

DEPARTMENT OF NATURAL RESOURCES
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED SEPTEMBER 16, 2020

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., 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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and online at www.lla.la.gov.

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 \$0.50. 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 website at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 3356 or Report ID No. 80200014 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 Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of Natural Resources



September 2020

Audit Control # 80200014

Introduction

The primary purpose of our procedures at the Department of Natural Resources (DNR) was to evaluate certain controls DNR uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. In addition, we determined whether management has taken action to correct the findings reported in the prior report.

Results of Our Procedures

We evaluated DNR's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of DNR's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to penalty waivers and assessments, royalty revenues, Information Technology (IT) controls, desk audit and field audit reviews, Oil and Gas Regulatory Fund revenues, Oilfield Site Restoration Fund expenditures, contract expenditures, fuel card expenditures, and payroll expenditures.

Follow-up on Prior-report Findings

We reviewed the status of the prior-report findings in DNR's procedural report dated August 22, 2018. We determined that management resolved the prior-report findings related to Insufficient Criteria for Waiving Penalty Assessments and Inadequate Controls over Fuel Cards.

Current-report Finding

Weaknesses in Management of DNR System

DNR did not effectively coordinate with the Office of Technology Services (OTS) to ensure that adequate controls were in place over DNR's Strategic Online Natural Resources Information System (SONRIS). DNR uses SONRIS for the collection, retention, and processing of data, such as state mineral lease information and related royalty payments, used in carrying out the mission

of the department. OTS is responsible for establishing and coordinating all information technology systems affecting the management and operations of DNR.

The following issues were noted:

- During the period July 1, 2018, through June 30, 2020, DNR did not have an adequate continuity of operations plan in place and did not coordinate with OTS to test for an efficient and effective response in the event of an emergency. While DNR did have an “Emergency Preparedness Playbook” in place, this playbook lacked critical elements of an adequate continuity of operations plan. Without an adequate plan and regular testing, DNR may be unable to properly recover all data and activities in a timely manner should an incident occur.
- DNR did not adequately ensure that OTS appropriately restricted access to SONRIS according to employee job function. User profiles were set up using a cloning process that copies information from a current profile. As a result, we identified four employees with improper access to security roles outside of those needed for their job duties, increasing the risk of inappropriate changes to data.
- DNR did not effectively coordinate with OTS to ensure written procedures for adequate testing and validation of DNR data backups were established and performed. Lack of adequate backup testing increases the risk of data loss or the inability to timely restore data in an emergency.
- OTS did not implement procedures for changes to the SONRIS application. As a result, OTS lacked documentation evidencing adequate testing, review, and approval of changes. A lack of procedures could result in improper changes to SONRIS that place DNR’s data and application operations at risk.

We evaluated system controls based on best practices, as defined by *Control Objectives for Information and Related Technology*, a framework by the Information Systems Audit and Control Association (ISACA).

DNR should establish an adequate continuity of operations plan and regularly test the plan in conjunction with OTS. Additionally, DNR should coordinate with OTS to establish an understanding of OTS’ controls over SONRIS security and operations, including DNR’s role in the operation of those controls, to effectively restrict employee access and to test data backup. Lastly, OTS should implement procedures for changes to SONRIS that include detailed steps of the change management process. Both DNR and OTS management concurred with the issues reported and provided corrective action plans (see Appendix A).

Penalty Waivers and Assessments

We obtained an understanding of penalties waived by the Office of Mineral Resources (OMR) as a result of field and desk audit reviews; interest and penalties assessed and waived by OMR for late assignments, late releases, and late leaseholder registration; and civil penalties assessed and

waived by the Office of Conservation (OOC). We reviewed selected waivers for the period July 1, 2018, through December 31, 2019, and based on the results of our procedures, we concluded that waivers of penalties assessed by OMR and OOC were properly made in accordance with established department and Board criteria.

