



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE
P.O. Box 25165
Denver, Colorado 80225-0165

Via Electronic Mail

May 9, 2022

**ONRR/AM/TSAS
MS 64100C**

Mr. Dennis Roller, Principal Investigator
North Dakota State Auditor's Office,
Royalty Audit Section
425 N. 5th St., Ste 3
Bismarck, North Dakota 58501-4003

Dear Mr. Roller:

This letter transmits our report for the Section 202/205 Cooperative Agreement D16AC00015 between the State of North Dakota and the Office of Natural Resources Revenue. The review period focuses on Fiscal Years 2021 (October 1, 2020 through September 30, 2021).

Thank you for your assistance. If you have questions regarding this review, please call Krystal Hutt at (303) 231-3710.

Sincerely,

**BRUCE
RUMBURG**

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Bruce Rumburg
Agreements Officer's Representative

Annual Agreement Review Report

NORTH DAKOTA STATE AUDITOR'S OFFICE
ROYALTY AUDIT SECTION

Cooperative Agreement Number
D16AC00015

For the Period
October 1, 2020, through September 30, 2021
Federal Fiscal Year 2021

Performed By:

Office of Natural Resources Revenue
Tribal and State Audit Services
STRAC Audit Assistance
Krystal Hutt, Auditor

Report Date:

May 9, 2022

INTRODUCTION

The Office of Natural Resources Revenue (ONRR or we), Tribal and State Audit Services (TSAS) conducted an Annual Agreement Review (Review) of the Section 205 Cooperative Agreement D16AC00015 (Agreement) and any Modifications for the State of North Dakota, Office of the State Auditor, Division of Royalty Audits (North Dakota /State/You/Your), for the review period Federal Fiscal Year (FY) 2021. ONRR's authority to perform a Review originates from Section 7.7 of the Agreement and Federal regulations at 30 CFR § 1227.800. This review did not include a site visit to the State's offices.

OBJECTIVES, SCOPE, & METHODOLOGY

The objectives of this Review were to review the following:

1. **Agreement Costs** – We reviewed a sampling of expenditures to determine that the costs incurred are allowable and directly related to the performance objectives of the Agreement.
2. **Agreement Performance** – We reviewed your performance of the Work Plan under the Agreement.
3. **Equipment** – We reviewed your equipment inventory, compared to your inventory list, for all equipment purchased under the Agreement.
4. **Safeguarding of Records** – We reviewed your storage of federal records related to the Agreement to ensure that they are safeguarded, and that you are archiving records in a timely manner.
5. **IT Security** – We reviewed if the annual IT Security requirement is appropriately met.

We focused on work performed under the terms of the Agreement between ONRR and the State associated with Federal Fiscal Year (FY) 2021. We based the methodology on the objectives and review steps outlined in our Planning Memorandum.

We took the following actions in the performance of this Review:

- Provided the State with a Data Request dated January 6, 2022, informing the State of this Review.
- Performed a fiscal examination of Agreement costs.
- Documented associated conclusions and findings on workpapers.
- Debriefed the AO and AOR on April 11, 2022.
- Provided a Draft Report to the State on April 18, 2022, for comments.
- We will provide a final report to the Agreement Officer (AO), the Agreement Officer Representative (AOR), and the State, after the State has had an opportunity to comment on the Draft Report.

RESULTS

Based on our review of State Agreement Costs, and agreement performance/workplan progress the following is a summary of items found during our review of sampled documentation for FY 2021, which are described in further detail in this report:

AGREEMENT COSTS

We reviewed your Agreement Costs for FY 2021 and selected the third quarter (sample period) for testing. We requested and reviewed supporting documentation for sampled costs reimbursed from the selected vouchers.

See the detailed results of the sampled costs tested below.

Direct Labor Costs

We examined summary schedules, time reports, and leave records for the Principal Investigator (PI) and four auditors for the sample period. Based on our Review, we determined that all direct labor costs claimed on the sampled voucher were allowable (necessary, reasonable, and allocable), non-duplicative, and agreed with the State's approved budget.

Fringe Benefit Costs

We examined summary schedules originating from the State's accounting system for the for the PI and four auditors for the sample period. Based on our Review, with exception of the issue identified below, we determined that all fringe benefit costs claimed on the sampled voucher were allowable and non-duplicative.

We found an overbilling related to the Federal allocation of fringe benefits used for the third quarter (April, May and June) of FY 2021. All awards and bonuses must be approved by the Agreement Officer (AO) prior to issuing, based on 2 CFR §200.308. Any bonus not approved by the AO prior to approval will not be reimbursed.

