

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Natural Resources
State of Louisiana
Baton Rouge, Louisiana

January 5, 2000



Financial and Compliance Audit Division

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

LEGISLATIVE AUDIT ADVISORY COUNCIL

MEMBERS

Senator J. "Tom" Schedler, Chairman
Representative Francis C. Thompson, Vice Chairman

Senator Robert J. Barham
Senator Wilson E. Fields
Senator Thomas A. Greene
Senator Craig F. Romero
Representative F. Charles McMains, Jr.
Representative Edwin R. Murray
Representative Warren J. Triche, Jr.

LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

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. Twenty copies of this public document were produced at an approximate cost of \$51.40. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. A copy of this document is available on the Legislative Auditor's Web site at www.la.state.la.us.

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, Director of Administration, at 225/339-3800.

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

Management Letter
Dated December 10, 1999

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 5, 2000



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: (225) 339-3800
FACSIMILE: (225) 339-3870

December 10, 1999

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, 1999, we conducted certain procedures at the Department of Natural Resources. Our procedures included (1) a review of certain departmental internal controls; (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 June 30, 1999, Annual Fiscal Report of the Department of Natural Resources was not audited or reviewed by us, 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 State of Louisiana's financial statements, 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 management letter dated December 10, 1998, to the Department of Natural Resources, we reported findings related to an ineffective internal audit function and errors in classification of mineral income. These findings have not been resolved.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration. Management's responses to the findings are included in Appendix A.

Ineffective Internal Audit Function

For the third consecutive year, the Department of Natural Resources did not have an effective internal audit function. The internal audit function should provide management with assurances that assets of the department are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations, and procedures are sufficient to prevent or detect errors and/or fraud in a

LEGISLATIVE AUDITOR

DEPARTMENT OF NATURAL RESOURCES STATE OF LOUISIANA

Management Letter, Dated December 10, 1999

Page 2

timely manner. Although the department's internal auditor performed some audits, the planning and performance of those audits were not in accordance with the department's *Internal Audit Charter* as follows:

- The internal auditor did not prepare an annual audit work schedule, staffing plan, and budget for the 1999 fiscal year.
- The internal auditor either did not prepare or did not complete audit programs for each individual audit.
- The internal auditor did not follow up on reported internal or external audit findings.

Considering the department's assets of approximately \$106,451,559 and revenues of approximately \$251,973,939 (including major state revenues), an effective internal audit function is needed to examine, evaluate, and report on its internal control and to evaluate its compliance with the policies and procedures of the control system.

Management of the department should monitor the work of the internal auditor to ensure the effectiveness of the internal audit function, including compliance with the department's *Internal Audit Charter*. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Untimely Deposits

The Department of Natural Resources did not have adequate control procedures in place to ensure that all cash receipts are deposited immediately upon receipt as required by state law. Article 7, Section 9 of the Louisiana Constitution requires that all money received by state agencies shall be deposited in the state treasury immediately upon receipt. The *Division of Administration and State Treasurer Policies and Procedures Manual* defines immediately as "within 24 hours of receipt." In addition, good internal control requires that all money received by the department be deposited timely to properly safeguard assets.

The department's main office and three area offices collect and deposit payments of various fees into the state treasury. We selected 184 payments received during the fiscal year to test for timeliness of deposit. Of the 184 payments, 115 payments (63%) had no evidence of a receipt date and could not be tested. Of the remaining 69 payments, 48 payments (70%) were not deposited timely. The payments were deposited from 3 to 55 days after receipt, for an average of 17 days late, and ranged from \$5 to \$77,730, for an average payment of \$3,716.

LEGISLATIVE AUDITOR

DEPARTMENT OF NATURAL RESOURCES STATE OF LOUISIANA

Management Letter, Dated December 10, 1999

Page 3

Management has not placed sufficient emphasis on the importance of depositing receipts timely. Also, the department's cash receipts function is decentralized with at least 27 employees in the main office, along with employees at three area offices, receiving payments. In some cases, checks are routed through several employees before being submitted to the accounting section for deposit. Also, checks are often held until the supporting documents are processed or problems are resolved, which could take days, weeks, or longer. The untimely deposit of funds increases the risk of loss or abuse, deprives the state of interest earnings, and subjects the department to noncompliance with state law.