Royalty Revenues

DNR derives a portion of its revenue from collections of royalties from oil and gas production of wells placed on State-owned lands and water bottoms. We obtained an understanding of OMR's controls over the completeness of royalty revenues recorded in DNR's accounting system. DNR uses SONRIS to determine the accuracy of the State Royalty reports submitted by oil and gas companies. OMR reconciles the SONRIS royalty revenue data to revenues recorded in the accounting system on a monthly and year-end basis. We obtained the reconciliations for the months of July 2018 through March 2020 and verified that all monthly reconciliations were completed. In addition, we reviewed two monthly reconciliations in fiscal year 2019 and one in fiscal year 2020 to verify that the reconciliations were accurate. Based on the results of our procedures, DNR had adequate controls in place to ensure that SONRIS royalty data is being properly recorded in DNR's accounting system.

IT Controls

DNR uses SONRIS in carrying out various activities of the department, such as recording state mineral lease information and calculating the related royalty payments. We reviewed selected IT controls related to SONRIS, including application change controls and user access. Based on the results of these procedures, except as noted in the Current-report Finding section, the IT controls we reviewed were in place and operating effectively.

Desk Audit and Field Audit Reviews

DNR's Royalty Reporting Section in OMR performs both desk and field audits of State Royalty reports. We obtained an understanding of DNR's controls over desk audit reviews by obtaining the billings log for late payment or erroneous reporting during the period July 1, 2018, through March 31, 2019, and reviewed 30 billings. Based on the results of our procedures, we determined that desk auditors ensured that mineral revenues were properly allocated and that production volume reported by operators to the Office of Conservation was properly reconciled with state royalty reports.

We obtained an understanding of DNR's established field audit selection process. We reviewed 20 audits listed on the fiscal year 2020 field audit schedule to ensure DNR was in compliance with its field audit selection process and that the field audits were being completed. We also reviewed five entities not listed on the field audit schedule to ensure they were properly

excluded. Based on the results of our procedures, we determined that field audits are being selected and performed in accordance with OMR policy.

Oil and Gas Regulatory Fund Revenues

The Oil and Gas Regulatory Fund was created by Louisiana Revised Statute (R.S.) 30:21, the purpose of which is to assist DNR in the regulation of the oil and gas industry, specifically by creating a fund that can only be used by OOC. Each year, the State Treasurer deposits into the fund amounts generated from collection of fees by OOC pursuant to R.S. 30:21 and R.S. 40:1749.27, any fines and penalties related to the fees collected by OOC, and 50% of the inactive annual well fee paid by operators who choose not to plug inactive wells.

We obtained an understanding of DNR's procedures for collecting licenses, permits, and fees revenue for the Oil and Gas Regulatory Fund and reviewed 20 selected transactions occurring during the period July 1, 2018, through April 30, 2020. Based on the results of our procedures, we concluded that DNR collected and properly accounted for the correct amount of fees in accordance with applicable regulations.

Oilfield Site Restoration Fund Expenditures

The Oilfield Site Restoration Fund was established through R.S. 30:86. DNR uses the monies in this fund to administer the Louisiana Oilfield Site Restoration Program, the focus of which is to properly dismantle, clean, and restore well sites to their pre-site conditions, to the extent possible, to be redeveloped for other uses. Specifically, amounts in the fund can be spent on (1) any oilfield site assessment or restoration conducted by DNR; (2) administration of the program not to exceed \$950,000 per fiscal year; (3) payment of fees and costs of administration, site specific accounts, and any contract with a private legal entity; (4) any costs or fees associated with the recovery of site restoration costs and penalties pursuant to R.S. 30:93 and 94; (5) any costs associated with response to any emergency as provided in R.S. 30:6.1; and (6) assessment and restoration of commercial oilfield waste disposal facilities used for the storage, treatment, or disposal of non-hazardous oilfield waste (not to exceed \$500,000 per fiscal year). In addition, no less than \$1 million, or 20% of the amount appropriated to the fund (whichever is less) annually must be used to plug orphan wells drilled to a depth of less than 3,000 feet in the Shreveport and Monroe Districts beginning fiscal year 2017 through the end of fiscal year 2022. However, this money may be disbursed for any costs in response to any emergency as provided in R.S. 30:6.1.

