

DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED DECEMBER 10, 2014

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 10, 2014

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Mr. Stephen Chustz, Secretary,
Louisiana Department of Natural Resources

Dear Senator Alario, Representative Kleckley, and Mr. Chustz:

This report includes the results of the procedures we performed at the Department of Natural Resources (DNR) for the period from July 1, 2013 through June 30, 2014. Our objective was to evaluate certain controls that DNR uses to ensure accurate financial reporting and transparency, compliance with applicable laws and regulations, and to provide overall accountability over public funds. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of DNR for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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DNR 2014

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Natural Resources

December 2014

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Introduction

The primary purpose of our procedures at the Department of Natural Resources (DNR) was to evaluate certain internal controls DNR uses to ensure accurate financial reporting and transparency, compliance with applicable laws and regulations, and to provide overall accountability over public funds.

DNR is a component of the state of Louisiana created within the executive branch of state government. It was created in 1976 by Louisiana Revised Statute 36:351. The executive officer of DNR is the Secretary, who is appointed by the Governor. Along with the Office of the Secretary, there are three primary offices of the department: Office of Coastal Management, Office of Conservation, and Office of Mineral Resources. DNR serves as one of state government's major revenue-generating agencies by way of oil and gas bonuses, rentals, and royalties.

Results of Our Procedures

We evaluated DNR's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DNR. Based on the documentation of DNR's controls and our understanding of related laws and regulations, we performed procedures on information technology (IT) controls.

Information Technology (IT) Controls

We performed a review of IT controls and identified processes and applications used by the department to transmit, process, maintain, and access transactions and data electronically, including the following:

1. IT governance
2. Continuity of operations, disaster recovery and business continuity planning, backup, and disk wiping
3. Security

4. Strategic Online Natural Resources Information System (SONRIS) change control
5. State royalty reporting
6. SONRIS data reliability

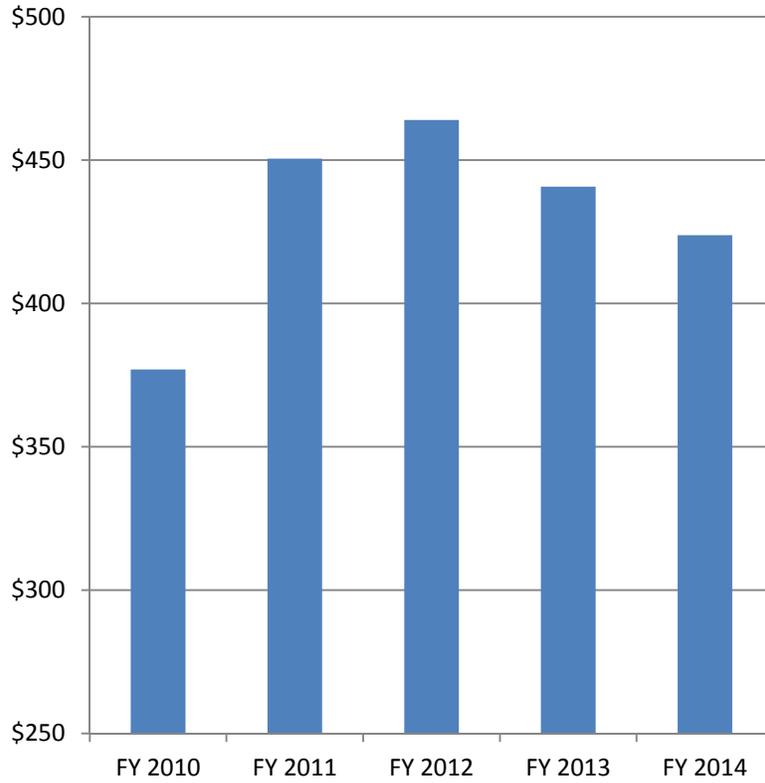
Based on our procedures, DNR's key IT controls relating to the processes and applications reviewed were adequately designed, properly implemented, and were operating with sufficient effectiveness during fiscal year 2014.

Trend Analysis

We compared the most current- and prior-year financial activity using DNR's annual fiscal reports and/or system generated reports and obtained explanations from DNR management for significant variances.

We also prepared an analysis of royalty revenues over the last five years. Fluctuations in revenues are primarily attributed to changes in oil and gas prices and production levels, as well as natural disaster occurrences, such as hurricanes and oil spills. In fiscal year 2012, the average price-per-barrel of crude oil received by oil companies peaked to \$114 per-barrel and has declined to \$104 in fiscal year 2014.

Exhibit 1
Royalty Revenues, by Fiscal Year (FY)
(in millions)



Source: FY 2010-2014 DNR Annual Fiscal Reports, as adjusted

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Natural Resources (DNR) for the period from July 1, 2013 through June 30, 2014. Our objective was to evaluate certain internal controls DNR uses to ensure accurate financial reporting and transparency, compliance with applicable laws and regulations, and to provide overall accountability over public funds.

- We evaluated DNR's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DNR.
- Based on the documentation of DNR's controls and our understanding of related laws and regulations, we performed procedures on IT controls and identified processes and applications used by the department to transmit, process, maintain, and access transactions and data.
- We compared the most current- and prior-year financial activity using DNR's annual fiscal reports and/or system-generated reports and obtained explanations from DNR management for significant variances.

The scope of our procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The purpose of this report is solely to describe the scope of our work at DNR and not to provide an opinion on the effectiveness of DNR's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review DNR's Annual Fiscal Report, and, accordingly, we do not express an opinion on that report. DNR's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.