Clean Air Act Amendments of 1990 to review and report on the effectiveness of the small business technical assistance program.

A compliance advisory panel has not been created.

- (c) Inspections – Chapter 455B.174(5) states the Director shall conduct random inspections of work done by city and county public works departments to ensure such public works departments are complying with applicable requirements.

The Director has not conducted random inspections of work done by city and county public works departments.

- (d) Water Well Construction – Chapter 455B.187 states contractors are to provide required information to the Department and the Iowa Geological Survey within thirty days after construction or reconstruction of a well.

The Department has not monitored whether the required information is being submitted timely.

- (e) Flood Plain Mapping – Chapter 455B.262(1) states the Department shall submit a progress report and proposed implementation schedule for flood plain mapping to the General Assembly biennially.

The Department has not submitted a progress report and proposed implementation schedule to the General Assembly.

- (f) Hazardous Waste Water Treatment – Chapter 455B.412(3) states the Department shall adopt rules for certifying supervisory personnel and operators of hazardous waste treatment, storage or disposal facilities.

The Department has not adopted the required rules.

- (g) Registry Of Hazardous Waste Sites or Hazardous Substance Disposal Sites – Chapter 455B.426(2) states the Director shall investigate all known or suspected hazardous waste or hazardous substance disposal sites and determine whether each site should be included in the registry.

The Director does not investigate hazardous waste and hazardous substance disposal sites to determine whether the site should be included in the registry.

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- (h) Research Proposals – Chapter 455B.484(10) states the Department shall solicit proposals from public and private agencies to conduct hazardous waste research and to develop and implement storage, treatment and other hazardous waste management practices.

The Department has not solicited the required proposals.

- (i) Infectious Waste Treatment – Chapter 455B.503 states the Commission shall adopt rules which require a person who owns or operates an infectious waste treatment or disposal facility to obtain an operating permit before initial operation of the facility.

The Commission has not adopted rules.

- (j) Infectious Medical Waste Collection and Transport – Chapter 455B.504 states the Commission shall adopt rules which require a person who owns or operates an infectious medical waste collection or transportation operation to obtain an operating permit before initial operation of the facility.

The Commission has not adopted the required rules.

- (k) Toxic Pollution Prevention Program – Chapter 455B.517(2) states the Department shall develop and implement a toxic pollution prevention program.

The Department has not developed the required program.

- (l) Toxic Pollution Forums – Chapter 455B.517(9) states the Department shall provide a forum for public discussion and deliberation of toxic substances and toxic pollution prevention.

The Department has not provided the required public forum.

- (m) Toxic Pollution Prevention Plans – Chapter 455B.518(5) states a toxics user shall maintain a copy of the plan on the premises and shall submit a summary of the plan to the Department.

The Department does not receive a summary of the Toxics Pollution Prevention Plan for toxics users.

- (n) Contamination Sites – Chapter 455B.601(1) states the Commission shall adopt rules to establish criteria for the classification and prioritization of sites upon which contamination has been discovered.

The Department has not developed criteria for the classification and prioritization of sites.

- (o) Waste Volume Reduction – Chapter 455D.15(3)(f) allows the Department to use up to 10% of the waste volume reduction and recycle fund to administer the provisions of Chapter 455D.15.

The Department did not provide supporting documentation to demonstrate no more than 10% of the waste volume reduction and recycling fund was used to administer the provisions of Chapter 455D.15.

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- (p) Ground Water Protection – Chapter 455E.8(10) states the Department, in conjunction with the Department of Education and the Department of Environmental Education at the University of Northern Iowa, shall develop a program regarding water quality.

The Department has not implemented this program.

- (q) Annual Report – Chapter 456.7 states the State Geologist shall annually, at the time provided by law, make a full report to the Governor of the work in the preceding year, which report shall be accompanied by such other reports and papers as may be considered desirable for publication.

The State Geologist has not provided the Governor a full report of the work in the preceding year.

- (r) State Preserves – Chapter 465C.8(12) requires the Department to prepare and recommend a budget for inclusion as a line item in the budget for appropriation from the state general fund for state preserves.

The Department has not set up a specific line item for the state preserves system.
The preserve system is included within the State Parks system.

Recommendation – The Department should comply with the Code of Iowa or seek to have the provisions changed or repealed.

Response –

- (a) The Department has established a spill hotline. Though it is not toll-free, it is a 24 hour/365 service that covers the entire state. Also, citizens can use the DNR website to voice complaints and concerns and at least one person from each of the Environmental Services six field offices is always on call.
- (b) The Compliance Advisory Panel remains unfilled. The Governor's appointments will expire on June 30, 2009. Susan Ekstrom's term expires on June 30, 2009. Douglas Rozendall's term expired on June 30, 2004. The House Speaker appointed John Arnold on August 21, 2008. His term expired on January 12, 2009. The Senate Minority Leader appointed Senator Shawn Hammerlinck on February 5, 2009. Unfortunately, Senator Hammerlinck did not meet the requirements in 455B.150 of owning or representing a small business.