We obtained an understanding of DNR's internal controls over expenditures from the fund to ensure fund monies are used only for the purposes provided by statute and reviewed selected transactions occurring during the period July 1, 2018, through March 31, 2020. Based on the results of our procedures, DNR had adequate procedures in place to ensure fund expenditures were made in compliance with the relevant statute.

Contract Expenditures

We obtained an understanding of controls over professional, personal, and consulting services contracts and examined the contracts for 15 selected purchase order expenditures. Based on the results of our procedures, DNR had adequate controls in place to ensure that contracts were properly authorized and administered in accordance with state law, and contract expenditures were made for proper business purposes and were accurately recorded in the financial records.

Fuel Card Expenditures

DNR uses fuel cards (FuelTrac) to purchase fuel and pay for minor vehicle repairs and maintenance, such as oil changes or replacement of car batteries and windshields. We obtained an understanding of DNR's policies and procedures for fuel card use and reviewed a listing of all cards maintained by DNR. We selected 26 transactions and examined supporting documents, including invoices, receipts, vehicle logs, and system reports, to determine if controls were in place to ensure payments were reasonable, authorized, and reconciled to invoices and/or receipts. Based on the results of our procedures, we determined that DNR had adequate controls in place over fuel card expenditures.

In addition, we performed procedures to follow-up on the prior-report finding relating to inadequate controls over fuel cards in which we noted untimely deactivation of personal identification numbers (PINs) associated with fuel cards. We obtained an understanding of DNR's policies and procedures for deactivating PINs when employees separate from the agency and reviewed the timeliness of deactivation for selected separated employees. Based on the results of our procedures, we determined that DNR had resolved the prior-report finding.

Payroll Expenditures

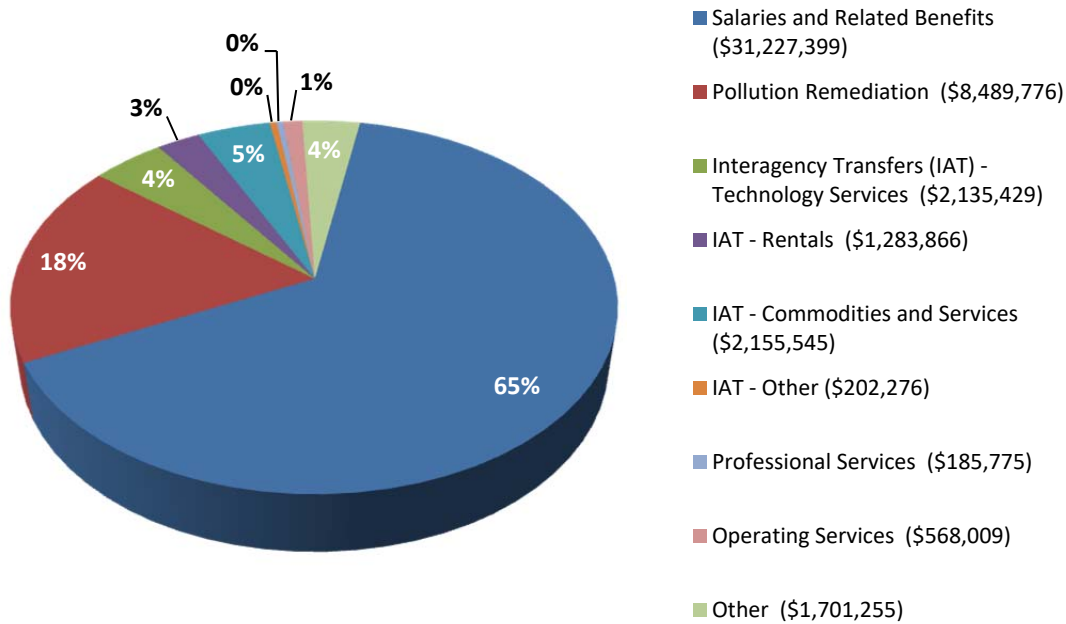
Salaries and related benefits comprised approximately 65% of DNR's expenditures in fiscal year 2020. We obtained an understanding of DNR's controls over the time and attendance function and analyzed time statements during the period July 2018 through December 2019 for timely certification and approval. In addition, we reviewed 12 individual employee time statements and leave records. Based on the results of our procedures, we determined that DNR had adequate controls in place to ensure timely review and approval of employee time statements and leave requests and that leave taken was properly accounted for.

