



Daryl G. Purpera,
CPA, CFE

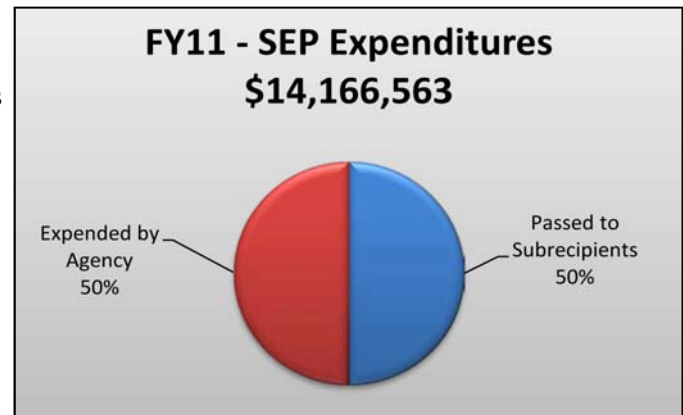
Management Letter Highlights

Why We Conducted This Audit

We conducted procedures at the Department of Natural Resources (DNR) as a part of the State of Louisiana Single Audit for the fiscal year ended June 30, 2011.

What We Found

- **Noncompliance With Subrecipient Monitoring Requirements** - DNR did not ensure that its subrecipients under the State Energy Program (SEP) minimized the time between the transfer of federal funds from DNR and the disbursement of funds by the subrecipient. This results in costs totaling \$2,270,492 which may be 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.
- **Noncompliance With Allowable Cost Principles** - DNR violated federal regulations by charging office rent totaling \$68,721 directly to the SEP 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, costs totaling \$728,536 may need to be returned to the federal grantor.
- **Inadequate Control Over the Compilation of the Schedule of Expenditures of Federal Awards (SEFA)** - DNR had errors on its SEFA, which required revisions. Expenditures for the Pipeline Safety Program Base Grants were understated by \$74,893; the ARRA programs were not labeled correctly as ARRA programs; other program titles were not accurately presented; and incorrect CFDA numbers were used. In addition, SEFA expenditures did not reconcile to federal revenues recorded by DNR.
- **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. 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.



Source: State of Louisiana Single Audit Report and Integrated Statewide Information Systems data at June 30, 2011.

DNR is one of 20 departments under 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.

View the full report at la.la.gov.

For more information, contact Tom Cole, Director of Financial Audit Services, at 225-339-3800.