

# Office of the State Auditor

*Division of State Audit*

## ND Department of Labor Bismarck, North Dakota

Audit Report for the  
Biennium Ended June 30, 2007  
Client Code 406

*Robert R. Peterson*  
*State Auditor*



**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Representative Bob Skarphol – Chairman  
Senator Randel Christmann – Vice Chairman***

Representatives

*Ole Aarsvold  
Larry Bellew  
Merle Boucher  
Kari L. Conrad  
Jeff Delzer  
Bette Grande  
Patrick R. Hatlestad  
RaeAnn G. Kelsch  
Kenton Onstad  
Louis Pinkerton  
Blair Thoreson  
Francis J. Wald*

Senators

*Dwight Cook  
Jerry Klein  
Judy Lee  
Harvey D. Tallackson*

You may obtain reports by contacting the  
Division of State Audit  
at the following address:

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060  
(701) 328-2241

Reports are also available on the internet at:  
[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

# *Contents*

---

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, And Methodology</i>	<i>5</i>
<i>Discussion And Analysis</i>	<i>7</i>
<i>Financial Summary</i>	<i>7</i>
<i>Financial Statements</i>	<i>8</i>
<i>Statement of Revenues and Expenditures</i>	<i>8</i>
<i>Statement of Appropriations</i>	<i>9</i>
<i>Internal Control</i>	<i>10</i>
<i>Compliance With Legislative Intent</i>	<i>11</i>
<i>Operations</i>	<i>13</i>
<i>Management Letter (Informal Recommendations)</i>	<i>14</i>

## *Transmittal Letter*

---

April 21, 2008

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Lisa Fair McEvers, Commissioner of Labor

We are pleased to submit this audit of the Department of Labor for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Richard Fuher, CPA. Kevin Scherbenske, CPA was the staff auditor. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2320. We wish to express our appreciation to Commissioner Fair McEvers and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

---

## **INTRODUCTION**

The North Dakota Department of Labor is responsible for enforcing North Dakota labor and human rights laws and for educating the public about these laws. In addition, the department licenses employment agencies operating in North Dakota and can verify the status of independent contractor relationships.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

---

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

---

1. *What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Department of Labor in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

Yes.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

The Department of Labor has implemented the recommendation included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 14 of this report, along with management's response.

## **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Labor's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Department of Labor.

# *Audit Objectives, Scope, And Methodology*

---

---

## *Audit Objectives*

---

The objectives of this audit of the Department of Labor for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Labor's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Labor and are they in compliance with these laws?
3. Are there areas of the Department of Labor's operations where we can help to improve efficiency or effectiveness?

---

## *Audit Scope*

---

This audit of the Department of Labor is for the biennium ended June 30, 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Labor's sole location is its central office which will be included in the audit scope.

---

## *Audit Methodology*

---

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Nonstatistical sampling was used and the results were projected to the population. Further where applicable, populations were stratified to ensure that particular groups

within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) ERP system. Given the complexity of the State's accounting system significant evidence was obtained from ConnectND.
- Observed Department of Labor's processes and procedures.

In aggregate there were not any significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Discussion And Analysis***

---

The accompanying financial statements have been prepared to present the Department of Labor's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2007, operations of the Department of Labor were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of federal funds under work-sharing agreements with the Equal Employment Opportunity Commission and the Department of Housing and Urban Development. These agreements provide federal funds in exchange for work investigating discrimination complaints. Total revenues were \$282,407 for the year ended June 30, 2007 as compared to \$140,991 for the year ended June 30, 2006. The increase in revenue between fiscal years is primarily related to the timing of voucher requests to the federal agencies throughout the biennium.

Total expenditures for the Department of Labor were \$651,060 for the year ended June 30, 2007 as compared to \$692,967 for the prior year. The decrease in total expenditures between fiscal years is primarily related to a decrease in professional services. In fiscal year 2006, the Department of Labor incurred increased expenditures because of a need for special assistant Attorney General services (\$24,520) and for the production and airing of a Fair Housing Public Service Announcement (\$29,960). All other expenditures remained fairly constant.

Salaries and benefits accounted for approximately 80% of the total expenditures during the fiscal years reviewed.