Trend Analysis

We compared the most current and prior-year financial activity using DNR's Annual Fiscal Reports and/or system-generated reports and obtained explanations from DNR's management for any significant variances. We also prepared an analysis of DNR's expenditures.

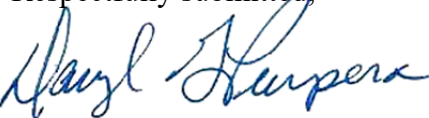
As shown in Exhibit 1, DNR’s expenditures during fiscal year 2020 totaled approximately \$47.9 million, with 65% of those expenditures related to salaries and related benefits.

**Exhibit 1
Fiscal Year 2020 Expenditures**



Source: Prepared by legislative auditor’s staff using agency-generated reports

Under Louisiana Revised Statute 24:513, this report is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,

 Daryl G. Purpera, CPA, CFE
 Legislative Auditor

KJ:CST:BQD:EFS:aa

DNR2020

APPENDIX A: MANAGEMENT'S RESPONSES



State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE SECRETARY

September 3, 2020

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Continuity of Operations Plan

Dear Mr. Purpera:

The Department of Natural Resources (DNR) concurs with the above referenced finding. DNR agrees that having an adequate continuity of operation plan in place with regular testing will ensure that DNR will be able to recover all data and activities in a timely manner should an incident occur. In May 2020, DNR updated its continuity of operations plan for all of its offices. DNR plans to update its continuity of operations plans yearly going forward.

The contact person for the progress of the corrective action is Ha Louis, Internal Auditor, at (225) 342-6768 or ha.louis@la.gov.

Thank you for the opportunity to respond to this audit finding and to have the Management Response Letter included in the final audit report. Please feel free to contact me at (225) 342-2710 or Ha Louis at (225) 342-6768 should you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. F. Harris".

Thomas F. Harris
Secretary
Department of Natural Resources



State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE SECRETARY

September 3, 2020

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: SONRIS Access

Dear Mr. Purpera:

The Department of Natural Resources (DNR) concurs with the finding that DNR did not appropriately restrict access to SONRIS according to employee job functions. DNR recognizes that the current method should be replaced by more modern means that ensure proper network and SONRIS access are granted to employees during employment. DNR is working with OTS staff on a two-pronged approach, one for network rights and one for SONRIS access.

Network:

- OTS will coordinate with each Office within DNR to consolidate their network files into central locations with designated folders inside the locations that are managed by specific network security groups for that Office. OTS will work with DNR to create this matrix, provide a diagram, and ensure that DNR has ample understanding of the security groups. OTS will provide a list of the network security groups and any current members to each Office and Department within DNR, who will then verify the proper membership of the groups. OTS will then correct any discrepancies within those groups, which will validate appropriate network access for all employees at that point.
- DNR will provide OTS with an initial list of Approvers who are authorized to approve and request membership for each of the network security groups, and DNR will maintain that list of approvers going forward. Any requests by DNR for network access will be via membership to the specific network security groups, and OTS will reference that list for proper approval when access requests are received from employees, whether during the hiring process or the course of employment.

- For onboarding, the DNR Office representative requesting creation of the accounts through Human Resources (HR) will list the network security groups that the employee should initially be a member of. Those details will be included on the Onboarding ticket entered by HR to ensure the employee has the proper access on their start date.

