Mr. Dennis Roller, Principal Investigator  
North Dakota State Auditor’s 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 Number M10AC20013 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 2016 (October 1, 2015 through September 30, 2016).  

Thank you for your assistance. If you have questions regarding this review, please call Thomas Mack at (303) 231-3195.  

Sincerely,  

Bruce Rumburg  
Agreements Officer’s Representative
Annual Agreement Review Report

State of North Dakota

Cooperative Agreement Number
M10AC20013

For the Period
October 1, 2010, through September 30, 2016
Federal Fiscal Year 2016

Office of Natural Resources Revenue
Coordination Enforcement Valuation & Appeals
State and Indian Coordination
Audit Assistance & Coordination

November 2, 2017
INTRODUCTION

State and Tribal Support (STS) performed an Annual Agreement Review (Review) of the State. The purpose of the Review was to ensure the State (you or your) is in compliance with the terms of their Cooperative Agreement, Number M10AC20013 (Agreement) with ONRR (we) for Federal Fiscal Year (FY) 2016.

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 Tribe.

The State and ONRR entered into a new Agreement, number M10AC20013, effective October 1, 2010, with a completion date of September 30, 2016. The Procurement Office now operates under the DOI Interior Business Center (IBC) Acquisitions Services Directorate (AQD). The Agreements Officer (AO) works within IBC.

The Agreements Officer Representative (AOR) works within STS, ONRR. The AOR is a Manager in STS. STS staff is involved in daily audit assistance, work planning, review of vouchers, and various other tasks in the administration of the Agreements. The team performing this Review consists of auditors within STS. A conscious effort is made to try to ensure independence. In addition, an effort is made to rotate auditors performing the Reviews, so the same auditor does not review the same State/Tribe year after year.

ONRR’s authority to perform a Review originates from Section 7.7 of the Agreement and Federal regulations at 30 CFR § 1227.800. ONRR reserves the right to elect the nature and type of Review that it chooses based on various considerations, including risks, results from prior Reviews, known issues identified during the monthly voucher review process, and other factors.

Based on these various considerations, ONRR has elected to perform an Annual Review for the States and a Biennial Review for the Tribes; as such, it is considered a non-GAGAS Review and does not constitute any type of attestation service, including but not limited to, an audit, compilation, or application of agreed-upon procedures.

Under this Review, we tested the State’s compliance with the terms of their Agreement and applicable regulations governing the Agreement, including the associated cost principles required under 43 CFR Part 12.
FRAUD, ILLEGAL ACTS, & AGREEMENT VIOLATIONS:

During the course of this Review, we did not detect any information indicating that fraud, illegal acts, or violations of provisions of the Agreement had occurred.

This Review was not specifically designed to detect fraud; however, STS Management/AOR is authorized to take proper steps if fraud is detected.

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 the physical existence of your equipment inventory, compared to your inventory list, for all equipment purchased under the Agreement.

4. *Safeguarding of Records* – We reviewed and discussed the storage of all federal records related to the Agreement to ensure that they are safeguarded, and whether they need to be archived.

5. *Compliance Reviews (CRs)* – We reviewed a sample CR work to ensure that the State is in compliance with the ONRR CR Manual, Release 2.2.

We focused on work performed under the terms of the Agreement between ONRR and the State associated with Federal Fiscal Year (FY) 2016. 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 an Engagement Letter dated July 10, 2017 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 September 28, 2017.

- Provided a Draft Report to the State for comments.

- Provided a final report to the AO, the AOR, and the State.
RESULTS OF THE REVIEW

Costs Incurred and Reimbursed Under the Agreement:

We reviewed receipts and documentation supporting the costs reimbursed under the Agreement. Based on our Review, we determined that the State is in full compliance with the terms of the Agreement for costs claimed as Direct Labor, Fringe Benefits, Rent, Other Direct Costs, Travel, and Indirect Costs, with minor exceptions as described herein.

Direct Labor Costs:

We examined payroll reports and time keeping details for the sample period October 1, 2015, through December 31, 2015. The payroll report shows labor costs of $31,310 per month with a total of $93,930 for the sample period. In addition to the labor costs, the State paid service awards in the amount of $500 during the sample period. These awards were approved by the AO and included in the total labor costs of $94,430 for the sample period. Based on our Review, we determined that all direct labor costs claimed on the sampled voucher were allowable (reasonable, necessary, non-duplicative), directly related to the performance of the Agreement, and agreed with the State’s approved budget.

Fringe Benefit Costs

We examined payroll reports and other documentation for the sample period October 1, 2015, through December 31, 2015. The documentation shows fringe benefit costs in the amount of $36,479.20 for the sample period. The State utilizes seven different fringe benefit categories which are Retirement, SEC 125, Hospital, Life, EAP, FICA, and Workers Compensation. Based on our Review, we determined that all fringe benefit costs claimed on the sampled voucher were allowable (reasonable, necessary, non-duplicative), directly related to the performance of the Agreement, and agreed with the State’s approved budget.

