

DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MAY 30, 2012

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

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 Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.47. 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. When contacting the office, you may refer to Agency ID No. 3356 or Report ID No. 80110127 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 Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

EXECUTIVE SUMMARY

Our procedures at the Department of Natural Resources (DNR) for the period July 1, 2010, through June 30, 2011, disclosed the following:

- DNR did not ensure that its subrecipients under the State Energy Program minimized the time elapsing between the transfer of federal funds from DNR and the disbursement of funds by the subrecipient as required by federal regulation. This results in costs totaling \$2,270,492 which may be disallowed by the federal grantor. DNR also did not inform its subrecipients of the required federal award information and did not timely notify its subrecipients of the requirement to have a single audit.
- DNR violated federal regulations by charging office rent totaling \$68,721 directly to the State Energy Program (CFDA 81.041) while also including a portion of the office rent in the federal indirect cost pool. In addition, DNR charged \$659,815 in direct payroll charges and related benefits that were not supported with payroll certifications. As a result, costs totaling \$728,536 may need to be returned to the federal grantor.
- DNR did not have adequate controls over the preparation of the Schedule of Expenditures of Federal Awards, which resulted in errors requiring revisions.
- DNR did not submit accurate federal performance reports on a timely basis to the United States Department of Energy for the ARRA - State Energy Program, which increases the risk that the federal grantor and DNR management will not be able to effectively monitor funding levels and may result in a loss or delay in future funding.

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.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 3, 2012

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, 2011, we conducted certain procedures at the Department of Natural Resources (DNR) for the period from July 1, 2010, through June 30, 2011.

- 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 February 10, 2011, we reported a finding relating to the failure to timely submit federal financial reports. This finding has been resolved by management.
- 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, 2011, as part of the Single Audit for the State of Louisiana:
 - Coastal Impact Assistance Program (CFDA 15.426)
 - State Energy Program (CFDA 81.041)

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, we have included all significant findings that are required to be reported by *Government Auditing Standards*. All of these findings have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2011.

The following significant findings are included in this report for management's consideration.

Noncompliance With Subrecipient Monitoring Requirements

DNR did not ensure that its subrecipients under the State Energy Program minimized the time between the transfer of federal funds from DNR and the disbursement of funds by the subrecipient as required by federal regulation. This results in questioned costs totaling \$2,270,492 which may be disallowed and due back to the federal grantor. DNR also did not inform its subrecipients of the required federal award information and did not timely notify its subrecipients of the requirement to have a single audit.

Failure to properly monitor its subrecipients not only places DNR in noncompliance with federal regulations but also limits its ability to ensure that federal program dollars are being spent properly and increases the risk for potential disallowed costs.

Our audit disclosed the following:

1. A test of five DNR subrecipients receiving advances of federal funds during the year disclosed the following:
 - Two (40%) were paid advances totaling \$1,950,000 in May and June of 2011, but as of January 2012, DNR had not received documentation from the subrecipient that the advances have been spent, which represents questioned costs.
 - Two (40%) received advances totaling \$1,599,000, but did not spend the advances timely. Supporting documentation evidences that \$1,278,508 was not spent until six months after the advances were issued, and as of January 2012, 10 months after the applicable advance was issued, there was no documentation evidencing the remaining \$320,492 had been spent, which results in questioned costs.
 - One (20%) elected not to pursue the approved project but did not return the advance of \$1,547,263 until 120 days after receipt of the funds.

2. A test of 12 subrecipient contracts disclosed that all of the contracts excluded the required CFDA title and the federal award name, and six (50%) excluded either the required CFDA number or the required award number at the time of the subawards.
3. Fiscal year 2011 subrecipients expending \$500,000 or more in federal awards were not notified of their Single Audit requirement until December 1, 2011, five months after the close of the fiscal year.

DNR has not placed sufficient emphasis on implementing controls to ensure that subrecipient monitoring compliance requirements are met. Management should establish procedures to ensure that (1) subrecipients implement sound cash management procedures for the timely disbursement of federal funds as required by federal regulations; (2) subrecipients' awarding documents include all required federal award information; and (3) subrecipients are timely informed of their Single Audit requirements. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 1).

Noncompliance With Allowable Cost Principles

DNR violated federal regulations by charging office rent totaling \$68,721 [including \$48,105 in American Reinvestment and Recovery Act (ARRA) funds] directly to the State Energy Program (CFDA 81.041) while also including a portion of the office rent in the federal indirect cost pool. In addition, DNR charged \$659,815 (including \$422,369 in ARRA funds) in direct payroll charges and related benefits that were not supported with payroll certifications. As a result, questioned costs totaling \$728,536 may need to be returned to the federal grantor, if disallowed.