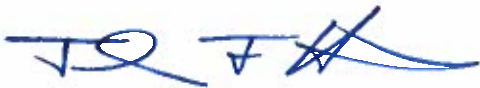
SONRIS:

- OTS will compile a list of the current SONRIS Roles and coordinate with each Office within DNR to map those Roles to each Section and/or Department of the Offices.
- OTS will then create a new data model for storing those Roles and then convert the existing data into the new model.
- OTS will then develop an application that allows employees specifically identified by DNR the ability to manage the SONRIS Roles of DNR employees. OTS will then train those identified on how to use the new application.

The anticipated completion date is July 2021. The contact person for the progress of the corrective action is Ha Louis, Internal Auditor, at (225) 342-6768 or ha.louis@la.gov.

Thank you for the opportunity to respond to this audit finding and to have the Management Response Letter included in the final audit report. Please feel free to contact me at (225) 342-2710 or Ha Louis at (225) 342-6768 should you have any questions.

Sincerely,



Thomas F. Harris
Secretary
Department of Natural Resources



State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE SECRETARY

September 3, 2020

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Adequate testing and validation of DNR backups

Dear Mr. Purpera:

The Department of Natural Resources (DNR) concurs with the above referenced finding. DNR agrees that a lack of adequate backup testing increases the risk of data loss or the inability to timely restore data in an emergency. DNR will request that OTS establish and perform testing and validation of DNR data backups.

Per Act No. 712, *"The ownership of such systems procured by the office of technology services may vest in the respective agency, but control of the systems shall be retained by the office of technology services...."* OTS has informed DNR that it does not have the server capability to do a backup and restore at this time. OTS has enough server capacity to maintain current programs and do nightly backups but does not have enough server space to do a database restore. Thus, validation of DNR data backup is not possible at this time. Once the Oracle servers are replaced (timeframe is determined by OTS), OTS will have the ability to do a backup restore on DNR's database, possibly as soon as 2021.

According to OTS, its Data Center Backup Recovery Section has been assigned a project to document its backup procedures for the agencies that it services within the state of Louisiana. Currently, DNR's OTS Relationship Manager sends the appointed officials in each of DNR's offices a list of active DNR accounts. DNR's appointed officials then tells OTS inactive accounts to deactivate.

Starting next year when DNR has the needed server capacity, the OTS Relationship Manager based at DNR will request that OTS perform a database backup restore. OTS will perform the restore, configure a test system to access the database, and provide access for DNR employees (to be named at the time) to verify the restore and data is acceptable. Once DNR confirms that

Mr. Daryl Purpera, Legislative Auditor
September 3, 2020
Page 2 of 2

the restore is successful and the validity of the data is as expected, OTS will remove the test restore database until the next year.

The anticipated date of completion is October 2021. The contact person for the progress of the corrective action is Ha Louis, Internal Auditor, at (225) 342-6768 or ha.louis@la.gov.

Thank you for the opportunity to respond to this audit finding and to have the Management Response Letter included in the final audit report. Please feel free to contact me at (225) 342-2710 or Ha Louis at (225) 342-6768 should you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'T. F. Harris', with a stylized flourish at the end.

Thomas F. Harris
Secretary
Department of Natural Resources

Office of Technology Services
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

August 28, 2020

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

The Division of Administration, Office of Technology Services (OTS), is in receipt of the LLA's findings and recommendations related to the Department of Natural Resources SONRIS system dated August 18, 2020.

The Office of Technology Services concurs with the findings as presented and is committed to working collaboratively with the Department of Natural Resources to mitigate risks associated with the issues denoted. Please refer to the responses made by OTS on July 24, 2020 within the Communication of Results which defines the steps necessary to resolve these findings. An attachment with those responses is included.

We appreciate the opportunity to respond and the efforts taken by the auditors to present fair and balanced recommendations. Neal Underwood, Deputy Chief Information Officer, is responsible for overseeing the implementation of operational changes and will ensure that corrective actions take place.

