STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF LABOR
FOR THE FISCAL YEARS ENDED
JUNE 30, 2005 AND 2006

AUDITORS OF PUBLIC ACCOUNTS

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We have examined the financial records of the Department of Labor for the fiscal years ended June 30, 2005 and 2006. Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all State agencies. This examination has therefore been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

Statutory authorization for the Department of Labor is included, for the most part, in Title 31 of the General Statutes in Chapters 556, 557, 558, 560, 561, 564, 567 and 571.

The major function of the Department is to serve the unemployed, primarily by finding suitable employment for those unemployed and by providing to the unemployed, monetary benefits which are dependent upon the claimant's employment and wage history. Included among the other functions of the Department are administration of certain State and Federal training and skill development programs, regulation and enforcement of working conditions, enforcement of minimum and other wage standards, enforcement of labor relations acts, mediation and arbitration service and maintenance of labor statistics. Field operations of the Department were carried out from 14 Job Centers and two Call Centers throughout the State. The Department was responsible for the following programs:

- Unemployment Insurance – Provides to the unemployed monetary benefits which are dependent upon the claimant's employment and wage history as provided in the Federal Unemployment Tax Act and Titles III, IX and XII of the Social Security Act. The benefits are financed by employer's contributions collected by the Department.

- Workforce Investment Act (WIA) – Replaced the Job Training Partnership Act effective July 1, 2000, and advocates One-Stop Career Centers to provide universal access to effective employment and training programs. The DOL has both a partnership and a broad administrative role in implementing this new service delivery system in Connecticut.

- Employment Service – Provides job placement and other employment services to unemployed individuals and provides employers with a source of qualified applicants.

- Jobs First Employment Service – Provides employment services to recipients determined to be eligible for assistance under the Temporary Assistance to Needy Families program by the Department of Social Services.

- Community Employment Incentive Program – Provides employment placement projects for recipients of general assistance.

The Department of Labor is administered by a Commissioner who is appointed by the Governor under Sections 4-5 to 4-8 of the General Statutes. Shaun B. Cashman was appointed Commissioner effective January 16, 2001, and served in that capacity until March 31, 2006. Raeanna V. Curtis was appointed acting Commissioner effective April 1, 2006, and served in that capacity until June 1, 2006. Patricia Mayfield was appointed Commissioner on June 1, 2006, and continues to serve in that capacity.

Significant Legislation:

Public Act 04-60 **An Act Concerning Interest on Fraudulent Unemployment Compensation Overpayments and a Fee for Failure by Contribution Employers to File Timely Unemployment Compensation Quarterly Returns**

The Act requires that all interest on fraudulent unemployment compensation overpayments made on or after July 1, 2005, and fees collected by the administrator for the untimely filing of Unemployment Compensation quarterly returns shall be deposited in the Employment Security Administration Fund. This Act is effective July 1, 2004.

Councils, Boards and Commissions:

<u>Connecticut State Apprenticeship Council:</u>

The Council advises and guides the Commissioner in formulating work training standards and developing apprenticeship-training programs.

<u>Connecticut Board of Mediation and Arbitration:</u>

The Board provides mediation and arbitration to employers and employee organizations.

Connecticut State Board of Labor Relations:

The Board investigates complaints of employers' unfair labor practices affecting the right of employees to organize and bargain collectively.

Employment Security Board of Review:

The Employment Security Appeals Division is an independent quasi-judicial agency within the Department that hears and rules on appeals from the granting or denial of unemployment compensation benefits. The Division consists of the Referee Section and the Employment Security Board of Review.

Connecticut Occupational Safety and Health Review Commission:

The Commission hears and rules on appeals from citations, notifications and assessment of penalties under the Occupational Safety and Health Act (Chapter 571 of the General Statutes).

Advisory Council on Displaced Homemakers:

The Council assists with the development of recommendations to operate programs that meet the training and job placement needs of displaced homemakers.

Employment Security Division Advisory Board:

The Board advises the Commissioner on matters concerning policy and operations of the Employment Security Division (see description of Division on page 5). No regulations concerning the Employment Security Division are adopted without consulting the Advisory Board.