Travel Costs

We examined all Travel Authorizations and supporting documentation for travel costs for the sample period. We determined that all travel costs claimed on the sampled voucher were allowable, non-duplicative, and agreed with the State's approved budget.

Other Direct Costs

We examined documentation supporting registration fees for training for the sample. Based on our Review, we determined that these other direct costs claimed on the sampled voucher were allowable, non-duplicative, and agreed with the State's approved budget.

Indirect Cost:

We examined the State’s approved Indirect Cost Rate (ICR) and the State’s methodology for calculating indirect costs for the review period October 1, 2020, through September 30, 2021. The State used the 10% De minimis rate for the Indirect Cost Rate (ICR) which was applied to salary, fringe benefits, and travel. We determined that the State’s indirect costs claimed on the sampled voucher were allowable, non-duplicative, and agreed with the State’s approved budget.

AGREEMENT PERFORMANCE/WORKPLAN PROGRESS

We reviewed your Agreement performance, equipment inventory, and safeguarding of federal records for FY 2021, the months of October 1, 2020 through September 30, 2021 for testing. We requested and reviewed supporting documentation by sampling items from your documentation.

See the detailed results below.

Performance of the FY 2021 Work Plan

The State is in compliance with the performance of its Workplan associated with FY 2021. The State’s progress reports are substantially accurate, and all work is fully budgeted and tracked accordingly. For the scope of this Review, the State showed notable progress and achievement associated with its compliance related activities consistent with the statutory objectives and intent of FOGRMA, as amended.

The State’s FY 2021 Work plan estimated that 6,000 hours would be dedicated to audit and compliance investigations. The actual number of audit hours expended during FY 2021 totaled 5,861 hours, or 98% of budgeted audit hours.

The State’s FY 2021 Work plan included 1,500 hours for carryover projects, and 2,500 for audit new starts and 2,000 hours for compliance review (CR) new starts. The State subsequently submitted a Workplan Modification Request to ONRR for an increase in audit hours and a decrease in CR hours.

Table 1: FY 2021 Work Performance Analysis

	Audits	CRs
OMT		
Total Closed Cases:	0	100
CIM		
Total Closed Carry-over Cases	3	1
Total Closed New Start Cases	1	0

Total in Appeals	2	0
Total in Settlement	0	0
Total Cases Closed, FY 2021	4	101

Equipment Inventory

The State is found in compliance with equipment inventory by properly tracking equipment by keeping their inventory list up to date with tag, serial number, user and status of equipment use.

Safeguarding of Federal Records

The State is found in compliance with safeguarding of federal records. Completed records that are eligible for archives are stored in an off-site locked storage facility that lacks the capacity to deter fire and water damage to federal records.

IT Security

The State submitted the annual IT Security Attestation. The auditor reviewed the attestation and determined the State has appropriately met the IT Security requirement.

RECOMMENDATIONS

We are proposing the following recommendation:

Fringe Benefits – We recommend that the State submit monetary awards and bonus requests to the AO for approval prior to them being issued to staff, in accordance with 2 CFR §200.308.

State’s Response:

The State responded to the Draft Report on April 27, 2022. The State provided the following response to our recommendation:

“...I agree that I failed to get the AO-s approval prior to the \$25 three year of service award and the \$200 retirement gift for an individual after 31 years of service all of which was under the ND 205 contracts. I have attached OMB policy #118 – Length of Service/Retirement Awards and the OMB Administrative Code Chapter 4-07-18 which state under 4-07-18-02: “Each agency...shall recognize certain service anniversaries of classified employees by implementing and administering a service award program.” Section 4-07-18-05 identifies the reward to be given for three years of service is \$25 and section 4-07-18-06 for retirement is a value not to exceed \$200. This only demonstrates that we followed the ND administrative code for those awards and for any such future awards we will get approval of the AO prior to the award.”

ONRR’s Response:

We agree with the State’s planned resolution of the recommendation listed.

DISTRIBUTION

Due to the sensitive information, the use of this report is restricted to specified parties who either participated in this Review or have a direct interest in the results. It is intended solely for the use of ONRR and the State, including the AO and the AOR, as they have an interest in the objectives of the Review.

ACKNOWLEDGEMENT

ONRR values the contributions from the State in achieving our common goals and objectives, and we look forward to our continued collaboration. Additionally, we want to thank you for the assistance and cooperation that your delegation provided in completing this Review.

If further information is needed regarding this report, please contact Krystal Hutt, at (303) 231- 3710.

**BRUCE
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BRUCE RUMBURG
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Bruce Rumburg, Agreements Officer’s Representative

Date