Management of the department should implement procedures that would require the immediate processing and deposit of all receipts in accordance with state law. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

Inadequate Controls Over Movable Property

The Department of Natural Resources did not maintain adequate internal control over movable property. Good internal control requires that adequate control procedures be in place to ensure that movable property is properly safeguarded against loss arising from unauthorized use and that movement of items from one location to another is recorded. Furthermore, the Louisiana Administrative Code, Title 34, Part VII, Section 305 requires documentation of the acknowledgement of the employee's responsibility for any property entrusted to him/her. The following deficiencies in internal control were noted:

1. The department does not have a procedure for documenting the issuance or return of equipment assigned to employees for home use. Instead, the department relies on employees to complete a form to account for home-stored items each year when inventory is certified. The department could not locate 3 of 11 items (\$3,459 of \$21,777) that dropped off the home-storage records in fiscal year 1999. One of the three items (\$316 of \$3,459) was listed at the home of a retired employee.
2. The annual inventory report for the Office of Management and Finance indicated that 58 items totaling \$102,570 were not located. The department later reported that 24 items totaling \$42,391 had been found. However, a test of 15 (\$33,546) of those located items revealed that one item totaling \$2,698 had not, in fact, been located.
3. Two of 20 items (\$1,262 of \$16,780) selected from movable property records and tested for location were not found.

LEGISLATIVE AUDITOR

DEPARTMENT OF NATURAL RESOURCES STATE OF LOUISIANA

Management Letter, Dated December 10, 1999

Page 4

4. Three of 20 items (\$6,378 of \$24,661) selected from the main office building and traced to movable property records were not in the location indicated on the property records.
5. Thirty-eight missing items totaling \$70,845 were removed from the movable property records in fiscal year 1999. These items included 10 computers totaling \$29,796, 18 computer monitors totaling \$14,965, and one copier totaling \$16,232.

Management has not placed sufficient emphasis on establishing controls over movable property. The department does not have written policies and procedures that require documentation for the issuance and return of movable property items. Also, management has not placed sufficient emphasis on maintaining accurate records on the current location of movable property items. Failure to establish adequate controls over movable property and to monitor and timely update movable property records increases the risk of loss arising from unauthorized use of property and subjects the department to noncompliance with state laws and regulations.

Management should establish written policies and procedures that require employees to complete request forms at the time movable property is entrusted to them for home use. Those forms should include a justification of the employee's need for the property and approval signatures of his/her supervisor and the property manager before issuing the property to that employee. Management should also emphasize the importance of updating movable property records when items are moved to another location. Management concurred in part with the finding and recommendation and has implemented a written policy concerning home storage of movable property. It did not concur with the finding and recommendation concerning missing items and stated that 98.8% of movable property was located in fiscal year 1998 and 99.9% was located in fiscal year 1997 (see Appendix A, page 3).

Additional Comment: We believe that the limited audit tests as noted previously indicate a weakness in the internal control procedures surrounding movable property. Management should place particular emphasis on its policy and procedures concerning missing property, especially computers and monitors, and make every attempt to safeguard assets of the State of Louisiana.

LEGISLATIVE AUDITOR

DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA
Management Letter, Dated December 10, 1999
Page 5

Mineral Income Incorrectly Recorded in Accounting Records

For the second consecutive year, the Department of Natural Resources incorrectly recorded mineral income (major state revenues) in the state's financial accounting system for the fiscal year ended June 30, 1999, and the errors were not detected in a timely manner. The errors totaling approximately \$8.2 million were as follows:

- \$6.6 million that should have been recorded as major state revenue remained in the agency's unclassified suspense account, making it unavailable for expenditure by the state.
- \$1.6 million in statutorily dedicated funds were classified to the wrong revenue code, making those funds available for expenditure in the wrong fund.

