

DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MARCH 24, 2010

**LEGISLATIVE AUDITOR
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POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$15.10. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3356 or Report ID No. 80090014 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

March 1, 2010

DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2009, we considered the Department of Natural Resources' internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements as required by *Government Auditing Standards*.

The Annual Fiscal Reports of the Department of Natural Resources were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of procedures referred to previously, all significant findings are included in this letter for management's consideration.

Inadequate Controls Over Electronic Fund Transfers

The Department of Natural Resources (DNR) did not establish and implement adequate control procedures to ensure that current year oil and gas royalty revenues received after the close of the fiscal year through electronic fund transfers were accounted for and posted to the correct fiscal year. Audit procedures revealed that electronic fund transfers received in July 2009 totaling \$15.9 million were erroneously posted to fiscal year 2010. Good internal controls over financial reporting should include procedures to ensure that all electronic fund transfers are accounted for and posted to the correct fiscal year for proper allocation among the various mineral resource revenues and receivables.

DNR relied on wire notifications from the state treasurer's office instead of reviewing the bank statement to ensure that all electronic transfers were accounted for and posted to the correct fiscal year. As a result, select mineral resource revenues and receivables were

collectively understated by \$15.9 million. Failure to ensure that all electronic fund transfers are properly accounted for increases the risk that misstatements from fraud or errors may occur and remain undetected.

DNR management should establish and implement control procedures to ensure that all electronic fund transfers are accounted for and posted to the correct fiscal year. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

The recommendation in this letter represents, in our judgment, that most likely to bring about beneficial improvements to the operations of the department. The nature of the recommendation, its implementation cost, and its potential impact on the operations of the department should be considered in reaching decisions on courses of action.

In addition, we have included Budgetary Comparison Schedules, which were prepared from the Annual Fiscal Report of the Department of Natural Resources and from additional data in the Integrated Statewide Information System (ISIS), the state's accounting system. These schedules are presented as additional information, but have not been subjected to auditing procedures.

This letter is intended for the information and use of the department and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA
Temporary Legislative Auditor

MMG:WDG:EFS:PEP:dl

DNR09

BUDGETARY COMPARISON SCHEDULES (UNAUDITED)

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UNAUDITED

**DEPARTMENT OF NATURAL RESOURCES
AGENCY 431 - OFFICE OF THE SECRETARY**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	<u>TOTAL BEFORE ADJUSTMENTS</u>	<u>AGENCY ADJUSTMENTS</u>	<u>ADJUSTED TOTAL</u>	<u>REVISED BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
State general revenue	\$3,770,223		\$3,770,223	\$3,821,469	(\$51,246)
Federal aid	936,059		936,059	2,638,464	(1,702,405)
General Fund - self-generated revenues	98,744		98,744	285,875	(187,131)
General Fund - interagency transfers	8,085,112		8,085,112	8,629,240	(544,128)
Fisherman's Gear Compensation Fund	666,128		666,128	999,891	(333,763)
Oilfield Site Restoration Fund	5,231,159		5,231,159	6,111,368	(880,209)
Petroleum Violation Escrow Fund - Warner	163,514		163,514	202,198	(38,684)
Petroleum Violation Escrow Fund - Stripper Well	73,060		73,060	696,040	(622,980)
Petroleum Violation Escrow Fund - Exxon	11,703,150		11,703,150	15,539,536	(3,836,386)
Federal Energy Settlement - Direct Restitution				125,614	(125,614)
Petroleum Violation Escrow Fund - Office of Hearings and Appeals	431,571		431,571	435,447	(3,876)
2004 Over Collection Fund	1,100,178		1,100,178	1,100,178	
Total Appropriated Revenues	\$32,258,898	NONE	\$32,258,898	\$40,585,320	(\$8,326,422)

APPROPRIATED EXPENDITURES:

	<u>DNR AUXILIARY</u>	<u>ACT 672 & HIRING FREEZE</u>	<u>EXECUTIVE</u>	<u>MANAGEMENT AND FINANCE</u>	<u>TECHNOLOGY ASSESSMENT</u>
Personal services			\$1,125,096	\$5,370,695	\$1,600,670
Travel			11,148	53,364	23,118
Operating services			32,448	843,365	25,113
Supplies			30,147	34,954	12,553
Professional services			18,000	47,487	
Other charges	\$11,373,345		4,481,078	492,176	507,574
Capital outlay				763,548	1,875
Interagency transfers			770,968	4,056,894	281,869
Total appropriated expenditures before adjustments	11,373,345		6,468,885	11,662,483	2,452,772
System adjustments			(58)		(58,578)
Total Appropriated Expenditures	11,373,345	NONE	6,468,827	11,662,483	2,394,194
Revised Budget	14,236,852	\$9,101	7,410,619	12,645,372	5,931,531
Variance Favorable (Unfavorable)	\$2,863,507	\$9,101	\$941,792	\$982,889	\$3,537,337

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

<u>ATCHAFALAYA BASIN PROGRAM</u>	<u>TOTAL</u>
\$230,413	\$8,326,874
326	87,956
7,534	908,460
12,462	90,116
	65,487
4,316	16,858,489
17,481	782,904
28,066	5,137,797
<u>300,598</u>	<u>32,258,083</u>
	(58,636)
<u>300,598</u>	<u>32,199,447</u>
<u>351,845</u>	<u>40,585,320</u>
<u>\$51,247</u>	<u>\$8,385,873</u>

