

# STATE OF NORTH CAROLINA

**DEPARTMENT OF LABOR**

**FINANCIAL RELATED AUDIT**

**JUNE 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

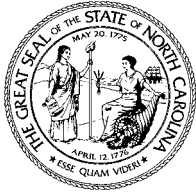
**STATE AUDITOR**

**DEPARTMENT OF LABOR**  
**FINANCIAL RELATED AUDIT**  
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**ADMINISTRATIVE OFFICERS**

**CHERIE K. BERRY, COMMISSIONER**

**JACK BRINSON, DIRECTOR OF BUDGET AND MANAGEMENT**



**Beth A. Wood, CPA**  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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June 11, 2012

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
The Honorable Cherie K. Berry, Commissioner

This report presents the results of our financial related audit at the Department of Labor. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. We determined that the Department of Labor complied, in all material respects, with the *North Carolina General Statutes* referenced in the "Scope and Specific Objectives" section of this report.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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# **BACKGROUND, GENERAL OBJECTIVES, AND METHODOLOGY**

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## **BACKGROUND**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Department of Labor. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

## **GENERAL OBJECTIVES**

The general objectives of this financial related audit included determining whether:

- the organization has complied with finance-related laws, regulations, and provisions of contracts or grant agreements;
- assets have been safeguarded;
- financial resources have been prudently managed;
- improvements are needed in internal control over selected fiscal matters.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

## **METHODOLOGY**

To accomplish our audit objectives, we gained an understanding of internal control over matters described in the Scope and Specific Objectives section of this report and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

## **BACKGROUND, GENERAL OBJECTIVES, AND METHODOLOGY (CONCLUDED)**

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

## **SCOPE, SPECIFIC OBJECTIVES, AND RESULTS**

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### **SCOPE AND SPECIFIC OBJECTIVES**

Our audit scope covered the period of June 1, 2011 thru November 30, 2011 and included selected internal controls in the following organizational units:

#### Division of Administration – Budget and Management

This organizational unit is responsible for all fiscal related functions of the Department, including budgeting, purchasing, receivables and other financial related reporting. This unit accounts for the financial transactions and issues financial reports on the Department's operations.

#### Standards and Inspections Division – Boiler Safety Bureau

This organizational unit is responsible for administering the Uniform Boiler and Pressure Vessel Act of North Carolina and the Administrative Rules. The Bureau maintains records on ownership, location and condition of working boilers and pressure vessels and conducts periodic inspections of boilers and pressure vessels to ensure that safety standards are met and to identify any violations that may exist.

#### Standards and Inspections Division – Elevator and Amusement Device Bureau

This organizational unit is responsible for administering the Elevator Safety Act of North Carolina. The Bureau oversees the proper installation and safe operation of elevators, escalators, workman's hoists, dumbwaiters, moving walks, aerial passenger tramways, amusement rides and incline railways. The bureau also inspects lifting devices for people with disabilities that operate in public establishments (except federal buildings) and private places of employment.

#### Occupational Safety and Health Division – Compliance Bureau

This organizational unit is responsible for administering the Occupational Safety and Health Act of North Carolina. The Bureau investigates complaints made by workers, work-related fatalities and accidents, conducts scheduled inspections of randomly selected businesses, and performs follow-up inspections of businesses previously cited for safety and health violations to ensure compliance with applicable workplace safety and health standards.

During our audit, we considered internal control related to the following accounts and control objectives:

*Boiler Inspection Fees* – Our audit included revenues collected for fees charged to inspect new and existing boiler and pressure vessel units located within the State of North Carolina. The Department reported revenues of approximately \$1,014,983 for these fees during our audit period. We examined internal controls to ensure that:



## **SCOPE, SPECIFIC OBJECTIVES, AND RESULTS (CONTINUED)**

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- Revenue was collected for valid inspections conducted in accordance with *North Carolina General Statute 95-69.16*. The Commissioner of Labor determines the frequency and the method of inspections based on the hazard involved and the need for the protection of the public. New boilers and pressure vessels constructed, used or designed for operation in this State are inspected before they are placed into operation. Existing boilers and pressure vessels are inspected periodically prior to expiration of the inspection certificate.
- Collection procedures were implemented in accordance with *North Carolina General Statute 147-86.11* which require State agencies to promptly bill, collect and deposit money due to the State agency.
- Revenue collected for boiler and pressure vessel inspections was deposited in accordance with *North Carolina General Statute 147-77* which requires money's received to be deposited daily.