Sincerely,

Richard "Dickie" Howze, CIO
Office of Technology Services

cc: Randy Davis
Barbara Goodson
Susan Eversull

Issue Identified	OTS Response
<p>Inappropriate User Access</p>	<p>This is a joint responsibility of both DNR and OTS, and both recognize that the current method should be replaced by more modern means that ensure proper network and SONRIS access are granted to employees during employment. The solution is a two-pronged approach, one for network rights and one for SONRIS access. Following are the details of each:</p> <p>Network:</p> <ol style="list-style-type: none"> 1. OTS will coordinate with each Office within DNR to consolidate their network files into central locations with designated folders inside the locations that are managed by specific network security groups for that Office. OTS will work with DNR to create this matrix, provide a diagram, and ensure that DNR has ample understanding of the security groups. OTS will provide a list of the network security groups and any current members to each Office and Department within DNR, who will then verify the proper membership of the groups. OTS will then correct any discrepancies within those groups, which will validate appropriate network access for all employees at that point. 2. DNR will provide OTS with an initial list of Approvers who are authorized to approve and request membership for each of the network security groups, and DNR will maintain that list of approvers going forward. Any requests by DNR for network access will be via membership to the specific network security groups, and OTS will reference that list for proper approval when access requests are received from employees, whether during the hiring process or the course of employment. 3. Specifically for onboarding, the DNR Office representative requesting creation of the accounts through HR will list the network security groups that the employee should initially be a member of. Those details will be included on the Onboarding ticket entered by HR to ensure the employee has the proper access on their start date. <p>SONRIS:</p> <ol style="list-style-type: none"> 1. OTS will compile a list of the current SONRIS Roles and coordinate with each Office within DNR to map those Roles to each Section and/or Department of the Offices. 2. OTS will then create a new data model for storing those Roles and then convert the existing data into the new model. 3. OTS will then develop an application that allows employees specifically identified by DNR the ability to manage the SONRIS Roles of DNR employees. OTS will then train those identified on how to use the new application.
<p>Inadequate Backup Procedures and Testing</p>	<p>This is a joint responsibility of both DNR and OTS, whereby OTS is responsible for ensuring the backup systems are functioning properly and on schedule and DNR is responsible for validating that the restores are current and checked for integrity after a planned or unplanned event.</p> <p>Currently, file data is restored for the Windows file server upon request by DNR employees throughout the year. Since these requests happen routinely in a given year, we believe they serve as adequate tests that the backups and restores are working properly on the file server side.</p> <p>OTS agrees that a process should be implemented to test the restore of a database (SONRIS) backup. Rarely is a restore needed on the database side, so we propose to implement a yearly test restore and integrity validation of a SONRIS Production database to a VM server. OTS staff located at DNR will request that the restore be performed and DNR employees will check for integrity and to ensure the data is current.</p>

Issue Identified	OTS Response
<p>Lack of Change Management Procedures</p>	<p>This is a joint responsibility of both OTS and contracted staff augmentation services with Methods. Both OTS and Methods should follow the current OTS enterprise Change Management policy and procedures.</p> <p>As staff augmentation contractors, Methods staff are supplemental staff for OTS, receive direct daily supervision from an OTS APPDM employee, and therefore, will be required to utilize the OTS Enterprise Change Management System once fully implemented within this application area.</p> <p>The Change Management process is being phased in across the organization. OTS will be working with Methods to ensure that they are following the correct procedures and policies going forward.</p>

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Natural Resources (DNR) for the period from July 1, 2018, through June 30, 2020. Our objective was to evaluate certain controls DNR uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. The scope of our procedures, which is summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review DNR's Annual Fiscal Reports, 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.

- We evaluated DNR's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DNR.
- Based on the documentation of DNR's controls and our understanding of related laws and regulations, and results of our analytical procedures, we performed procedures on selected controls and transactions relating to penalty waivers and assessments, royalty revenues, IT controls, desk audit and field audit reviews, Oil and Gas Regulatory Fund revenues, Oilfield Site Restoration Fund expenditures, contract expenditures, fuel card expenditures, and payroll expenditures.
- We compared the most current and prior-year financial activity using DNR's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from DNR's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at DNR and not to provide an opinion on the effectiveness of DNR's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.