RÉSUMÉ OF OPERATIONS:

The operations of the Department, which were accounted for in the General Fund, seven special revenue funds, three fiduciary funds, and a wage restitution account are discussed below.

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of two new special revenue funds relative to grants and restricted accounts. One of these funds established by the State Comptroller during the 2003-2004 fiscal year is the "Grants and Restricted Accounts Fund" (12060) to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund. Thus, starting with the Fiscal Year ended June 30, 2004, Federal grants and other restricted funds that were formerly accounted for in the General Fund have been reclassified into this newly established special revenue fund.

General Fund:

General Fund Receipts:

General Fund receipts for the audited period, together with those of the preceding fiscal year, are summarized below:

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Employer contributions	$ 1,567	$ 1,688	$ 3,488
Federal contributions	17,514,329	24,487,995	27,047,791
Prior Year Adjustment Federal Contributions	(617,713)		
Other grants – restricted	590	-0-	-0-
Recoveries of expenditures	169,562	237,253	170,849
Fees and fines	109,815	104,796	116,144
Refunds of expenditures	64,224	92,325	77,706
Miscellaneous	6,282	3,847	5,186
Total General Fund Receipts	$17,248,656	$24,927,904	$27,421,164

Total receipts increased by $7,679,248 and $2,493,260 during the 2004-2005 and 2005-2006 fiscal years, respectively. The increased receipts for both fiscal years can primarily be attributed to increases in Federal contributions. Receipts for the Workforce Investment Act Program increased $7,440,395 and $2,823,483 during the fiscal years ended June 30, 2005 and June 30, 2006, respectively.

General Fund Expenditures:

A summary of General Fund expenditures during the audited period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Personal Services and Employee Benefits	$10,358,696	$13,538,860	$15,847,078
Employee Expenses, Allowances, Fees	182,712	181,957	206,895
Purchased and Contractual Services	1,173,765	1,363,570	806,811
Motor Vehicle Costs	120,030	115,211	137,919
Premises and Property Expenses	801,076	868,568	1,232,165
Information Technology	761,725	510,901	548,415
Purchased Commodities	114,171	156,291	188,074
Other Charges	109	(55)	0
Grants and Aid	27,590,228	27,068,546	32,636,093
Capital Outlay - Equipment	56,465	105,689	46,610
Total Expenditures	$41,158,977	$43,909,538	$51,650,060

Total expenditures increased $2,750,561 and $7,740,522 during the fiscal years ended June 30, 2005 and 2006, respectively. During the respective fiscal years expenditures for Personal Services and Employee Benefits increased $3,180,164 and $2,308,218. During the fiscal year ended June 30, 2006, expenditures for Grants and Aid increased $5,567,547.

Special Revenue Funds:

The purpose of the four major special revenue funds is discussed below:

Employment Security Administration Fund:

The Employment Security Administration Fund operates under Section 31-259, subsections (a) through (c), of the General Statutes and the Fund consists of monies appropriated by the State, monies received from the United States of America, or any agency thereof, and monies received from any other source, for the purpose of defraying the cost of administering the Employment Security Division. According to Section 31-237, subsection (a), of the General Statutes, the "Employment Security Division shall be responsible for matters relating to unemployment compensation and the Connecticut State Employment Service, and shall establish and maintain free public employment bureaus."

Unemployment Compensation Advance Fund:

The Unemployment Compensation Advance Fund is established by Section 31-264a, subsection (b), of the General Statutes. Fund receipts include employer special bond assessments for debt service. Issuance of up to $1,000,000,000 in State revenue bonds was authorized to repay benefit funds borrowed from the Federal government. This action avoided Federal interest charges and provided advances for benefit payments until revenue from employer taxes was sufficient to support benefit payouts.

