



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE
State and Tribal Support
P.O. Box 25165
Denver, Colorado 80225-0165
<http://www.onrr.gov/>

Via Electronic Mail

January 31, 2014

ONRR/CEM
MS61221C

Mr. Dennis Roller
Royalty Audit Section Manager
North Dakota State Auditor Office
Royalty Audit Section
425 N. 5th Street – 3rd Floor
Bismarck, North Dakota 58501

Dear Mr. Roller:

This letter transmits our report for the Section 205 Cooperative Agreement D12AC70007 between the North Dakota State Auditor's Office, Royalty Audit Section and the Office of Natural Resources Revenue. The review period focuses on Federal Fiscal Year 2012 (October 1, 2011 through September 30, 2012).

Thank you for your assistance. If you have questions regarding this review, please call Todd Finnegan at (303) 231-3254.

Sincerely,

Heidi Badaracco
Contracting Officer's Representative

**North Dakota State Auditor's Office
Royalty Audit Section**

Attestation Engagement Report

**Section 205 Cooperative Agreement Number
D12AC70007**

**For the Period
October 1, 2011 through September 30, 2012**

**Office of Natural Resources Revenue
Financial & Program Management
State and Indian Coordination
State and Tribal Support**

January 2014

SUMMARY

State and Tribal Support (STS) performed an Agreed upon Procedures Attestation Engagement (Engagement) of the North Dakota State Auditor's Office, Royalty Audit Section (State). The purpose of the Engagement was to ensure fulfillment with the terms of their Cooperative Agreement Number D12AC70007 (Agreement) with ONRR for Federal Fiscal Year (FY) 2012. The following criteria to the Agreement were reviewed:

- Costs incurred and reimbursed under the Agreement's approved Budget
- Records
- Equipment inventory
- Performance of the FY 2012 Work Plan
- Performance of Compliance Reviews (CRs)

We conclude that the State is in compliance with the terms of the Agreement for FY 2012.

BACKGROUND

Section 205 of the Federal Oil and Gas Royalty Management Act of 1982, as amended, (FOGRMA), authorizes the Secretary of the Interior to delegate audit authority for oil, gas, coal, and other solid mineral, or geothermal steam leases upon written request, to any State or Indian tribe.

The State requested and was granted a Delegation of audit authority, Agreement, No. D12AC70007, effective October 1, 2010. Under this Agreement, the State is permitted to conduct investigations and audits of all Federal lands within the State of North Dakota.

In accordance with Section 7.7 to the Agreement and 43 CFR 12.80, regarding monitoring and reporting program performance, the Office of Natural Resources Revenue (ONRR) will conduct reviews of the State's performance to ensure compliance with the terms of the Agreement.

We have conducted the review in compliance with Attestation Engagements established with the Government Accountability Office's Government Auditing Standards July 2007 Revisions and the Codification of Statements on Standards for Attestation Engagements (AT), (January 2011), §201, with regard to Agreed Upon Procedures. We tested the State's policies and procedures to the extent we considered essential in the circumstances.

During the course of the Engagement, information did not indicate that fraud, illegal acts, or violations of provisions of the Agreement was present. This Engagement was not specifically designed to detect fraud; however, in the case that it was detected, the STS Management /COR would be informed and proper steps would be taken towards a resolution.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this Engagement were to:

1. Review costs incurred and reimbursed under the Agreement. We reviewed costs by examining a detailed sample of vouchers the State submitted during the Engagement period. The auditor reviewed expenditures to determine that the costs incurred were allowable and directly related to the performance objectives of the Agreement. We have reasonable assurance that vouchers submitted to STS are reliable to the extent the STS audit staff and the STS audit supervisor has reviewed them. The Contracting Officer's Representative (COR) reviews and approves the vouchers and makes a recommendation to the Contracting Office (CO) to reimburse those costs.
2. Review records under the Agreement to ensure compliance with the records retention regulations and the safeguarding of working papers.
3. Review the equipment inventory and validate the physical existence of equipment purchased through the Agreement funds.
4. Review performance to determine if the State is making progress according to the approved Work Plan and submitted progress reports. We have reasonable assurance that the progress reports submitted to STS are accurate, as the STS staff reviews this information and updates the State's progress information in the Compliance Information Management Tool (CIM). During this Engagement, the auditor reviews the State's audits and CR files to verify that they coincide with what is on the State's progress Report and Work Plan. The auditor also reviews the list of audits and CRs on the Work Plan and compares that list to what is in CIM.
5. Review CR Performance to verify that the State conducted the CRs in compliance with the ONRR CR Manual. Note: ONRR has approved the State to deviate from the ONRR CR Manual.

