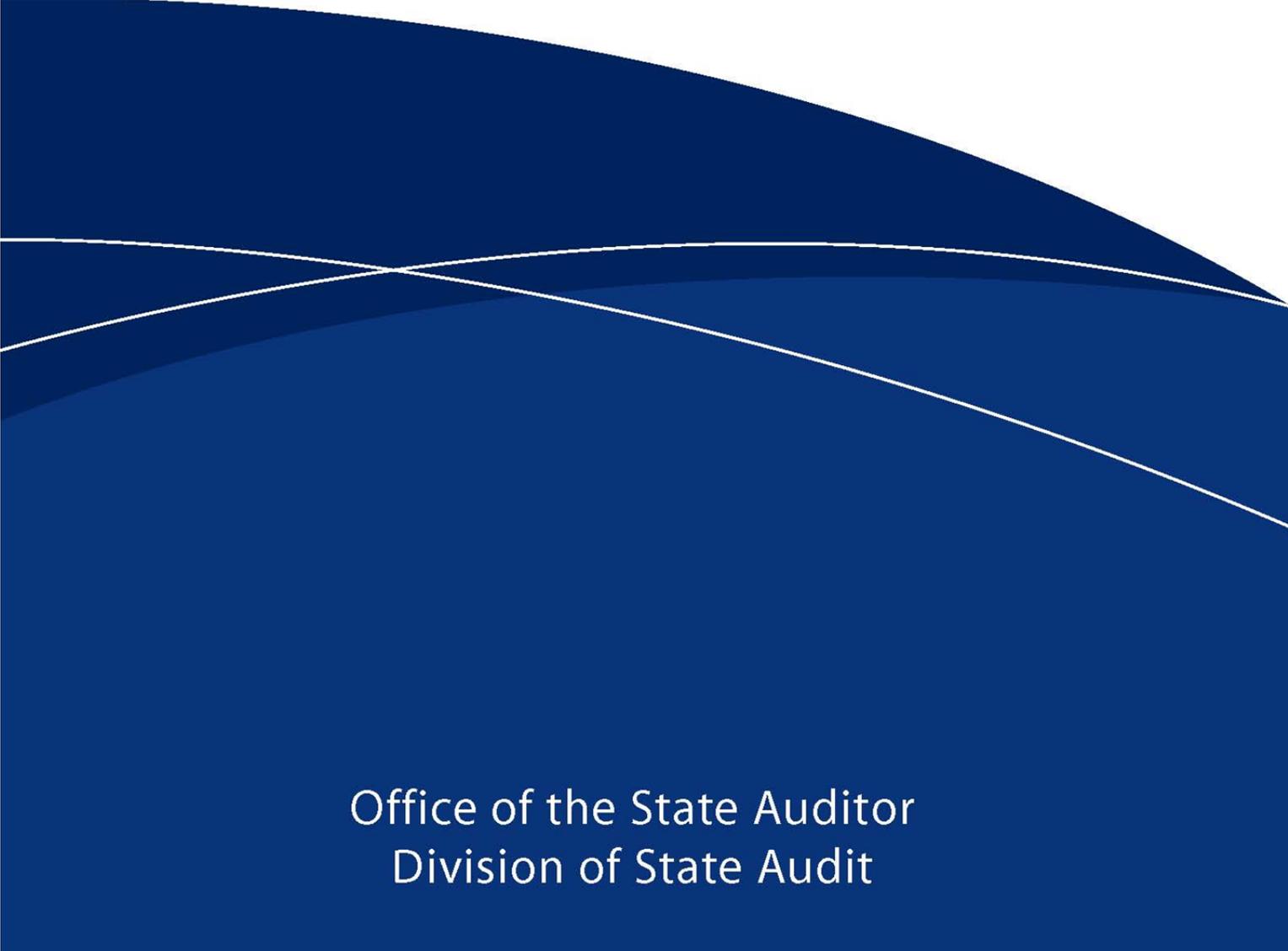


Department of Labor
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

April 19, 2012

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Tony J. Weiler, Commissioner

We are pleased to submit this audit of the Department of Labor for the biennium ended June 30, 2011. 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 Andrea Wike. Cindi Pedersen, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Commissioner Weiler and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

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.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

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?

There were no recommendations 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 13 of this report, along with management's response.

LAFRC Audit Communications

7. *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.

8. *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.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *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.

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

None.

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

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

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

None.