Employment Security Special Administration Fund:

The Employment Security Special Administration Fund is authorized by Section 31-259, subsection (d), of the General Statutes to receive all penalty and interest on past due employers' contributions. Money in the Fund shall be used for the payment of administration costs, to reimburse the Employment Security Administration Fund when the appropriations made available to the Employment Security Administration Fund are insufficient to meet the expenses of that fund, and for any other purpose authorized by law. Subsection (d) also states that, on July 1st of any calendar year, the assets in the Employment Security Special Administration Fund, which exceed $500,000, are to be appropriated to the Unemployment Compensation Fund. During June 2003 and 2004, $2,400,000 and $2,600,000, respectively, were transferred to the Employment Security Administration Fund for the purpose of offsetting projected deficits of Federal administrative funds.

Grants and Restricted Accounts Fund:

This Fund was established with the passage of Public Act 04-2 of the May Special Session of the General Assembly. The purpose of the Fund is to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as "Federal and Other Grants."

Schedules of receipts and expenditures for the special revenue funds during the audited period, together with those of the preceding fiscal year, are presented below:

Schedule of Receipts

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Employment Security Administration Fund	$76,549,818	$78,091,691	$76,549,818
Grants and Restricted Accounts Fund	2,950,614	2,214,101	2,924,917
Employment Security Special Administration Fund	2,456,670	2,923,201	3,214,223
Special Assessment Unemployment Compensation Advance Fund	282,768	405,711	168,881
Individual Development Account Reserve Fund	75,500	400,000	260,000
Workers' Compensation Fund	10,768	2,376	28,000
Inter Agency/Intra Agency Grants		1,712	
Total	$82,326,138	$84,038,792	$83,145,839

Total receipts increased by $1,712,654 during the 2004-2005 fiscal year and decreased $892,953 in the fiscal year ended June 30, 2006. These fluctuations were primarily attributable to changes in Employment Security Administration Fund receipts which increased $1,541,873and then decreased $1,541,873 in the respective fiscal years. Receipts for this Fund are used for the purpose of defraying the cost of administrating the Department's Employment Security Division. Fluctuations were also noted in receipts for the Grants and Restricted Accounts Fund. Receipts for this Fund decreased $736,513 during the fiscal year ended June 30, 2005, and then increased $710,816 during the 2005-2006 fiscal.

Schedule of Expenditures

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Employment Security Administration Fund	$68,416,080	$77,284,943	$78,671,086
Federal and Restricted Accounts Fund	3,292,848	2,013,643	2,752,241
Employment Security Special Administration Fund	2,600,000	2,800,000	2,800,000
Individual Development Account Reserve Fund	871,091	328,015	519,874
Workers Compensation Fund	651,349	654,697	671,470
Capital Equipment Purchase Fund	28,794	179,560	105,984
Economic Assistance Bond Fund	0	0	141,308
Inter Agency/Intra Agency Grants	77,582	56,837	0
Total	$75,937,744	$83,317,695	$85,661,963

A summary of expenditures by object, from special revenue funds in the audited period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Personal Services and Employee Benefits	$56,355,599	$63,878,832	$68,191,310
Employee Expenses, Allowances, Fees	490,745	545,949	581,677
Purchased and Contractual Services	4,310,500	4,184,797	4,008,277
Motor Vehicle Costs	47,353	49,387	61,172
Premises and Property Expenses	3,170,113	3,503,966	3,566,575
Information Technology	4,148,321	5,625,253	5,396,559
Purchased Commodities	678,901	733,799	496,789
Other Charges	41,945	10,048	150
Grants and Aid	5,452,224	3,213,808	2,901,340
Capital Outlay - Equipment	1,242,043	1,571,856	529,459
Prior Year Expenditure Adjustment	0	0	(71,345)
Total Expenditures	$75,937,744	$83,317,695	$85,661,963

Total expenditures increased $7,379,951 from the 2003-2004 total of $75,937,744 to the 2004-2005 fiscal year total of $83,317,695. Increases were noted in expenditures for personal services and employee benefits, premises and property expenses, information and technology and equipment. These increases in expenditures were partially offset by a decrease reflected in expenditures for purchased and contractual services and grants and aid. During the 2005-2006 fiscal year expenditures increased $2,344,268 from $83,317,695 in the 2004-2005 fiscal year to $85,661,963 in the 2005-2006 fiscal year.

