

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Natural Resources
State of Louisiana
Baton Rouge, Louisiana

December 3, 2003



Financial and Compliance Audit Division

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Albert J. Robinson, Jr., CPA

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DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated November 19, 2003

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.

December 3, 2003



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LEGISLATIVE AUDITOR
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November 19, 2003

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, 2003, 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 Report of the Department of Natural Resources is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Department of Natural Resources for the year ended June 30, 2002, we reported findings related to contracted services not cost beneficial and not compliant, related party transactions not properly disclosed, inadequate information technology policies, improper retroactive pay increases, and questionable claims in the home energy rebate option program. The finding related to inadequate information technology policies has not been fully resolved by management and is addressed again in this letter. The other findings have been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2003.

Lack of Control Over Payroll Records

The Department of Natural Resources (DNR) did not maintain adequate controls over payroll records. Good internal control includes an adequate review function to ensure data are accurate and reliable and that errors and/or fraud are detected timely. In addition, personnel files should contain support for all payroll deductions to ensure proper payments are made to employees.

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DEPARTMENT OF NATURAL RESOURCES STATE OF LOUISIANA

Management Letter, Dated November 19, 2003

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Audit procedures performed on the payroll class of transactions disclosed the following weaknesses:

- Twenty (29%) of 70 time sheets tested had not been approved by the supervisor.
- Fourteen (14%) of 97 leave slips tested had not been approved by the supervisor.
- Nine (37%) of 24 employees' payroll files did not contain an L-4 (state tax withholding form) or W-4 (federal tax withholding form) or both to authorize payroll deductions.
- Four (17%) of 24 employees' payroll files did not contain signed authorization forms for payroll deductions, such as dental insurance, life insurance, credit union deduction, and deferred compensation. One file did not have authorization forms for three separate deductions.
- Seventeen (71%) of 24 employees' payroll files did not contain a signed direct deposit authorization form and/or the employee's cancelled check.

DNR does not have a policy that provides for the timely review and approval of employees' time sheets and leave slips in the absence of the regular supervisor. In addition, when the personnel and payroll files were merged, DNR's Human Resource section destroyed payroll documents older than five years, including W-4's and L-4's, because of limited storage space. Failure to maintain adequate controls over payroll records increases the risk that errors and/or fraud may be committed and not detected in a timely manner.

Management should implement a policy to ensure the timely review and approval of employees' time sheets and leave slips in the absence of the regular supervisor. In addition, management should ensure that documentation is maintained to support payroll deductions and should review all employees' payroll records to verify payroll deductions are properly authorized. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 1).

Lack of a Disaster Recovery/Business Continuity Plan

For the second consecutive year, DNR does not have a disaster recovery/business continuity plan. Good internal control requires that the department develop a written disaster recovery/business continuity plan and obtain access to an offsite disaster recovery facility to provide for the timely restoration of critical operations in the event that normal data processing facilities are unavailable for an extended period of time.

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A review of the department's information technology policies disclosed that the department does not have a disaster recovery/business continuity plan and did not allocate current funds to obtain access to an offsite disaster facility. Failure to implement a disaster recovery/business continuity plan increases the risk that untimely or excessive delays in processing critical data may occur and that critical data may be lost.

DNR should prepare a written disaster recovery/business continuity plan, allocate current funds to contract for an offsite disaster recovery facility, and test the plan periodically and update it as necessary to ensure that the plan continues to meet the department's needs. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 2).

Ineffective Internal Audit Function

DNR does not have an effective internal audit function to serve management by examining, evaluating, and reporting on its internal control, including information technology, and evaluating its compliance with the policies and procedures of the control system. An effective internal audit function is needed to ensure that assets are safeguarded and that management's policies and procedures are applied in accordance with management's intentions.

Since December 2002, DNR management has filled its internal auditor position with a part-time employee. Considering the size of DNR's reported current assets (\$111 million) and modified accrual revenues (\$528.6 million), the internal auditor position should be staffed with a full-time employee.

In addition, DNR's internal audit function has the following weaknesses:

- As of October 2003, DNR's risk assessment that was performed during fiscal year 2001 has not been updated. Maintaining a current risk assessment is a critical step in sustaining an effective internal audit function.
- Internal audit reports are not always addressed to the members of the Audit Advisory Committee and are not always addressed directly to the DNR secretary as required by the DNR Internal Audit Charter.

Management should establish an effective internal audit function, which would include a full-time internal auditor, to provide management with an evaluation of its internal control and compliance with the policies and procedures of the control system. Management did not concur with the finding (see Appendix A, page 3).

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Additional Comments: The action of filling the internal auditor position with a part-time employee who has no prior audit background, instead of a full-time auditor, reduces the effectiveness and efficiency of the internal audit function. Two of the seven internal audit reports issued during fiscal year 2003 were not addressed to the department's secretary.

Noncompliance With Unclaimed Property Regulations

DNR does not have procedures established to ensure compliance with the state's unclaimed property regulations. Louisiana Revised Statute (R.S.) 9:159 provides that a holder (DNR) of property presumed abandoned shall make a report to the administrator (State Treasurer) concerning the property. The report shall be filed before November first of each year and cover the 12 months next preceding July first of that year. In addition, R.S. 9:159(E) requires that the holder of property presumed abandoned shall send written notice to the apparent owner not more than 120 days nor less than 60 days before filing the report stating that the holder is in possession of property.

