

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Natural Resources
State of Louisiana
Baton Rouge, Louisiana

January 8, 1997



Financial and Compliance Audit Division

*Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor*

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DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated November 12, 1996

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.

January 8, 1997



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (504) 339-3800
FACSIMILE: (504) 339-3870

November 12, 1996

DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the financial statements of the State of Louisiana for the year ended June 30, 1996, we conducted certain procedures at the Department of Natural Resources. Our procedures included (1) a review of certain department internal control structures; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The Annual Fiscal Report of the Department of Natural Resources is not within the scope of our procedures, and, accordingly, we do not express an opinion or any other form of assurance on that report. The department's accounts are an integral part of the financial statements of the State of Louisiana upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected department personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior audit of the Department of Natural Resources for the year ended June 30, 1995, we reported a finding relating to electronic data processing controls. The department made substantial progress in resolving this finding and it is not repeated in this report.

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

Incorrect Royalty Allocations

The Department of Natural Resources failed to properly allocate \$697,565 of mineral income to the parishes as required by state law. Louisiana Revised Statute (LSA-R.S.) 30:136 requires that one-tenth of royalties from mineral leases on public lands or water bottoms be remitted to the parish in which severance or production occurs. Twice during the year, the department adjusted credit balances in overriding royalties, which are incentives offered to the state by oil companies to obtain a lease, against the amount owed to various parishes under LSA-R.S. 30:136. Overriding royalties are

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accrued directly to the state and any corrections in overriding royalties should be taken against distributions to the state. These errors occurred because new personnel did not understand how to handle these transactions properly.

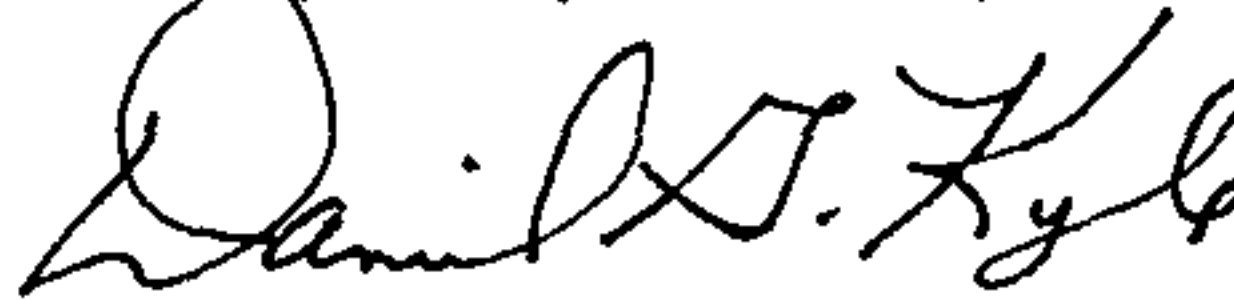
Upon notification of these errors, the department immediately corrected the distributions in the following two months. However, had the errors not been detected by the auditor, state royalties would have been overstated by \$697,565 on the state's financial statements and the parishes against which the credits were taken would not have received their proper share of royalties.

The department should ensure that all personnel calculating the distribution of mineral income understand how to handle all types of credit balances. In a letter dated October 17, 1996, Mr. Robert D. Harper, Undersecretary, concurred with the finding and stated that, in the future, written approval from the fiscal officer would be required for all revenue classification adjustments.

The recommendations in this report 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 operations of the department should be considered in reaching decisions on courses of action.

By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

JRD:MWB:dl

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