Total expenditures increased $2,344,268 from the 2004-2005 total of $83,317,695 to the 2005-2006 total of $85,661,986. This increase in expenditures was primarily the result of an increase of $4,312,479 in expenditures charged to personal services and fringe benefits. This increase was partially offset by decreases in expenditures for purchased and contractual services, information technology, grants and aid and equipment.

Fiduciary Funds:

The Department operated two fiduciary funds and a wage restitution account during the audited period.

Receipts and disbursements for all of the Department’s fiduciary funds during the audited period, together with those of the preceding year, are summarized below:

Schedule of Receipts

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Unemployment Compensation Fund	801,200,588	684,116,285	638,634,989
Fringe Benefit Recovery Fund	168,221	0	0
Funds Awaiting Distribution Fund	796,765	909,055	1,038,618
Total	$802,165,574	$685,025,340	$639,673,607

Schedule of Disbursements

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Unemployment Compensation Fund	820,927,365	585,652,075	569,330,340
Funds Awaiting Distribution Fund	892,195	1,064,758	991,579
Total	$821,819,560	$586,716,833	$570,321,919

Unemployment Compensation Fund:

Section 31-261 of the General Statutes authorized the Unemployment Compensation Fund to be used for the receipt of employers' contributions and for the collection of benefits paid for State and municipal government workers and for nonprofit organizations. Section 31-263 of the General Statutes authorizes the Unemployment Compensation Benefit Fund to be used for the payment of unemployment benefits.

In accordance with the provisions of Section 31-262 and 31-263 of the General Statutes, the State Treasurer deposits all contributions, less refunds and other appropriate receipts of the Unemployment Compensation Fund, in the Unemployment Trust Fund of the U.S. Treasury. Requisitions from the Unemployment Trust Fund are made on the advice of the Administrator (Department of Labor Commissioner) for the payment of estimated unemployment compensation benefits. The resources of the Unemployment Trust Fund are invested by the Secretary of the Treasury for the benefit of the various State accounts constituting the fund.

The majority of the receipts consist of employer tax contributions. The majority of the disbursements consist of unemployment compensation benefit payments.

A summary of Unemployment Compensation Fund receipts during the audited period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	2004	**2005**	**2006**
Employer tax contributions	$571,090,852	$599,109,045	$557,703,931
Federal Reimbursable Advances	137,830,000	(59,000)	(102,000)
Federal contributions	9,948,196	13,146,756	11,512,230
Reimbursement from the State, municipalities and nonprofits	50,041,207	39,788,700	36,884,346
Reimbursement from other states	6,856,360	5,651,479	5,672,558
Federal Trust Fund interest income	25,433,973	26,479,305	26,963,924
Total	$801,200,588	$684,116,285	$638,634,989

Total employer tax contributions increased by $28,018,293 and then decreased $41,405,114 during the fiscal years 2004-2005 and 2005-2006, respectively. During good economic conditions, unemployment is lower and thus less revenue is needed in the Unemployment Compensation Fund. As a result, there were fluctuations in rates effective January 1st of each calendar year that affect the amount paid for employer tax contributions. The Fund Solvency Rate is charged in addition to the basic charged rate and is based upon the solvency of the State's

Unemployment Compensation Fund. Charged rates are based upon the State's experience rating system. For the State's experience rating system, tax rates are based on the ratio of an employer's benefit charges over a three-year period to its payroll over the same period. The range of tax rates is shown below. The New Employer Rate is charged to newly liable employers who have not had unemployment benefits charged to their account for at least one full fiscal year ending the preceding June 30th.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
2004	1.4 %	2.4 %	1.9 % to 6.8 %
2005	1.0 %	2.7 %	1.5 % to 6.4 %
2006	.6 %	2.9 %	1.1 % to 6.0 %

Federal Reimbursable Advances decreased $137,889,000 and $43,000 during the fiscal years 2004-2005 and 2005-2006, respectively. The primary reason for the decrease in Federal reimbursable advances can be attributed to the end of the temporary emergency unemployment compensation program.

The Trust Fund balance at July 1, 2004, was $476,198,327 and has steadily increased over the audited period. As of June 30, 2006, the balance was $632,318,030.

