



**Department of Interior**  
**Office of Natural Resources Revenue**  
Independent Peer Review of  
North Dakota  
State Auditor's Office  
Mineral Royalty Program  
For the Period January 1, 2019, through  
December 31, 2021

May 25, 2022



Joshua C. Gallion  
State Auditor  
Shaun Werle  
Staff Auditor III  
North Dakota  
State Auditor's Office  
Mineral Royalty Program  
600 E. Boulevard Ave Dept 117  
Bismarck, ND 58505

Subject: System Review Report on the North Dakota State Auditor's Office Mineral Royalty Program

Dear Joshua Gallion:

Attached is the System Review Report of the North Dakota State Auditor's Office Mineral Royalty Program 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

Enclosures – 2

SYSTEM REVIEW REPORT OF THE NORTH DAKOTA  
STATE AUDITOR’S OFFICE MINERAL ROYALTY PROGRAM  
FOR THE PERIOD JANUARY 1, 2019, THROUGH DECEMBER 31, 2021

Table of Contents

Independent Peer Review Report	1
Basis of Opinion	2
Responsibilities and Limitations	2
Enclosure I Scope and Methodology	3
Enclosure II Mineral Royalty Program Comments	4



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### **System Review Report**

We have reviewed the system of quality control for the North Dakota State Auditor's Office Mineral Royalty Program (Mineral Royalty Program) in effect for the period January 1, 2019, through December 31, 2021. A system of quality control encompasses the Mineral Royalty Program'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*<sup>1</sup> 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 Mineral Royalty Program in effect for the period January 1, 2019, through December 31, 2021, has been suitably designed and complied with to provide the Mineral Royalty Program 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 North Dakota State Auditor's Office Mineral Royalty Program 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.

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<sup>1</sup> 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 Mineral Royalty Program's personnel and obtained an understanding of the nature of the organization, and the design of the Mineral Royalty Program'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 Mineral Royalty Program's system of quality control. The GAGAS engagements selected represented a reasonable cross-section of the Mineral Royalty Program'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 Mineral Royalty Program. In addition, we tested compliance with the Mineral Royalty Program's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Mineral Royalty Program'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 Mineral Royalty Program to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion. Enclosure 1 to this report identifies the Mineral Royalty Program engagements we reviewed.

## **Responsibilities and Limitation**

The Mineral Royalty Program is responsible for establishing and maintaining a system of quality control designed to provide the Mineral Royalty Program 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 Mineral Royalty Program'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, Inc.*

May 25, 2022

Enclosures - 2

Enclosure I

### Scope and Methodology

We tested compliance with the Mineral Royalty Program'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, 2019, through December 31, 2021. 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 Mineral Royalty Program 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 Mineral Royalty Program.

We reviewed the following GAGAS engagements performed by The Mineral Royalty Program.

<b>Number</b>	<b>Type of Engagement Report</b>	<b>Report Date</b>	<b>Auditee</b>
19-00122-001	Compliance Work in Progress	Open	Marathon Oil
22-00014-001	Compliance Work in Progress	Open	Rampart Energy
13-00468-002	Closed	February 6, 2020	XTO Energy
04-50056-003	Closed	December 8, 2021	Petro Hunt, LLC

## Enclosure II

**STATE AUDITOR**  
Joshua C. Gallion



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STATE CAPITOL  
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May 24, 2022

TaVonna Serious, CGFM, CICA, CFE  
Senior Audit Manager  
Acuity Consulting, Inc.  
115 Oronoco 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,

Joshua C. Gallion  
State Auditor  
North Dakota Office of the State Auditor