*Elevator Inspection Fees* – Our audit included revenues collected for fees charged to inspect new and existing elevators located within the State of North Carolina. The Department reported revenues of approximately \$1,602,584 for these fees during our audit period. We examined internal controls to ensure that:

- Revenue was collected for valid inspections conducted in accordance with of *North Carolina General Statute 95-110.5* which empowers the Commissioner of Labor to inspect and have tested for acceptance all new, altered or relocated devices or equipment and to make maintenance and periodic inspections and tests of all devices on an annual basis.
- Collection procedures were implemented in accordance with *North Carolina General Statute 147-86.11* which require State agencies to promptly bill, collect and deposit money due to the State agency,
- Revenue collected for elevator inspections were deposited in accordance with *North Carolina General Statute 147-77* which requires money's received to be deposited daily.

*Occupational Safety and Health Citation Fees* – Our audit included revenues collected for penalties assessed for citations issued during a safety or health inspection of public or private businesses located within the State of North Carolina. When inspections are conducted and citations are issued with penalties a business has 15 days to request an informal conference or contest the penalty. If the business does not take one of these actions, the citation becomes a final order and the penalty is considered a receivable due to the Department.

The Department reported revenues of approximately \$1,899,101 during our audit period. We examined internal controls to ensure that:

## **SCOPE, SPECIFIC OBJECTIVES, AND RESULTS (CONTINUED)**

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- Revenue was collected for valid inspections conducted in accordance with *North Carolina General Statute 95-136*, which authorizes agents to investigate complaints made by workers, work-related fatalities and accidents. Agents are also authorized to conduct general inspections of randomly selected businesses, and follow-up inspections of businesses previously cited for safety and health violations.
- Citation penalties were issued and assessed in accordance with *North Carolina General Statute 95-138*, which authorizes the Commissioner of Labor to assess penalties against any employer who violates the requirements of the Occupational and Safety and Health Act of North Carolina.
- Collection procedures were implemented in accordance with *North Carolina General Statute 147-86.11* which requires State agencies to promptly bill, collect and deposit money due to the State agency.
- Revenue collected for citation penalties was deposited in accordance with *North Carolina General Statute 147-77*, which requires money's received to be deposited daily.
- Department appropriately transfers penalties collected to the Civil Penalties Forfeiture Fund in accordance with *North Carolina General Statute 115C-457.2*, which requires State agencies that collect civil penalties, civil forfeitures and civil fines to remit the proceeds less the cost of collection to the Civil Penalty and Forfeiture Fund administered by the Office of State Budget and Management within ten days after the close of the calendar month in which the revenues were received or collected.

*Employee/Employment Physicals* – The Department of Labor's Medical Surveillance policy which was effective May 1, 2004, requires employees in professional level technical positions in the Occupational Safety and Health Division and the Standards and Inspection Division to have an annual physical. The Department reported expenditures of approximately \$23,520 for these physicals during our audit period. We examined internal controls to ensure that expenditures incurred were in accordance with the Departmental Medical Surveillance Policy.

*Rent/Lease of Buildings/Office* – The Department of labor leases building/office space for the Occupational Safety Health Compliance Division and the Wage and Hour Bureau of the Standards and Inspections Division. The Department reported building/office space rental expenditures of approximately \$251,042 during our audit period. We examined internal controls to ensure that rented or leased property was rented or leased in accordance with *North Carolina General Statute. 146-25*, which authorizes Departments to negotiate with the owners for the lease or rental of property after the Department of Administration has determined that the lease/rental of the property is in the best interest of the State.

*Mobile Electronic Communication Devices* – Session Law 145, Section 6A.14a required every executive branch agency within State Government to develop a policy to limit the

## **SCOPE, SPECIFIC OBJECTIVES, AND RESULTS (CONCLUDED)**

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issuance and use of mobile electronic devices to the minimum required to carry out the agency's mission. We examined internal controls to ensure that the Department established a policy and operated in accordance with the policy.

*Travel Advances* – All employees who travel on state business may be issued advances when authorized by the department head or his or her designee in order that personal funds will not be required. The Department reported expenditures associated with travel advances of approximately \$22,343 during our audit period. We performed procedures to determine if travel advances were issued in accordance with the State Budget Manual.

### **RESULTS**

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. We determined that the Department of Labor complied, in all material respects, with the *North Carolina General Statutes* referenced in the "Scope and Specific Objectives" section of this report related to Boiler Inspections Fees, Elevator Inspection Fees, Occupational Safety and Health Act Citation Fees, the rent or lease of office space, and Mobile Communication Devices.

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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