Rent:

We examined invoices, receipts, and a lease agreement for the review period of October 1, 2015, through September 30, 2016. The documentation shows an arms-length rental agreement and rent costs in the amount of $5,001.64 for the review period. The rent costs include rent payments for thirteen months, the twelve months of the Review period plus one payment for the month of September 2015. The payment for September 2015 was made during FY 2016 due to timing issues with the invoice and final payment. We reviewed the rent costs for FY 2015 to ensure that the cost was not duplicated. Based on our Review, we determined that all rent costs claimed during the review period were allowable (reasonable, necessary, non-duplicative), directly related to the performance of the Agreement, and agreed with the State’s approved budget.

Other Direct Costs:

We examined documentation supporting other direct costs for the sample periods of October 1, 2015, through December 31, 2015, and April 1, 2016, through June 30, 2016. The State utilizes four cost categories which are other direct costs, Office Supplies, ISP
Cable Line & Desktop Support, Training Course Fees, and Janitorial Services. The total amount for other direct costs is $5,753.28 for the sample periods. This total includes $2,854.28 incurred during the October 1, 2015 through December 31, 2015 sample period and $2,899 incurred during the April 1, 2016 through June 30, 2016 sample period. Based on our Review, we determined that these other direct costs claimed on the sampled vouchers were allowable (reasonable, necessary, non-duplicative), directly related to the performance of the Agreement, and agreed with the State’s approved budget.

**Travel Costs:**

We examined six (6) Travel Authorizations and supporting documentation for travel costs for the sample period October 1, 2015, through December 31, 2015. The travel costs included two trips, with three employees attending each. Three employees attended the STRAC Meeting in San Antonio, Texas and the State purchased airfare for three employees to attend a disposition in Denver, Colorado. Total travel costs for both trips equal $7,154.34. Based on our Review, we determined that all travel costs claimed on the sampled voucher were allowable (reasonable, necessary, non-duplicative), directly related to the performance of the Agreement, and agreed with the State’s approved budget.

**Indirect Costs:**

We examined the State’s methodology for calculating indirect costs for the sample period April 1, 2016, through June 30, 2016. Total indirect costs are identified and documented in a Statewide Cost Allocation Plan each year. The State allocates indirect costs to each workgroup based on the number of full-time employees in each group. The sample voucher includes indirect costs in the amount of $2,418 for FY 2016. Based on our Review, we determined that the indirect costs claimed on the sample voucher were allowable (reasonable, necessary, non-duplicative), directly related to the performance of the Agreement, and agreed with the State’s approved budget.

**Performance of the FY 16 Work Plan:**

The State is in compliance with the performance of its Workplan associated Fiscal Year 2016. 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 FOGORMA, as amended.

The State’s FY 2016 Work plan estimated that 6,525 hours would be dedicated to audit and compliance investigations. The actual number of audit hours expended during FY 2016 totaled 6,673 hours. The State exceeded their planned audit hours.

The State’s FY 2016 CIM Report includes 17 Audit carryovers and 12 Compliance Review carryovers which equals 29 total carryover projects. The State also started 1 Audit and 4 Compliance Reviews which equals 5 new starts and an overall total of 34 projects during FY 2016. The State focused their efforts on closing older cases during FY
2016 as opposed to starting new projects. The State closed a total of 9 cases during FY 2016.

Table 1: FY 2016 Work Performance Analysis

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<thead>
<tr>
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<th>Audits</th>
<th>CRs</th>
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<tbody>
<tr>
<td>Carryover Cases in CIM:</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>New Starts</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Total Cases in CIM</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total Cases Closed, FY 2016:</strong></td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Carryovers to next fiscal year:</td>
<td>13</td>
<td>12</td>
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</tbody>
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*Equipment Inventory:*

We examined the State’s Equipment Inventory List and verified the physical existence of every item on the list with no exceptions. We reviewed the State’s process for equipment purchases and determined that the State is in compliance with the procurement rules at 43 CFR § 12.76, and no equipment was purchased during FY 2016. The State is in full compliance with the terms of the Agreement related to equipment inventory.

*Safeguarding of Records:*

We examined the State’s Record Inventory List and verified the physical existences of each record on the list with no exceptions. The records are well organized in filing cabinets which are located in the State’s office. Access to the office is restricted to State employees and the records are safe guarded by a locking door, locking file cabinets, fire extinguisher, and a fire hose near the entrance of the office. The State archived 44 boxes of records in June 2017, additional archiving is not necessary. The State is in full compliance with the terms of the Agreement related to the Safeguarding of Records.

*Compliance Reviews:*

We examined the State’s Compliance Review (CR) file and associated work papers for CIM #14-00424. Based on our Review, we determined that the State is in full compliance with ONRR’s Compliance Review Manual, Release 2.2.

We determined that the CR file is appropriately organized according to the ONRR’s Index Template and included the required quality control checklist, summaries, evidence of supervisory review, correspondence documentation, and the use of the correct ONRR compliance templates. Additionally, we found that the State’s conclusions were sufficiently supported by its workpapers and analysis.
RECOMMENDATIONS

We have no recommendations.

RESPONSE FROM THE STATE

"Since there are no recommendations within the report there is no response necessary."

CONCLUSION

We concluded that the State is in full compliance with the terms of the Agreement related to the performance of the work plan, compliance reviews, records management, and costs claimed on its vouchers as direct labor, fringe benefits, travel, other direct costs, and indirect costs.

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 Mr. Thomas Mack, at (303) 231-3195.

Bruce Rumburg, Agreements Officer’s Representative

Date

11/2/17