A summary of disbursements from the Unemployment Compensation Fund during the audited period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	2004	2005	2006
Benefits paid with employer contributions	$619,782,201	$529,797,965	$519,381,289
Benefits paid with Federal contributions	147,934,278	12,417,312	11,287,745
Benefits paid for the State, municipalities and nonprofits	46,676,205	37,725,830	32,835,244
Benefits paid for other states	6,472,531	5,633,189	5,742,187
Miscellaneous	62,150	77,779	83,875
Total	$820,927,365	$585,652,075	$569,330,340

Benefits paid with employer contributions decreased by $89,984,236 and $10,416,676 during the 2004-2005 and 2005-2006 fiscal years, respectively. The benefits paid with employer contributions during the 2003-2004 fiscal year was $619,782,201. Benefits paid with Federal contributions decreased $135,516,966 and $1,129,567 during the fiscal years ended June 30, 2005 and 2006, respectively. The primary reason for the decrease in Benefits paid with Federal contribution can be attributed to the end of the temporary emergency unemployment compensation program.

Funds Awaiting Distribution Fund and Wage Restitution Account:

Fund collections totaled $1,947,672 and disbursements and transfers totaled $2,056,336, respectively, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled $1,849,553 and disbursements and transfers totaled $1,956,333.

Section 31-68 of the General Statutes authorizes the Commissioner to take assignment of wage claims in trust for workers who are paid less than the minimum fair wage or overtime wage by employers. Wages collected by the Commissioner are paid to the claimants. Activity of the Wage Restitution Account was accounted for in a separate account within the Funds Awaiting Distribution Fund.

In the event the whereabouts of any employee is unknown after the issue is resolved, the Commissioner is empowered to hold the wages for three months and then pay the next of kin in accordance with statutory procedures. Any wages held by the Commissioner for two years without being claimed shall escheat to the State subject to the provisions of Title 3, Chapter 32, Part III of the General Statutes.

CONDITION OF RECORDS

Our review of the records of the Department of Labor revealed several areas requiring improvement. Separate captions have been included for major areas of discussion.

Compliance with State Contracts:

Criteria: As promulgated in the Regulations of State Agencies for State Purchasing Procedures, 4a-52-9, subsection (c), "No alterations or variations of the terms of a contract shall be valid or binding upon the state unless made in writing and signed by the Commissioner" (i.e. Commissioner of the Department of Administrative Services).

Pursuant to State contract 99PSX0052, effective November 1, 1999, through February 28, 2006, for pre-sort mail services for first class and standard mail, a fee schedule details a sliding scale ranging from no charge to .29 per piece depending on the volume of mail sorted. For daily volumes up to 2,999 pieces there is no charge for sorting and for volumes of 3,000 or more but less than 5,000 there is a sort fee of $.029 per piece. For 5,000 or more but less than 10,000 pieces per day the sort fee is $.025 per piece and 10,000 or more but less than 30,000 pieces per day the sort fee is $.023 per piece. The rates for volumes greater than 30,000 and less than 50,000 pieces per day is $.021 per piece and for greater than 50,000 per day the sort fee is $.019 per piece.

Condition: We noted that an expenditure tested in our CAFR expenditures sample was invoiced and paid at an amount contrary to the provisions of State contract 99PSX0052. The vendor billed a flat $.023 per piece sort fee instead of the contracted amount of $.021 per piece that was required based on that day's volume of mail sorted. This overcharge amounted to a $208.51 overpayment to the vendor for this one voucher.

Due to this overcharge, we inquired why this amount was charged and found that the vendor had given the Department an agreement detailing that all pieces sorted would be given a flat fee of $.023 per piece. In addition, we were unable to obtain a copy of any signed agreement, although such an agreement would still not be legally binding.

On March 1, 2006, another State contract, 06PSX0048, was issued to this vendor with the sliding price scale based on the volume of the daily mail sorted. However, this contract's fees also were not charged on the Department's invoices and, again, the flat fee of $.023 was charged and paid.

Based on the date this agreement was supposedly executed (i.e. December 8, 2004), we analyzed the amounts charged and paid against the contracted fee schedule, and found that between December 22, 2004, and October 17, 2006, the Department was overcharged a total $1,238.02.

