



**Department of Interior
Office of Natural Resources Revenue**
Independent Peer Review of
State of North Dakota
Royalty Audit Section
For the Period January 1, 2022 through
December 31, 2024

May 29, 2025



Ryan Bauer
Oil & Gas Manager
State of North Dakota
Royalty Audit Section
1600 E Century Ave Suite 5
Bismarck, ND 58503

Subject: *System* Review Report on the North Dakota Royalty Audit Section

Dear Ryan Bauer:

Attached is the *System* Review Report of the North Dakota Royalty Audit Section conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices*. Your response to the report is included as an enclosure.

We appreciate the cooperation and courtesies extended to our staff during the review.

McCoy Williams
President/CEO

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SYSTEM REVIEW REPORT OF THE STATE OF NORTH DAKOTA
ROYALTY AUDIT SECTION
FOR THE PERIOD JANUARY 1, 2022 THROUGH DECEMBER 31, 2024

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Ryan Bauer
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System Review Report

We have reviewed the system of quality control for the State of North Dakota Royalty Audit Section (Royalty Audit Section) in effect for the period January 1, 2022 through December 31, 2024. A system of quality control encompasses the Royalty Audit Section's organizational structure and the policies adopted, and procedures established to provide it with reasonable assurance of conforming in all material respects with *Government Auditing Standards*¹ and applicable legal and regulatory requirements. The elements of quality control are described in *Government Auditing Standards*.

In our opinion, the system of quality control for the Royalty Audit Section in effect for the period January 1, 2022 through December 31, 2024, has been suitably designed and complied with to provide the Royalty Audit Section with reasonable assurance of performing and reporting in conformity with applicable professional standards and applicable legal and regulatory requirements in all material respects.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The State of North Dakota Royalty Audit Section has received an External Peer Review rating of *pass*.

The contract for the peer review allows information to be given to a contractor to conduct a peer review of coal, solids, section 8(g), geothermal resources, oil, and gas leases. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

¹ Government Auditing Standards 2011, 2018 Revisions and Technical Update April 2021

Basis of Opinion

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*.

During our review, we surveyed the Royalty Audit Section's personnel and obtained an understanding of the nature of the organization, and the design of the Royalty Audit Section's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected Generally Accepted Government Auditing Standards (GAGAS) engagements and administrative files to test for conformity with professional standards and compliance with the Royalty Audit Section's system of quality control. The GAGAS engagements selected represented a reasonable cross-section of the Royalty Audit Section's audit organization, with emphasis on higher-risk engagements.

In performing our review, we obtained an understanding of the system of quality control for the Royalty Audit Section. In addition, we tested compliance with the Royalty Audit Section's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Royalty Audit Section's policies and procedures on selected GAGAS engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with the Royalty Audit Section to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion. Enclosure I to this report identifies the Royalty Audit Section engagements we reviewed. Enclosure II to this report includes Royalty Audit Section comments on a draft of our report.

Responsibilities and Limitation

The Royalty Audit Section is responsible for establishing and maintaining a system of quality control designed to provide the Royalty Audit Section with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control and the Royalty Audit Section's compliance based on our review.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and may not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Acuity Consulting

May 29, 2025

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Enclosure I

Scope and Methodology

We tested compliance with the Royalty Audit Section's system of quality control to the extent we considered appropriate. These tests included a review of (4) engagements conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) during the period January 1, 2022, through December 31, 2024 and (1) surprise engagement selected on site. We tested policies and procedures to determine whether they were comprehensive and current. We reviewed Continuing Professional Education and independence records for compliance with Government Auditing Standards. We surveyed a cross-section of Royalty Audit Section employees to determine their comprehension and application of the quality control system in place. We also reviewed the internal quality control reviews performed by the Royalty Audit Section.

We reviewed the following GAGAS engagements performed by the Royalty Audit Section.

Type of Engagement Report	Report Date	Auditee
Closed	January 25, 2023	Scout Energy
Closed	May 2022	Equinor Energy LP *
Closed	June 14, 2024	Iron Oil
Closed	October 20, 2022	White Rock
Closed	December 2024	ConocoPhillips Co.

(*) surprise audit

Enclosure II-Royalty Audit Section Comments

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May 29, 2025

TaVonna Serious
Acuity Consulting, Inc.
677 S. Washington Street
Alexandria VA 22314

Dear TaVonna Serious:

Thank you for the Peer Review of our compliance with the applicable professional audit standards for the audits performed under the State of North Dakota, Office of the State Auditor's (OSA) 205 Delegation cooperative agreement with the Department of the Interior, Office of Natural Resources Revenue (ONRR).

The Peer Review provides assurance to ONRR and citizens that the OSA complies with the applicable professional auditing standards when auditing Federal oil and gas production and sales within North Dakota.

We appreciate Acuity's understanding, flexibility, and professionalism while performing the Peer Review.

Sincerely,

Ryan Bauer
Principal Investigator / Audit Manager
North Dakota Office of the State Auditor