The scope of the Engagement was for the period October 1, 2011 through September 30, 2012. The Engagement focused on the work performed under the terms of the Agreement between ONRR and the State. We based the methodology of this Engagement on the steps outlined in the program, as well as the objectives outlined in the planning memorandum. The auditor took the following actions in the performance of this Engagement:

- Sent an Engagement Letter to notify the State of the Engagement
- Performed field visit to accomplish objectives listed, above
- Compiled work papers and findings
- Debriefed COR and CO
- Provided a Draft Report to the State for comments

- Provided a Final Report to State, COR and CO

RESULTS OF THE ENGAGEMENT

Costs Incurred and Reimbursed Under the Agreement:

In regard to costs claimed and reimbursed, the State is in full compliance with the terms of the Agreement.

Safeguarding of Records:

The State is in compliance in regards to records. The State has measures set up to maintain the safeguarding and protection of proprietary data for all 205 records, as required by the ONRR Audit Manual.

The State archives when cases have been closed for more than three years or earlier.

Equipment Inventory:

The State is in compliance with regard to equipment inventory. The STS Auditor verified the equipment and inventory by a physical evidence sample. All costs charged to the Agreement and listed on the inventory were verified.

Performance of the FY 2012 Work Plan:

The State is in compliance with the performance of the Work Plan. The State communicates well and performs work in a timely manner. The State's progress reports are accurate and current of the work performed on each audit or CR. The State follows the approved Work Plan. All work is fully budgeted for and tracked accordingly. The State made progress with the audits and CRs listed on the Work Plan.

The State closed 13 CRs and 8 audits per CIM.

The FY 2012 Approved Work Plan disclosed:

- Four new start audits (2 @ 1,250 hours, 1 @ 200 hours and 1 and 50 hours).
- Two carry over audits (500 and 100 hours).
- Total Audit hours were 3,450.
- Appeal Follow Ups (100 hours)
- BLM Referral (zero hours)
- Citation and other carry over hours (600)
- CRs at 600 hours and CRs carry overs at 100 hours

Budgeted hours on the approved Work Plan essentially tie to the State's Progress Reports.

The Principal Investigator works very well with his employees, with frequent on-going communication. He is engaged with them on the day to day operations and any audit/CR issues. He performs substantive testing along with employees ensuring continuous dialogue.

Compliance Reviews:

The State is in compliance with the performance of the CR's. The State properly conducted and completed their CR's as planned. The State's CRs are unlike the ONRR CR Manual due to a distinctive subject matter and environment. We did not observe exceptions to the ONRR approved State CRs during the review. The State is knowledgeable with the subject matter and environments.

- The State sent Completion Memorandums in a timely manner to the COR.
- The State used the proper case file and documentation checklist and template.
- The State signed and reviewed working papers throughout the CR.
- The Auditor observed timely, ongoing supervision in the work papers.

NOTEWORTHY ITEM

One experienced auditor is planning to retire in FY 2015. One experienced auditor was hired in FY 2013.

CONCLUSION

We conclude that the State is in full compliance with the terms of the Agreement. If further information is needed regarding this report, please contact Mr. Todd Finnegan, Auditor, at (303) 231-3254.

We want to thank the State for the exceptional assistance and cooperation they provided.

DISTRIBUTION

The use of this report is restricted to specified parties who either participated in this Engagement or have a direct interest in the results. It is intended solely for the use of ONRR and the State; including the CO and the COR, as they have an interest in the objectives of the Attestation Engagement.



Heidi Badaracco, Contracting Officer's Representative

1-31-2014
Date