Audit procedures performed on controls over unclaimed property disclosed that DNR does not have procedures to ensure that the annual unclaimed property report is accurate (complete) and submitted timely or that written notices are provided as required by R.S. 9:159(E). The most recent unclaimed property report was dated June 9, 2003, for the period of January 1, 2000, to August 31, 2002, and was submitted only after inquiries by the auditor. The previous report was submitted on February 22, 2000.

Management should establish procedures to comply with the state's unclaimed property regulations and ensure that appropriate personnel have a proper understanding of those regulations. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 4).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

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This letter is intended solely for the information and use of the department and its management 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 the appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large initial "G" and "A".

Grover C. Austin, CPA
First Assistant Legislative Auditor

LLG:EFS:PEP:dI

[DNR03]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

State of Louisiana



M.J. "MIKE" FOSTER, JR.
GOVERNOR

JACK C. CALDWELL
SECRETARY

DEPARTMENT OF NATURAL RESOURCES

August 18, 2003

Mr. Grover Austin, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Lack of Control Over Payroll Records

Dear Mr. Austin:

The Department of Natural Resources concurs with the above referenced audit finding. To address the problem of the lack of timely review and approval of employees' time sheets and leave slips, formal notification has been directed by Secretary Jack C. Caldwell to the various appointing authorities of the Department that all time sheets and leave slips must be approved by the appropriate supervisor. Also, to address the problem, our internal auditing plan has been modified to include a random quarterly audit of time sheets and leave slips.

In the case of payroll files not containing signed authorization forms, the effected employees have been contacted and the appropriate authorizations signed. Furthermore our records retention plan will be modified by departmental Personnel Officer, Anne Tillman, to exclude the purging of these forms.

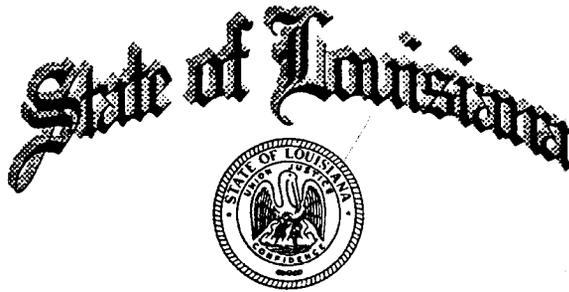
If you have any questions in regard to this matter or wish to discuss it further, do not hesitate to call me at 342-4534.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert D. Harper".

Robert D. Harper
Undersecretary

RDH/mg



M.J. "MIKE" FOSTER, JR.
GOVERNOR

JACK C. CALDWELL
SECRETARY

DEPARTMENT OF NATURAL RESOURCES

October 8, 2003

Mr. Grover Austin, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Lack of Disaster Recovery/Business Continuity Plan

Dear Mr. Austin:

The Department of Natural Resources concurs with the above referenced audit finding. To address the finding in our budget request for fiscal year 2002-2003, the Department's first priority New or Expanded Program (N.E.) was for funding for this purpose. However, funding was not recommended for this in the Executive Budget nor appropriated during the legislative session. We then began working with the Chief Information Officer to try to effect an interim solution. As a result of this, on September 26, 2003, DNR along with the Department of Transportation and Development and the Department of Environmental Quality were able to obtain a \$281,250 grant from the Louisiana Innovative Technology Fund. The purpose of the grant is to pilot the use of specialized disaster recovery plan development software recently acquired by the Division of Administration. Rizwan Ahmed is the staff member responsible for this matter and we intend to have our plan in place in the current fiscal year.

If you have any questions in regard to this matter or wish to discuss it further, do not hesitate to call me at 342-4534.

Sincerely,

Robert D. Harper
Undersecretary

RDH/mg

State of Louisiana



M.J. "MIKE" FOSTER, JR.
GOVERNOR

JACK C. CALDWELL
SECRETARY

DEPARTMENT OF NATURAL RESOURCES

October 28, 2003

Mr. Grover Austin, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Effective Internal Audit Functions

Dear Mr. Austin:

The Department of Natural Resources does not concur with the finding that the Department does not have an effective internal audit function. During fiscal 2002-03 the audits performed by both the current incumbent and his predecessor have ranged from payroll to data port utilization to timely deposit of revenue. Also included has been quarterly performance data review.

The Department does agree that the DNR risk management assessment has not been updated since 2001. However, our analysis of the audit reports done in 2002-03 reflects that all reports were directed to the Secretary of the Department. The only report not submitted to the Secretary was a special report on the disappearance of a cabletron hub which was submitted to the Undersecretary in association with his responsibility for property control and data processing. We do not consider this an audit weakness. As for submitting audit reports to the Audit Committee in the future, DNR will comply with our charter.

In closing, out of our concern for repeat audit findings, we will discuss with the incoming administration the need for a full-time auditor.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert D. Harper".

Robert D. Harper
Undersecretary

RDH/mg

State of Louisiana



M.J. "MIKE" FOSTER, JR.
GOVERNOR

JACK C. CALDWELL
SECRETARY

DEPARTMENT OF NATURAL RESOURCES

August 18, 2003

Mr. Grover Austin, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Noncompliance with Unclaimed Property Regulations

Dear Mr. Austin:

The Department of Natural Resources concurs with the above referenced audit finding.

This occurred due to an oversight during a reorganization in the Accounting Services Section. Ms. Lana Humphries will modify the Department's Imprest Fund procedures to formally include those actions necessary to comply with the state's unclaimed property regulations.

If you have any questions in regard to this matter or wish to discuss it further, 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/mg