

Limited Cooperative Agreement Review Report

State of North Dakota, Office of the State Auditor,
Division of Royalty Audits (State)

Cooperative Agreement Number: D16AC00015

Review Period: Federal Fiscal Year (FY) 2019 (October 1, 2018 through
September 30, 2019)

Performed By: Todd G. Finnegan, Auditor
Office of Natural Resources Revenue
Internal Review, Oversight, and Compliance

Report Date: July 31, 2020

INTRODUCTION

Office of Natural Resources Revenue (ONRR), Internal Review, Oversight, and Compliance (IROC/we) conducted a Limited Cooperative Agreement Review (LCAR/Review) of the Section 205 Cooperative Agreement D16AC00015 (Agreement) and any Modifications for the State, for the review period of FY 2019. ONRR's authority to perform a LCAR originates from Section 7.7 of the Agreement and Federal regulations at 30 CFR §1227.800. We did not conduct a site visit as a part of this limited review.

OBJECTIVES, SCOPE, AND METHODOLOGY

The review objectives were to determine the following:

- Are Agreement costs appropriately submitted, reviewed, and approved?
- Is Agreement performance/workplan progress appropriately identified, reviewed, and tracked?
- Is the annual IT Security requirement appropriately met?

We focused on work performed under the terms of the Agreement between ONRR and the State during the review period. We based the methodology on the objectives and review steps outlined in our LCAR Plan.

We performed the following main steps during this Review:

- Emailed the Notice of Cooperative Agreement Review to the State on May 4, 2020.
- Requested and received supporting documentation from ONRR, STRAC Administration.
- Requested and received supporting documentation from the State to support sampled Agreement cost reimbursements for the review period.
- Performed a review of sampled Agreement costs, Agreement performance/workplan progress, and the annual IT Security requirement.
- Documented associated conclusions and results on working papers.
- Briefed ONRR STRAC Administration on June 25, 2020.
- Briefed the State on June 29, 2020.
- Provided a Draft Report to the State and ONRR STRAC Administration for comment.
- Received the State's response to the Draft Report on July 21, 2020.
- Received ONRR STRAC Administration's response to the Draft Report on July 22, 2020.

- Issued the Final Report to the State, the AO, and the Agreement Officer Representative (AOR) on July 31, 2020.

AGREEMENT COSTS

The State submits vouchers for reimbursement on a quarterly basis. We reviewed ONRR STRAC Administration's "FY 19 Agreement Costs for the State of North Dakota" and selected a random, judgmental sample. We requested and reviewed the State's submitted vouchers and supporting documentation to verify the amounts claimed on the vouchers. We found that the State's Agreement costs (Salaries, Time, Fringe Benefits, Rent, Other Expenses, Travel, and Indirect Costs) were appropriately submitted, reviewed, and approved.

AGREEMENT PERFORMANCE/WORKPLAN PROGRESS

The State made progress and is following the terms of the Agreement on the performance of the workplan. Overall, we found the State's Agreement performance/workplan progress was appropriately identified, reviewed, and tracked.

We compared budget hours on the Workplan to actual hours worked and claimed on the fourth quarter Progress Report (PR) to determine relative progress. No issues were noted. Budgeted hours to actual hours show that progress was made during FY 2019.

The budgeted percent of total hours to Federal Hours (Direct Labor) was 55.34. The actual percent of total hours to Federal Hours was 63.50 percent (8 percent favorable). The highest percentage took place in the third quarter; 82.73 percent. The lowest percentage took place in the first quarter; 43.33 percent.

The State's audit workplan contained two new start audits (including 1 for potential BLM referrals), and 1-line item for various appeals. The State's approved non audit Compliance Review (CR) workplan contained 1-line item each for carryovers for Calendar Years (CY) 09-10, CY 11-12, CY 12-14 and 1-line item for new starts for CY 15-16.

The State's Workplan contained 3,200 total audit hours and 2,600 total CR hours for a total of 5,800 hours.

We generated and reviewed a Compliance Information Management (CIM) system report for North Dakota for FY 2019 and determined:

- Six audit subcases and five CR subcases were closed in CIM.
- Ten CR subcases were listed as new, and four CR subcases were listed as "in progress."
- Three audit subcases were listed as resolved and three were cancelled.