The department's system of internal control did not include an effective supervisory review of individual transactions nor an overall review of the reasonableness of revenues by type as compared to revenue collections. Considering the department's collection of approximately \$252 million in major state revenues, the department should have an adequate system of internal control, including supervision and review, to ensure that errors in classifications are detected and corrected in a timely manner. Failure to detect errors in classifications could cause material misstatements to the department's financial statements as well as material misstatements to the State of Louisiana's Comprehensive Annual Financial Report.

The department should develop and implement procedures to ensure that major state revenues are correctly recorded in the state's financial accounting system. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).

Inaccurate Financial Reporting

The Department of Natural Resources did not have adequate internal control to ensure that accurate annual financial statements were submitted to the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP) for the 1999 fiscal year. Good internal control requires that management perform a comprehensive review of the annual financial statements to ensure that any preparation errors are detected and corrected in a timely manner. During a review of the annual financial statements of various offices within the department, the following errors were noted:

LEGISLATIVE AUDITOR

DEPARTMENT OF NATURAL RESOURCES STATE OF LOUISIANA

Management Letter, Dated December 10, 1999

Page 6

1. Office of the Secretary - Payroll Clearing Account additions of \$25,297,857 were overstated by \$352,865 and the ending balance of \$31,534 was understated by \$352,865.
2. Office of Coastal Restoration and Management:
 - The department could not provide documentation to support the Wetlands Fund encumbrances that were disclosed in the original annual financial statement. The encumbrance amount of \$19,551,196 that was later provided by management, with documentation, was understated by \$5.2 million.
 - The department incorrectly recorded a \$7,004,472 adjustment in the financial statements. As a result, assets and liabilities on the Balance Sheet and federal revenue on the Statement of Revenues, Expenditures, and Changes in Fund Balances (Operating Statement) were overstated by \$7,004,472. Furthermore, the fund balance amount on the Balance Sheet did not agree to the Operating Statement fund balance amount; the difference was \$7,004,472.
3. Copy Center - Cash of \$72,221 was understated by \$27,105 and total liabilities of \$60,867 were overstated by \$21,101. These errors caused a material misstatement of the Copy Center's financial statements.

The errors noted above were the result of inadequate training of staff and the lack of overall review by upper management to ensure accurate preparation of the financial statements. Inaccurate financial reporting by the department could cause material misstatements in the State of Louisiana's Comprehensive Annual Financial Report.

Management should ensure adequate training of employees who prepare the financial statements and should implement a comprehensive review process to ensure accurate preparation of the financial statements. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 5).

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.

LEGISLATIVE AUDITOR

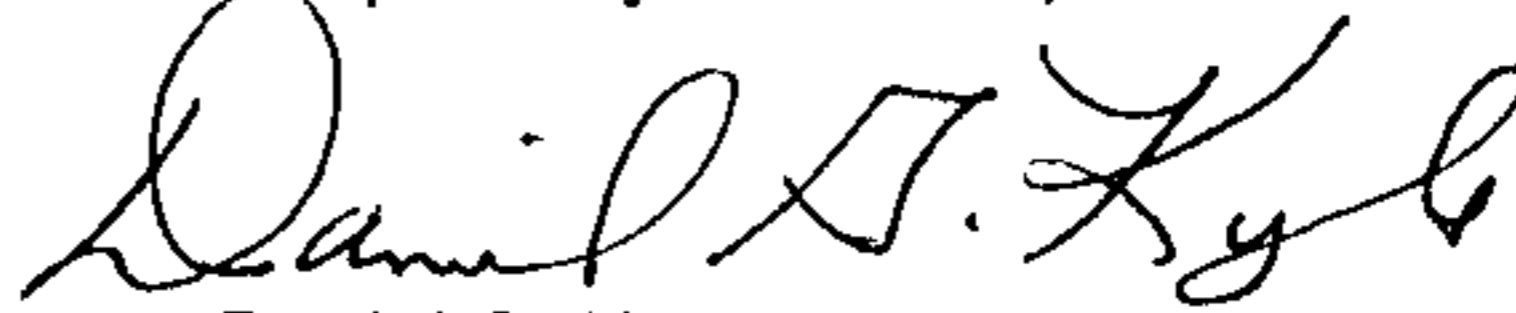
DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA