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UNAUDITED

**DEPARTMENT OF NATURAL RESOURCES
AGENCY 432 - OFFICE OF CONSERVATION**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$2,965,939		\$2,965,939	\$2,965,939	
Federal aid	914,577		914,577	1,749,226	(\$834,649)
General Fund - self-generated revenues	1,997		1,997	20,000	(18,003)
General Fund - interagency transfers	3,009,816		3,009,816	5,151,416	(2,141,600)
Underwater Obstruction Removal Fund	20,703		20,703	263,421	(242,718)
Oil and Gas Regulatory Fund	9,161,775		9,161,775	9,257,764	(95,989)
2004 Over Collection Fund	375,687		375,687	375,687	
Total Appropriated Revenues	\$16,450,494	NONE	\$16,450,494	\$19,783,453	(\$3,332,959)

APPROPRIATED EXPENDITURES:

	ACT 672 & HIRING FREEZE	OIL AND GAS REGULATORY	PUBLIC SAFETY	TOTAL
Personal services		\$8,632,181	\$4,301,270	\$12,933,451
Travel		15,177	57,959	73,136
Operating services		372,438	47,877	420,315
Supplies		164,513	108,389	272,902
Professional services			388,000	388,000
Other charges		213,963	450,323	664,286
Capital outlay		28,980	6,921	35,901
Interagency transfers		1,241,621	734,882	1,976,503
Total appropriated expenditures before adjustments	NONE	10,668,873	6,095,621	16,764,494
System adjustments		(17,413)	(2,694)	(20,107)
Total Appropriated Expenditures	NONE	10,651,460	6,092,927	16,744,387
Revised Budget		12,958,473	6,824,980	19,783,453
Variance Favorable (Unfavorable)	NONE	\$2,307,013	\$732,053	\$3,039,066

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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**DEPARTMENT OF NATURAL RESOURCES
AGENCY 434 - OFFICE OF MINERAL RESOURCES**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Federal aid	\$59,999		\$59,999	\$127,681	(\$67,682)
General Fund - self-generated revenues				20,000	(20,000)
Mineral Resources Operating Fund	12,291,992		12,291,992	12,360,806	(68,814)
Total Appropriated Revenues	\$12,351,991	NONE	\$12,351,991	\$12,508,487	(\$156,496)

APPROPRIATED EXPENDITURES:

	DNR AUXILIARY	ACT 672 & HIRING FREEZE	TOTAL
Personal services	\$5,815,175		\$5,815,175
Travel	123,371		123,371
Operating services	397,047		397,047
Supplies	32,929		32,929
Professional services	407,406		407,406
Other charges	261,614		261,614
Capital outlay	52,739		52,739
Interagency transfers	5,261,711		5,261,711
Total appropriated expenditures before adjustments	12,351,992	NONE	12,351,992
System adjustments	(9,466)		(9,466)
Total Appropriated Expenditures	12,342,526	NONE	12,342,526
Revised Budget	12,508,487		12,508,487
Variance Favorable (Unfavorable)	\$165,961	NONE	\$165,961

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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**DEPARTMENT OF NATURAL RESOURCES
AGENCY 435 - OFFICE OF COASTAL RESTORATION AND MANAGEMENT**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Federal aid	\$274,265,467		\$274,265,467	\$20,500,786	\$253,764,681
General Fund - self-generated revenues	405,457		405,457	420,000	(14,543)
General Fund - interagency transfers	211,226		211,226	1,244,595	(1,033,369)
Coastal Resources Trust Fund	827,674		827,674	970,332	(142,658)
Oil Spill Contingency Fund	128,196		128,196	159,970	(31,774)
Coastal Protection and Restoration Fund	87,172,281		87,172,281	95,989,497	(8,817,216)
	<u>\$363,010,301</u>	<u>NONE</u>	<u>\$363,010,301</u>	<u>\$119,285,180</u>	<u>\$243,725,121</u>

APPROPRIATED EXPENDITURES:

	COASTAL RESTORATION AND MANAGEMENT	ACT 672 & HIRING FREEZE	TOTAL
Personal services	\$13,430,699		\$13,430,699
Travel	83,248		83,248
Operating services	1,209,091		1,209,091
Supplies	194,643		194,643
Professional services	700		700
Other charges	83,749,824		83,749,824
Capital outlay	390,715		390,715
Interagency transfers	10,186,700		10,186,700
Total appropriated expenditures before adjustments	109,245,620	NONE	109,245,620
System adjustments	(3,190,799)		(3,190,799)
Total Appropriated Expenditures	106,054,821	NONE	106,054,821
Revised Budget	118,744,150	\$541,030	119,285,180
Variance Favorable (Unfavorable)	<u>\$12,689,329</u>	<u>\$541,030</u>	<u>\$13,230,359</u>

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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Management's Corrective Action
Plan and Response to the
Finding and Recommendation

BOBBY JINDAL
GOVERNOR



SCOTT A. ANGELLE
SECRETARY

State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF MANAGEMENT AND FINANCE

November 24, 2009

Mr. Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Inadequate Controls over Electronic Fund Transfers

Dear Mr. Theriot:

The Department of Natural Resources concurs with this finding. DNR has established and implemented control procedures to ensure all electronic fund transfers are accounted for and posted to the correct fiscal year. Accounting procedures have been formally revised and implemented to require the receivables manager review the appropriate Integrated Statewide Information System (ISIS) table to determine the proper classification of revenue daily. Gwendolyn Thomas, DNR Fiscal Officer, is responsible for this corrective action.

DNR management is committed to ensuring that appropriate procedures are established and adhered to in order to ensure that all revenue is correctly classified. We thank you for your assistance in the matter.

If you need additional information in this matter, please do not hesitate to call me at 342-4534.

Sincerely,

A handwritten signature in cursive script that reads "Robert D. Harper".

Robert D. Harper
Undersecretary

RDH/mh