Effect: The Department was overcharged $1,238.02 for pre-sort mail services for first and standard mail. It should be noted that the Department of Labor recovered the $1,238.02 on January 2, 2007.

Cause: The Department agreed to change the amounts to pay a vendor, who had an existing State contract, as it was thought that this would benefit the Department in the long term as they were told by the vendor that their average daily volume was 12,000 pieces per day, which happens to fall in the $.023 per piece volume charge. An agreement was sent to the Department outlining that a flat fee of $.023 would be charged on each piece of mail sorted and was apparently effective December 8, 2004, through October 17, 2006 (i.e. latest paid invoice).

Recommendation: If a State contract is in place, the Department should issue purchase orders and pay invoices based upon these contracted amounts. In addition, personnel should not be allowed to circumvent these State contracting price schedules when placing an order against these State contracts. (See Recommendation 1.)

Agency Response: "We agree with this audit finding. Although our daily volume of mail averaged less then 10,000 pieces, the vendor offered us a discounted rate of $.023 if we applied this rate to all mailings. At that point in time, it was to our advantage. We have since realized that it is not within our purview to agree to any changes in a State contract without express written permission from the Department of Administrative Services.

We are currently in full compliance with State contract 06PSX0048 and a full recovery was made of all monies due to the Agency from the vendor."

Wage Restitution:

Our review of Wage Restitution activity revealed that the Department could not locate all employees for whom the Department collected monies.

Criteria: Connecticut State Regulation 31-60-12(a)(1)(2) states that employers are required to retain each employee's name and address.

One of the purposes of the Department's Wage and Workplace Standards Division is to collect monies on behalf of employees when the employer is in violation of labor laws.

Condition: Our review of the records relating to Wage Restitution activity revealed that some of the monies collected by the Wage and Workplace Standards Division on behalf of individuals who were not located were turned over to the State Treasurer's Unclaimed Property Unit. The Department transferred $182,154 of unclaimed property to the Office of the State Treasurer's Unclaimed Property Division. This total represents funds collected on behalf of 547 individuals for the 2003 calendar year. We found that the unclaimed property report lacked the addresses for 59 individuals. Of the 59 cases, 41 were also missing the social security number. In addition, the full names of 11 individuals were unknown.

Effect: Individuals who are due money from their employer may not receive such money due to the lack of identifying information obtained from the employer.

We reviewed the unclaimed property list totaling $182,154 which represented collections on behalf of 547 individuals. Addresses were unknown for 59 of the 547 individuals. Payments collected for the 59 individuals totaled $15,211.40. Of the 59 individuals, social security numbers were unknown for forty-one. Payments collected for the 41 individuals totaled $6,958.75 of the $15,211.40. In addition, the full names for 11 of the 547 individuals were unknown. Payments collected for the 11 individuals totaled $2,069.95.

Cause: The investigators of the Wage and Workplace Standards Division do not always obtain the full name, address, and social security number of the employees during the course of their investigation.

Recommendation: The investigators of the Department's Wage and Workplace Standards Division should obtain from employers the full names and addresses of employees in order to ensure that these individuals receive monies owed to them. When the information is not available from the employers, the Department should obtain identifying information from their Employer Tax System. (See Recommendation 2.)

Agency Response: "We agree in part with this audit finding. Connecticut employers are required to keep names and addresses for employees according to regulations under Section 31-60-12. When employers are out of compliance, they are cited for violating the above regulation and are issued a fine.

Since the employer is being audited for underpayment of legally owed wages, we recover the wages based on whatever information is available. In the extreme cases, this may only be a first name. We cannot make it to the advantage of the employer who fails to keep proper records by allowing them to keep wages legally owed employees. This frequently occurs in the construction industry where undocumented workers are hired illegally or without proper documentation.

Our policy is to recover the wages regardless of the available documentation and hold those wages in the event an employee comes forward to claim them. Whenever possible, we use the Employer Tax System to obtain identifying information but, oftentimes, these employees are not in the system and have likely left the country."