Management Letter, Dated December 10, 1999

Page 7

This report is intended for the information and use of the department and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

BQD:BMM:DSP:dl

(DNR)

Appendix A

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



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

JACK C. CALDWELL
SECRETARY

DEPARTMENT OF NATURAL RESOURCES

October 25, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Ineffective Internal Audit Function

Dear Dr. Kyle:

The Department of Natural Resources concurs with the finding entitled "Ineffective Audit Function." We recently hired an Internal Auditor, Ms. Lori Bonds, and we are in negotiation with KPMG, Inc. for a contract to do a risk assessment of the Department and to assist us in establishing an Internal Audit Function. KPMG, Inc. will be retained on a monthly basis, after our Internal Auditor program is implemented, to review our progress and give us guidance for the next twelve (12) months.

Should you have questions concerning this response, please 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 25, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Untimely Deposits

Dear Dr. Kyle:

The Department concurs with the finding entitled "Untimely Classification of Revenue" and offers the following comment:

There were no centralized policies for the timely deposit of revenue nor were receipt dates recorded.

The Department is implementing procedures which will assure that all checks received are deposited within the prescribed period recently defined by the Division of Administration and State Treasurer Policies and Procedures Manual with appropriate controls for audit purposes.

Specifically, with the state's recent contract with Bank-One, we are implementing procedures which allow the area offices to make deposits at local Bank-One locations. In the past checks collected in District Offices were mailed to the Fiscal Division for deposit with the State Treasury.

Our Internal Auditor, Lori Bonds, will perform quarterly reviews during Fiscal Year 1999/2000, and semi-annual reviews thereafter to assure compliance with policies as promulgated by the Division of Administration.

Should you have questions concerning this response, please contact me at 342-4534.

Sincerely,

A handwritten signature in black ink that reads "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

October 25, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Inadequate Controls over Movable Property

Dear Dr. Kyle:

The Department of Natural Resources does not concur totally with the finding entitled "Inadequate Controls over Moveable Property" and offers the following comments:

Administrative Code, Title 34, Part VII contains the requirement that a department conduct a complete physical inventory each fiscal year and certify the results of that inventory to the Division of Administration. This inventory has been completed each year for the prior three (3) fiscal years, 1996, 1997 and 1998. The Department has received approval of the certification of annual property inventory by the Division of Administration. In 1998, our total property inventory was \$11.4 million of which 98.8% was located. In 1997, our total property inventory was \$10.4 million, and we located 99.9%. In 1996, 98.9% of a total moveable property inventory of \$9.6 million was reported located.

In light of the fact that, 1) our records show an average of only .8% of our total property inventory has not been located in the past three (3) years, 2) approval of certification has been received from the Division of Administration and 3) we are continuing to make improvements as indicated by the development and implementation of policies and procedures governing movable property, the percentage of movable property not located does not warrant an audit finding.

At the time of the audit we did not have written policies and procedures governing home storage of movable equipment. We have recently implemented a written policy concerning home storage of moveable property, and we will continue to strive to improve our property control.

The person responsible for this activity is Judy LeBourgeois, Procurement Officer.

Should you have questions concerning this response, please contact me at 342- 4534.

Sincerely,

A handwritten signature in cursive script that reads "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

October 25, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Error in Classification of Mineral Income

Dear Dr. Kyle:

The Department of Natural Resources concurs with the finding entitled "Errors in Classification of Mineral Income" and offers the following comment:

These errors were detected and properly classified prior to the close of the fiscal year, so the financial statements were not impacted. The Department collected in Fiscal Year 1998-99 in excess of \$215,000,000 from major state revenues. This error amounted to 2.2% of the total revenues collected by this Department.