The Department, with the Iowa Department of Economic Development, continues to request the leadership at the Legislature to make the appropriate appointments. The Department continues to work with the representatives of the Iowa Waste Reduction Center, the Department's Pollution Prevention Services, the Iowa Department of Economic Development and representatives of small business to address the needs of small businesses until the Compliance Advisory Panel is fully appointed.

- (c) This is a low priority for the Department and resources are currently unavailable to conduct the inspections. The large water utilities, which are the only systems to which this authority has been delegated, conduct their own inspections.

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- (d) The Department does maintain a well construction permit program. Permits are issued either by the Department or by the county sanitarian if the County has entered into a 28E agreement to issue the construction permit. The construction permit is issued to the landowner or their agent. Current rules do not require a permit be obtained to reconstruct a well. The construction permit specifically lists some requirements and includes others by reference by citing Chapter 49 Part 567 Iowa Administrative Code (IAC) and Chapter 82.2 Part 567 IAC. Construction permits can be viewed on the internet at <http://128.255.252.37/pwts/>. At the current time, we do not visit well sites to verify the well driller is certified. In addition, we do not verify the necessary information has been submitted to the Iowa Geological Survey.
- (e) During the 2009 legislative session, \$2,000,000 was appropriated for the Department's Flood Plain Management Program and \$15 million of federal disaster funding was appropriated for a flood plain mapping program. The Department will submit a progress report on the flood plain management program to the General Assembly during the 2010 legislative session. The Department has already begun work on a flood plain mapping plan which will also be made available to the General Assembly.
- (f) This rulemaking is part of the Resource Conservation and Recovery Act (RCRA) part C Hazardous Waste program the Department turned back to U.S. Environmental Protection Agency (U.S. EPA) in the mid-80's. The Department will recommend this be rescinded from the Code of Iowa during the 2010 legislative session.
- (g) The management of hazardous wastes is administered at the Federal level through the RCRA part C program. The federal government has not delegated responsibility for RCRA to the State of Iowa. As a result, an annual report for the State on the management of hazardous waste is not being produced. It would take legislative action to reassign the hazardous waste responsibilities from the U.S. EPA to the Department. We investigate such sites as we become aware of them, often as a by-product of real estate transactions. However, we do not engage in any systematic attempt to search out such sites. Listing new sites on the registry has been a very low priority item for several years. Most contaminated sites are currently handled through other programs.
- (h) The Department does not solicit proposals from public and private agencies. We will make the recommendation to rescind this code section during the 2010 legislative session.
- (i) Due to higher rulemaking priorities, these rules have not been developed. It is anticipated that rulemaking for this code section will be undertaken in 2011.
- (j) Due to higher rulemaking priorities, these rules have not been developed. It is anticipated that rulemaking for this code section will be undertaken in 2011.
- (k) There is no funding for this particular program. The Department will recommend this be rescinded from the code during the 2010 legislative session.
- (l) There is no funding for this particular program. The Department will recommend this be rescinded from the code during the 2010 legislative session.

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- (m) There is no funding for this particular program. The Department will recommend this be rescinded from the code during the 2010 legislative session.
- (n) Rules have not been developed since there are no staffing resources or funding dedicated to this program.
- (o) This provision needs to be revised to reflect how the funding is actually now being used. The Department will recommend the language be adjusted accordingly during the 2010 legislative session.
- (p) The Department works closely with educators across the State to develop and provide materials and messages addressing water quality. We distribute books, pamphlets, flyers and other printed materials to schools. The Department is currently working on a project with the Grant Wood Area Education Agency (AEA) to develop tools to help school districts meet the new Iowa Core Curriculum requirements for science. This project trains teachers to do basic water quality testing (IOWATER volunteer monitoring program) and provides college credit and Earth Science endorsement for the teachers enrolled in the project. The goal of the grant (No Child Left Behind, Title II grant) is to expand problem-based and inquiry in science teaching to all school districts through cooperation with the ten AEAs. Staff members also present information to students in the areas of geology and water quality. A groundwater basics book was created and distributed to all schools and public libraries.
- (q) Annual report information is available from the State Geologist but has not specifically been provided to the Governor. A report to the Governor will be submitted in fiscal year 2010 for fiscal year 2009.
- (r) The Department has not recommended a specific state preserves line item for appropriation as a result of direction from the Department of Management in recent years that all Departments submit a status quo budget.

Conclusion – Response acknowledged. The Department should comply with the Code of Iowa or seek to have the provisions changed or repealed.

Report of Recommendations to the Iowa Department of Natural Resources

June 30, 2008

Staff:

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager
Deborah J. Moser CPA, Manager
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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