CIM is an outdated system which will not be used once ONRR's Operations Management Tool (OMT) is wholly operational. ONRR STRAC Administration provided a summary report for CR work the State completed in OMT. The State completed 134 Full CRs and 27 Limited CRs in OMT; a noteworthy accomplishment.

The State remains current/timely with its audits and CRs.

IT SECURITY REQUIREMENT

We reviewed the State's attestation for IT Security provided by ONRR STRAC Administration. The attestation was signed by Mr. Dennis Roller, North Dakota's Audit Manager, and is dated March 26, 2019.

The attestation identifies which IT Security controls are in place, states that the controls are operating as intended, and states the controls are monitored for effectiveness (as required).

The IT Security requirement was included with Modification 2 of the current cooperative agreement D16AC00015, with an effective date of September 9, 2017.

The State adheres to their IT Security Requirement.

RESPONSES TO THE JULY 13, 2020, DRAFT REPORT

On July 21, 2020, the State replied: "We are in agreement with your review." (Attachment 1)

On July 22, 2020, ONRR STRAC Administration replied: "Todd, I concur with your draft report and have no further comments." (Attachment 2)

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.



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July 20, 2020

Mr. Todd Finnegan, ONRR Auditor
Denver Federal Center
PO Box 25165, Mail Stop 603000
Denver, CO 80225-0165

Dear Mr. Finnegan,

Thank you for the recent Contract Review of our 205 delegation with the Department of the Interior, Office of Natural Resources Revenue. The Contract Review plays a role in ensuring taxpayers that their dollars are being spent economically. The Contract Review team was thorough and professional in conducting its work, and we greatly appreciate the work the team did to meet the demands of this review. We are in agreement with your review.

Sincerely,

A handwritten signature in green ink, appearing to read "Joshua C. Gallion".

Joshua C. Gallion
State Auditor

Finnegan, Todd TF

From: Rumburg, Bruce H
Sent: Wednesday, July 22, 2020 9:24 AM
To: Finnegan, Todd TF; McCartney, Kyle H
Subject: Re: Monday, July 13, 2020, State of North Dakota LCAR Draft Report

Todd,

I concur with your draft report and have no further comments.

Thanks,

Bruce Rumburg
Agreements Officer's Representative
Office of Natural Resources Revenue

Work: 303-231-3457
Cell: 720-451-9349

From: Finnegan, Todd TF <Todd.Finnegan@onrr.gov>
Sent: Wednesday, July 22, 2020 9:18 AM
To: Rumburg, Bruce H <Bruce.Rumburg@onrr.gov>; McCartney, Kyle H <Kyle.McCartney@onrr.gov>
Subject: RE: Monday, July 13, 2020, State of North Dakota LCAR Draft Report

Best wishes Bruce and Kyle,

I was just wondering when you all will reply to the subject draft report?

Dennis and the State of North Dakota replied early yesterday (Tuesday, July 21).

I am looking forward to conducting a brief to members of your unit and yourselves, delivering your final report, and concluding subject matter milestones.

Wishing you all a good rest of the week.

Todd

From: Finnegan, Todd TF
Sent: Monday, July 13, 2020 3:17 PM
To: Roller, Dennis R. <droller@nd.gov>; Rumburg, Bruce H <bruce.rumburg@onrr.gov>; McCartney, Kyle H <kyle.mccartney@onrr.gov>
Cc: Rovira, Stephen J <stephen.rovira@onrr.gov>; Sheff, David <david.sheff@onrr.gov>
Subject: Monday, July 13, 2020, State of North Dakota LCAR Draft Report

Good Afternoon,

This email transmits our draft report for the Limited Cooperative Agreement Review (LCAR) performed on the State of North Dakota, Office of the State Auditor, Division of Royalty Audit (State) for the review period Federal Fiscal Year (FY) 2019 (October 1, 2018 to September 30, 2019).

Please review the attached draft report and provide a response by Monday, July 27, 2020.

Your response will be included in the final report. The final report will be sent approximately 10 business days following receipt of the State's and ONRR STRAC Administration's responses to the draft report.

Please let me know if you have any questions regarding this draft report.

Thank you for your cooperation during this review.

Todd G. Finnegan
303.881.9976