Our current Internal Auditor, Lori Bonds, will work with Joyce Parker, Accounts Receivable Supervisor, to devise internal review procedures that will ensure the errors in classification of major state revenues are minimal and are detected and corrected in a timely manner.

Should you have any questions concerning this response, please call me at 342-4534.

Sincerely,

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

Robert D. Harper
Undersecretary

RDH/mg



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

JACK C. CALDWELL
SECRETARY

DEPARTMENT OF NATURAL RESOURCES

November 24, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9387

RE: Inaccurate Financial Report

Dear Dr. Kyle:

The Department of Natural Resources concurs with the finding entitled " Inaccurate Financial Reporting" and offers the following comments:

We agree that there was a limited review process performed on the June 30, 1999 financial statements which resulted in a number of errors. This process will be improved in the future.

The Department did encounter difficulties in completing Note Q. The contract for the construction of Davis Pond was signed in 1993 obligating the state for twenty-five percent (25%) of the cost of that project. At that time, the cost was estimated to be \$70 million. Our most recent estimate of the cost of that project at today's dollars is \$108 million. We concur that the full state obligation on \$108 million is the appropriate encumbrance for this project. This will be corrected on the AFR for this year.

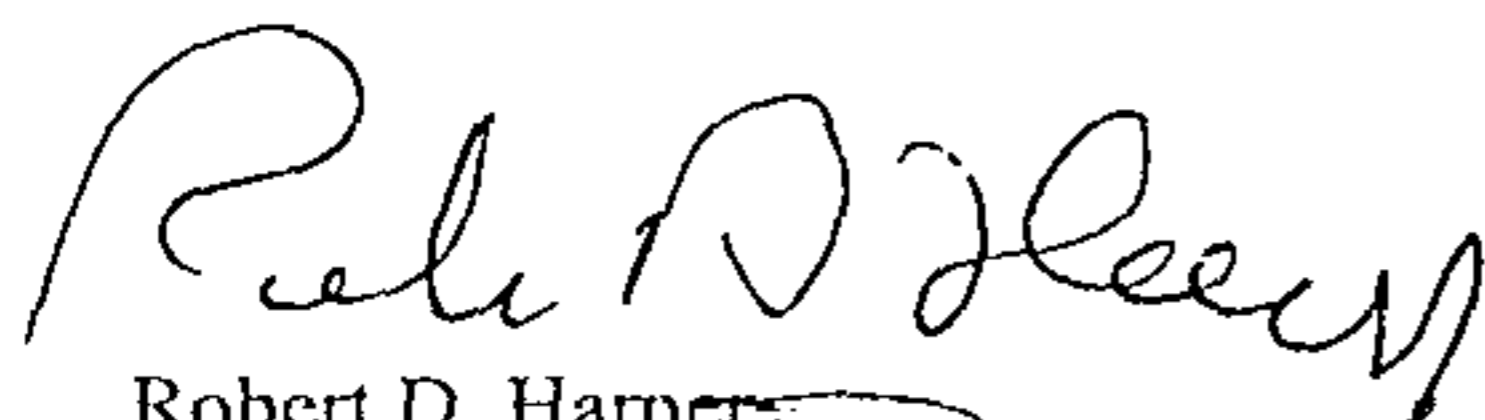
There was a misunderstanding with reference to the reporting of the Federal Receivable. The \$7,004,472 reported as due from the Federal Government on Statement A of the Annual Financial Report is what we estimate is due the state from contribution toward CWPPRA projects. The state share of these projects were reduced from 25% to 15% and 10% on December 1, 1997. None of the cost share agreements have been amended.

To address these problems, we are working to have all cost share agreements amended by June 30, 2000 prior to the completion of the fiscal year 1999/2000 financial report.

We are implementing a more comprehensive training and review process which will include the Accountant Manager and the Accountant Administrator as a final review team. Verlie L. Wims, Accountant Administrator, is the Department employee responsible for implementing these procedures.

Should you have any questions about this response, you may call me at 342-4534.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert D. Harper".

Robert D. Harper
Undersecretary

RDH/jmk