Federal regulations state that a cost may not be allocated to a federal award as an indirect cost if any other cost incurred for the same purpose has been assigned to a federal award as a direct cost. In addition, federal regulations require that when employees work on multiple activities, a distribution of their salaries must be supported by actual activity.

DNR has not established adequate controls to ensure that program costs are allowable under federal regulations and accurately distributed to federal programs based on appropriate personnel activity reports or equivalent documentation. Management should establish such controls to ensure that federal program costs are allowable and distributed in compliance with federal regulations. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 2).

Inadequate Controls Over the Compilation of the Schedule of Expenditures of Federal Awards

For the fiscal year ended June 30, 2011, DNR did not have adequate controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA), which resulted in errors requiring revisions as follows:

- Expenditures for the Pipeline Safety Program Base Grants were understated by \$74,893. DNR incorrectly reported federal expenditures using the proposed federal reimbursement amount of \$318,863 instead of reporting the actual amount, \$393,756, reimbursed by the federal agency.
- The ARRA of 2009 programs were not labeled correctly as ARRA programs, other program titles were not accurately presented, and incorrect CFDA numbers were used.
- SEFA expenditures did not reconcile to federal revenues. The reconciling items were inadequately supported, which resulted in revised reconciliations for each agency within the department.

Management has not maintained adequate controls over financial reporting for the compilation of the SEFA and has not adequately trained its staff in OMB reporting requirements. In addition, management has not developed an adequate review process to ensure that the SEFA is accurately presented and adequately supported.

OMB Circular A-133 requires the preparation of a schedule of expenditures of federal awards. An inaccurate or unsupported SEFA may cause errors in the state's Single Audit report.

Management should ensure that all personnel are adequately trained and supervised and the SEFA is adequately reviewed before its submission for inclusion in the Single Audit report. Management concurred with the finding and recommendation and provided a plan of corrective action (see Appendix A, page 3).

Inaccurate Federal Performance Reports

DNR did not submit accurate federal performance reports on a timely basis to the United States Department of Energy for the ARRA - State Energy Program. This increases the risk that the federal grantor and DNR management will not be able to effectively monitor funding levels and may result in a loss or delay in future funding. DNR's second quarter report for the period ended December 31, 2010, was not submitted until April 25, 2011, which was 85 days late. In addition, expenditure outlays were overstated by \$85,289; \$24,178; and \$583,800 in the first, third, and fourth quarter reports, respectively, and understated by \$648,008 in the second quarter report.

Federal regulations require quarterly financial and performance reports be submitted within 30 days after the end of the reporting period. Reports for federal awards shall include all activity of the reporting period, be supported by applicable accounting or performance records, and be fairly presented in accordance with governing requirements.

DNR's third party administrator used financial data in its database that included transactions obligated but not yet processed through the state's Advantage Financial System, and therefore, were not actual grant expenditures. DNR management became aware of the misstatements but did not seek to correct previously submitted reports because it was management's understanding that quarterly reports could not be resubmitted with revised amounts. Instead, management adjusted third and fourth quarter amounts to ultimately reflect correct cumulative figures. After the fourth quarterly report was issued, the cumulative net misstatement totaled approximately \$62,418.

DNR management should ensure that quarterly performance reports are accurately submitted within the 30-day time frame as required by federal regulations. Management partially concurred with the finding and recommendation and provided a corrective action plan (see Appendix A, pages 4-5).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DNR. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DNR should be considered in reaching decisions on courses of action. The findings 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

MMG:ETM:BQD:THC:dl

DNR 2011

APPENDIX A

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

BOBBY JINDAL
GOVERNOR



SCOTT A. ANGELLE
SECRETARY

State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF MANAGEMENT AND FINANCE

March 15, 2012

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

RE: Noncompliance with Sub-Recipient Monitoring Compliance Requirement

Dear Mr. Purpera:

The Department of Natural Resources concurs with this finding. Appropriate staff have been instructed to properly identify the titles of and assign the CFDA number at the time of the sub-awards. Furthermore, all agreements with sub-recipients of amounts over \$500,000 have been amended to include the audit requirements of OMB Circular A-133, and procedures are in place to review these audits to determine whether corrective action is needed. Finally, the practice of advancing funding without documentation that expenditures will be made in a timely manner has ceased.