14. *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, 2011 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, 2011. 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 Bismarck office which was 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. Non-statistical sampling was used and the results were projected to the population. 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) system. Significant evidence was obtained from ConnectND.
- Observed Department of Labor's processes and procedures.

In aggregate there were no 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, 2011, 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 for the Department of Labor consisted primarily of federal funds under work-sharing agreements with the Equal Employment Opportunity Commission (EEOC) and cooperating agreements with the Department of Housing and Urban Development (HUD). These agreements provide federal funds in exchange for work investigating discrimination complaints. There was a significant decrease of \$83,853 in the total revenues of \$151,710 for the year ended June 30, 2011, compared to \$235,566 for the year ended June 30, 2010. The decrease is a result of a reduction in the contract amount received from HUD between federal fiscal year 2009 and federal fiscal year 2010 and the Department's decision to defer the draw-down of \$50,000 from the federal fiscal year 2010 HUD contract until the 2011-2013 state biennium.

Total expenditures for the Department of Labor were \$897,317 for the year ended June 30, 2011 as compared to \$805,190 for the prior year. The increase in total expenditures for the audited period is due primarily to the legislative increase in salaries and benefits. In addition, there was an increase in IT Development with the Department's decision to consolidate the case management data bases used by the Department into one Labor Information Management Electronic System (LIMES) during the second year of the biennium. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess of operating line appropriations over actual expenditures was a result of the Department incurring less in professional fees and services and travel than had been budgeted.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Revenues and Other Sources:</u>		
Revenue from the Federal Government	\$ 150,804	\$ 229,730
Miscellaneous Revenue	906	5,836
Total Revenues and Other Sources	<u>\$ 151,710</u>	<u>\$ 235,566</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 761,668	\$ 717,248
IT Services, Supplies, and Equipment	67,958	27,649
Operating Supplies and Equipment	25,181	20,809
Travel	23,804	13,438
Operating Fees and Services	18,706	26,047
Total Expenditures and Other Uses	<u>\$ 897,317</u>	<u>\$ 805,190</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 1,512,004	\$ 20,000	\$ 1,532,004	\$ 1,478,916	\$ 53,088
Operating Expenses	302,330		302,330	223,591	78,739
Totals	<u>\$ 1,814,334</u>	<u>\$ 20,000</u>	<u>\$ 1,834,334</u>	<u>\$ 1,702,507</u>	<u>\$ 131,827</u>
Expenditures by Source:					
General Fund	\$ 1,401,583	\$ 20,000	\$ 1,421,583	\$ 1,321,993	\$ 99,590
Other Funds	412,751		412,751	380,514	32,237
Totals	<u>\$ 1,814,334</u>	<u>\$ 20,000</u>	<u>\$ 1,834,334</u>	<u>\$ 1,702,507</u>	<u>\$ 131,827</u>

Appropriation Adjustments:

The \$20,000 increase in the Salaries and Benefits line item was authorized by House Bill 1015 of the 2009 Session Laws, section 18, for market equity increases.

Internal Control

In our audit for the biennium ended June 30, 2011, 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 relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding purchase card usage

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 the Department of Labor in a management letter dated April 19, 2012.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested the Department of Labor's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use of the Fair Housing Fund (NDCC section 14-02.5-17).
- Proper administration of the employment agencies licenses (NDCC sections 34-13-02, 34-13-03, and 34-13-04).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- 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 require 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 has occurred or is 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 19, 2012.

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 19, 2012

Mr. Tony J. Weiler
Commissioner
Department of Labor
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner Weiler:

We have performed an audit of the Department of Labor for the biennium ended June 30, 2011, 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.

LEGISLATIVE INTENT

Informal Recommendation 09-1: We recommend the Department of Labor implement controls to collect all applications and fees in accordance with NDCC 34-13-03 and NDCC 34-13-04 to ensure all employment agencies are licensed in accordance with NDCC 34-13-02.

Informal Recommendation 09-2: We recommend the Department of Labor strengthen controls surrounding the review of travel reimbursement requests to ensure all Office of Management and Budget Policies pertaining to travel are complied with.

PERVASIVE CONTROLS

Informal Recommendation 09-3: We recommend the Department of Labor update their code of ethics or code of business conduct to ensure policies include all key elements and ensure all persons in an accounting or financial reporting oversight role confirm their receipt and reading of the code on an annual basis.

Management of Department of Labor agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Andrea Wike".

Andrea Wike
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
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