## *Financial Statements*

---

### **STATEMENT OF REVENUES AND EXPENDITURES**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b><u>Revenues:</u></b>		
Federal Revenue	\$ 281,449	\$ 139,758
Employment Agency Application Fees	200	
Miscellaneous Revenue	758	1,233
<b>Total Revenues</b>	<u>\$ 282,407</u>	<u>\$ 140,991</u>
<b><u>Expenditures:</u></b>		
Salaries and Benefits	\$ 538,771	\$ 535,006
Major Operating Expenses:		
Fees – Professional Services	18,411	65,980
Travel	37,736	37,448
Data Processing/Telecommunications	23,398	26,432
Other Operating Expenses	32,744	28,101
<b>Total Expenditures</b>	<u>\$ 651,060</u>	<u>\$ 692,967</u>

**STATEMENT OF APPROPRIATIONS**

**For The Biennium Ended June 30, 2007**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 1,135,861	\$ 0	\$ 1,135,861	\$ 1,073,777	\$ 62,084
Operating Expenses	324,343		324,343	270,260	54,083
<b>Totals</b>	<u>\$ 1,460,204</u>	<u>\$ 0</u>	<u>\$ 1,460,204</u>	<u>\$ 1,344,037</u>	<u>\$ 116,167</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 961,239	\$ 0	\$ 961,239	\$ 954,349	\$ 6,890
Other Funds	498,965		498,965	389,688	109,277
<b>Totals</b>	<u>\$ 1,460,204</u>	<u>\$ 0</u>	<u>\$ 1,460,204</u>	<u>\$ 1,344,037</u>	<u>\$ 116,167</u>

## *Internal Control*

---

In our audit for the biennium ended June 30, 2007, we identified the following areas of the Department of Labor's internal control as being the highest risk:

---

### Internal Controls Subjected To Testing

---

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of Department of Labor in a management letter dated April 21, 2008.

## *Compliance With Legislative Intent*

---

In our audit for the biennium ended June 30, 2007, we identified and tested Department of Labor's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

---

### Legislative Intent Included In Our Audit Scope

---

- Submission of a report recommending legislative or other action to carry out the duties of the Human Rights Division (North Dakota Century Code section 14-2.4-22).
- Submission of a report recommending legislative or other action to carry out the duties of the Housing Discrimination Division (North Dakota Century Code section 14-2.5-15).
- Submission of a biennial report (North Dakota Century Code section 34-06-20).
- Compliance with appropriations (2005 North Dakota Session Laws chapter 7).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Department of Labor in a management letter dated April 21, 2008.

## *Operations*

---

This audit did not identify areas of Department of Labor's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Management Letter (Informal Recommendations)***

---

April 21, 2008

Mr. Lisa Fair McEvers  
Commissioner  
Department of Labor  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Commissioner Fair McEvers:

We have performed an audit of the Department of Labor for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Labor's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **CASH**

Informal Recommendation 07-1: We recommend the Department of Labor have someone independent of requesting federal draws reconcile the amount received to the amount deposited on PeopleSoft.

### **ACCOUNTS PAYABLE/EXPENDITURES**

Informal Recommendation 07-2: We recommend the Department of Labor ensure the responsibilities of the purchase card holder and the purchase card administrator (reviewer) are properly carried out.

Informal Recommendation 07-3: We recommend the Department of Labor ensure correcting entries processed in the general ledger are approved by an appropriate level of management.

### **LEGISLATIVE INTENT**

Informal Recommendation 07-4: We recommend the Department of Labor properly maintain detailed records of the department's annual inventory on file.

### **GENERAL**

Informal Recommendation 07-5: We recommend the Department of Labor:

- A. Draft a code of ethics or code of business conduct that addresses, at a minimum:
  - Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, similar to the Department's current conduct and conflict of interest policies;
  - Full, fair, accurate, timely, and understandable disclosure in reports and documents;
  - Compliance with applicable governmental laws, rules, and regulations;
  - The prompt internal reporting of violations of the code to appropriate person or persons identified in the code;
  - Description of what constitutes fraudulent behavior; and
  - Accountability for adherence to the code and the sanctions to be imposed on those who breach it.
- B. Ensure employees have acknowledged their receipt and reading of the code (all persons in an accounting or financial reporting oversight roles should annually confirm their receipt and reading of the code).

Informal Recommendation 07-6: We recommend the Department of Labor establish and perform a fraud risk assessment on a comprehensive and recurring basis. We recommend the Department of Labor design and document the necessary control activities to ensure each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

Management of Department of Labor agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2320 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Richard Fuher, CPA  
Auditor in-charge