

DEPARTMENT OF NATURAL RESOURCES  
STATE OF LOUISIANA



MANAGEMENT LETTER  
ISSUED FEBRUARY 23, 2011

**LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
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 \$14.35. 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](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 3356 or Report ID No. 80100095 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Administration Manager, at 225-339-3800.

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Our procedures at the Department of Natural Resources (DNR) for the period July 1, 2009, through June 30, 2010, disclosed the following:

- DNR failed to timely submit federal financial reports for the Coastal Impact Assistance Program (CIAP, CFDA 15.426) and the Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements Program (EPA, CFDA 66.436).
- The finding identified in the prior year report on DNR relating to inadequate controls over electronic fund transfers has been resolved by management.
- No significant control deficiencies or noncompliance were identified in our procedures relating to royalty revenues that would require reporting under *Government Auditing Standards*.
- Other than the finding noted in the first bullet, no significant control deficiencies or noncompliance that would require reporting under Office of Management and Budget (OMB) Circular A-133 were identified for the following federal programs for fiscal year ended June 30, 2010:
  - Coastal Impact Assistance Program (CFDA 15.426)
  - Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements Program (EPA, CFDA 66.436)

This report is a public report and has been distributed to state officials. We appreciate DNR's assistance in the successful completion of our work.

### **Mission**

The mission of DNR is to preserve and enhance the nonrenewable natural resources of the state, consisting of land, water, oil, gas, and other minerals, through conservation, regulation, management and development to ensure that the state of Louisiana realizes appropriate economic benefit from its asset base. Also, DNR exercises complex regulatory and permitting functions through the Office of Coastal Management and the Office of Conservation.

DNR serves as one of state government's major revenue-generating agencies by way of oil and gas bonuses, rentals, and royalties.

DNR's aim is to exercise prudent and effective management, using a business plan approach, through long-range planning strategies. Its governing philosophy is open and receptive to innovative ideas, technologies and the promotion of a cleaner, safer environment. DNR strives to facilitate an excellent working relationship with industry, with a strong emphasis on reaching mutual goals.

Lastly, DNR endeavors to assist the citizens of the state through education, its many services, and its public outreach efforts.

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA

February 10, 2011

**DEPARTMENT OF NATURAL RESOURCES**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements for the fiscal year ended June 30, 2010, we conducted certain procedures at the Department of Natural Resources (DNR) for the period from July 1, 2009, through June 30, 2010.

- Our auditors obtained and documented an understanding of the DNR operations and system of internal controls, including internal controls over major federal award programs administered by DNR, through inquiry, observation, and review of its policies and procedures documentation including a review of the related laws and regulations applicable to DNR.
- Our auditors performed analytical procedures consisting of a comparison of 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 of any significant variances.
- Our auditors reviewed the status of the finding identified in the prior year engagement. In our prior audit report on DNR, dated March 1, 2010, we reported a finding relating to inadequate controls over electronic fund transfers.
- Our auditors considered internal control over financial reporting, examined evidence supporting DNR's state royalty revenues and receivables, and tested its compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, in accordance with *Government Auditing Standards*.
- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2010, as part of the Single Audit for the State of Louisiana:

- Coastal Impact Assistance Program (CFDA 15.426)
- Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements Program (EPA, CFDA 66.436)

The Annual Fiscal Reports of DNR were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. DNR'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 the procedures referred to previously, the prior year finding relating to inadequate controls over electronic fund transfers has been resolved by management. Other than noted in the finding below, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures, including our procedures on federal programs that should be communicated to management.

The following significant finding was included in this report for management's consideration.

#### **Untimely Federal Financial Reporting**

DNR failed to timely submit federal financial reports for the Coastal Impact Assistance Program (CIAP, CFDA 15.426) and the Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements Program (EPA, CFDA 66.436). The CIAP and EPA grant award agreements require annual financial reports to be submitted within 90 days of the end of the grant year.

In our test of required reporting for the CIAP grant, we determined that the annual federal financial report for the period ended June 4, 2010, was not submitted to the federal grantor until November 22, 2010, which is 80 days late.

In addition, for two EPA grant projects the annual federal financial report for the period ended June 30, 2010, was not submitted to the federal grantor until January 14, 2011, which is 108 days late.

Although DNR contacted the federal grantor for guidance on the EPA grant reporting requirements, there was a misunderstanding and the department was not aware that annual reports should be submitted. DNR initially submitted quarterly financial reports on the CIAP grant during fiscal year 2010 but later received guidance that annual reports are required. The department also cites personnel turnover in the fiscal section as a contributing factor for not submitting the CIAP annual report timely. Failure to timely submit financial reports results in noncompliance with federal regulations and could result in termination of the award.

Management of DNR should assign adequate resources and implement procedures to ensure that financial reports are submitted timely to the grantor agency. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

The recommendation in this letter represents, in our judgment, one most likely to bring about beneficial improvements to the operations of DNR. The nature of the recommendation, its implementation costs, and its potential impact on the operations of DNR should be considered in reaching decisions on courses of action. The finding relating to DNR's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of DNR 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, CFE  
Legislative Auditor

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DNR 2010

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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**

January 19, 2011

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

RE: Untimely Federal Financial Reporting

Dear Mr. Purpera:

The Department of Natural Resources concurs with this finding. DNR understands the importance of ensuring that federal regulations governing federal awards are understood and followed. The Fiscal Section has revised and implemented control procedures to ensure that annual financial reports are prepared and submitted timely. Adequate personnel have been assigned to perform necessary reporting and the supervising Accountant Manager will be responsible for the fiscal monitoring and compliance of the requirements for each federal award. Gwendolyn Thomas, Fiscal Officer, is responsible for this corrective action.

DNR management remains committed to accurately and appropriately adhering to all federal regulations and will continue to ensure that all federal income is properly managed.

If additional information is needed, please do not hesitate to call me at 342-4534.

Sincerely,

A handwritten signature in blue ink that reads "Robert D. Harper".

Robert D. Harper  
Undersecretary

RDH/mm