As of today, all advanced payments have either been returned or the recipients have provided documentation which verifies the eligibility and appropriateness of the expenditure of the advances. Procedures are now in place that prohibit advances without commitments of timely expenditure and specific follow-up monitoring. Paula Ridgeway, Federal Energy Manager, is responsible for this corrective action.

Sincerely,

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

Robert D. Harper
Undersecretary

RDH/mh

(FILE:ACCOUNT:AUDITFINDING-MONITORING11)

BOBBY JINDAL
GOVERNOR



SCOTT A. ANGELLE
SECRETARY

State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF MANAGEMENT AND FINANCE

March 15, 2012

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

RE: Noncompliance with Allowable Cost Principles

Dear Mr. Purpera:

The Department of Natural Resources concurs with this finding. Department staff was not aware that rent was included in the central service allocation plan and therefore could not be charged directly to the grant. Indirect cost procedures have been modified to exclude rent calculations when rent is charged to a grant as a direct cost. Gwendolyn Thomas, Fiscal Officer, is responsible for this corrective action.

Regarding payroll documentation, in the past the section had only one grant funding source and was not aware that salary expenses could not be prorated between the old grant funding source and the new ARRA program. Effective with the pay period beginning February 20, 2012, certification requirements will be in place to address this problem. Paula Ridgeway, Federal Energy Manager, is responsible for this corrective action.

Sincerely,

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

Robert D. Harper
Undersecretary

RDH/mh

(FILE:ACCOUNTING:AUDITFINDING11-2)

BOBBY JINDAL
GOVERNOR



SCOTT A. ANGELLE
SECRETARY

State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF MANAGEMENT AND FINANCE

February 14, 2012

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

RE: Inadequate Controls over the Compilation of the Schedule of Expenditures of Federal Awards (SEFA)

Dear Mr. Purpera:

The Department of Natural Resources concurs with your findings and we understand the importance of ensuring these errors do not occur in the future. Procedures have been revised to include current instructions obtained from OSRAP and OMB Circulars, and managers will get updates to regulations governing federal reporting and they will incorporate changes into procedures. Each agency's report will be assigned to a separate accountant allowing managers to assist and perform on-going reviews. The Department will also utilize worksheets to assist the accountants in capturing the correct information to be reported from the ISIS Bundle reports. Furthermore, revenue and expenditures will be reconciled to the ISIS reports quarterly. Finally, we will create a schedule of due dates for all parts of the annual fiscal report to allow for adequate time to review each section by supervisors and to make corrections as needed.

All necessary procedures, worksheets and schedules have been developed and they will be disseminated and discussed with appropriate staff by March 1, 2012. The personal contact for responsibility for this is Gwendolyn Thomas, Fiscal Officer.

Sincerely,

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

Robert D. Harper
Undersecretary

RDH/mh

BOBBY JINDAL
GOVERNOR



SCOTT A. ANGELLE
SECRETARY

State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF MANAGEMENT AND FINANCE

March 15, 2012

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

RE: Inaccurate Federal Performance Reports

Dear Mr. Purpera:

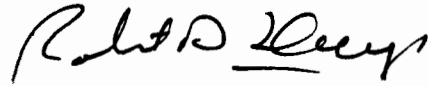
The Department of Natural Resources partially concurs with the finding. Inaccurate data was initially reported; however, DNR Management addressed the reporting accuracy issues prior to the end of the fiscal year being audited.

Our reporting control procedures, implemented during the close of Fiscal Year 2010-11, include independent verification by DNR's ARRA Monitoring & Verification Financial Auditor of the initial quarterly reported amounts. Due to this control (and noted in the finding), the cumulative expenditures were updated and corrected each quarter. As an additional control, DNR Management will also review the Federal Performance Reports, prior to the final submission of the reports, and will verify that the reports are submitted in a timely manner. Paula Ridgeway, State Energy Program Manager, is responsible for this corrective action.

DNR Management remains committed to submitting, in a timely manner, quarterly performance reports that accurately reflect the actual grant expenditures incurred. Unfortunately, it was not possible to completely correct the report for marketing in the last quarter of the fiscal year, as cumulative totals had not reached the appropriate level and the Department was not aware it could report negative values.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Robert D. Harper". The signature is written in a cursive style with a prominent initial "R" and "H".

Robert D. Harper

Undersecretary

RDH/mh

(FILE:ACCOUNT/AUDITFINDING-REPORTS11)