Payment of Unemployment Compensation Benefits:

Criteria: Section 31-227 of the Connecticut General Statutes states that unemployment compensation benefits shall be payable only to individuals who are unemployed and are eligible for benefits.

Condition: Our review disclosed that a Department of Labor employee had inappropriately received, for approximately three months, unemployment compensation benefits while receiving payment for vacation and sick time as her disability retirement was pending. As of June 1, 2006, the employee was on paid leave pending disability retirement. Around this time, she filed a claim for unemployment compensation benefits. Although the employee was initially denied unemployment compensation benefits, this denial was reversed in August 2006 when the employee appealed to the Employment Security Appeals Division and unemployment compensation benefits were paid retroactively from June 4, 2006. Subsequently, the employee was found to be eligible for disability retirement benefits effective September 1, 2006. At the time of retirement, this individual received a lump sum payment for remaining leave balances.

Effect: Approximately $4,800 was overpaid to the individual from the unemployment compensation account.

Cause: The Department believed that this individual had retired at the time of the initial determination of unemployment compensation eligibility. Vacation and sick leave would have been paid as a lump sum at retirement and therefore was not considered disqualifying income. The initial claim was denied because it was thought that the individual had quit voluntarily. However, when the determination was reversed during the appeals process, unemployment compensation was paid because there were no other disqualifying factors (e.g. income) noted in the system by the adjudicator during the initial determination that would have prevented the transaction from processing.

Recommendation: The Department should establish procedures to prevent employees from receiving payment for vacation and/or sick leave while collecting unemployment compensation. The Department should collect the amount overpaid to one former employee. (See Recommendation 3.)

Agency Response: “We agree with this audit finding. The Auditors identified a case in which a former Department of Labor (DOL) employee separated from employment and filed a claim for Unemployment Insurance (UI) benefits. The employee applied for disability retirement benefits effective June 1, 2006. Because the Department of Labor administers the UI program, DOL was responsible for adjudicating initial eligibility for UI benefits and DOL’s Human Resources office participated as an employer-party in the initial eligibility hearing. The employee was initially denied UI benefits. The employee appealed to the Employment Security Appeals Division, which reversed the original decision and awarded benefits. Shortly thereafter, the employee was found eligible for disability retirement benefits with an effective date of September 1, 2006.

The Department's decision not to impose a disqualification for accrued vacation pay was based on its finding that the employee had separated effective June 1, 2006. When the employee's separation date was altered by the approval of her disability retirement application, the basis for its vacation pay decision was altered as well. The Department does not believe that there is serious risk of this scenario recurring, but it will conduct a review of all the facts to ensure that in any similar future case, relevant information impacting a DOL employee's status promptly becomes part of the UI adjudication record."

Equipment Inventory and Reporting:

Our review of equipment inventory records disclosed exceptions as noted below:

Criteria: Section 4-36 of the Connecticut General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller and an annual report of all property that is in the custody of the Department must be reported accurately annually. The State of Connecticut's Property Control Manual prescribes procedures for the maintenance of equipment inventory records.

Section 4-33a of the Connecticut General Statutes requires the Department to promptly notify the Auditors of Public Accounts and the State Comptroller of any breakdown in the safekeeping of State resources.

Condition: Our review disclosed errors in the Department's CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2005, and 2006, as follows:

- Beginning balances were not carried over correctly for the fiscal year ended June 30, 2005.
- Reported additions to furnishings and equipment were overstated by \$128,682 and \$27,000 for the fiscal years ended June 30, 2005 and June 30, 2006, respectively.
- Reported balances for capitalized furnishings and equipment were understated by \$73,729 and overstated by \$22,926 for the fiscal years ended June 30, 2005 and 2006, respectively.

We also noted the following:

- Items purchased were recorded in the incorrect general ledger account. Controllable assets were recorded as capital equipment.

- Some equipment purchases were not recorded in the correct fiscal year.

*Cause***:** A number of reasons were noted which caused the errors noted above.

- Incorrect beginning balances on the CO-59 were caused by the Department making changes to the beginning balances rather then showing adjustments to additions and/or deletions to correct prior year errors.

- Items were recorded as capital equipment if the total invoice was greater than $1,000. In some cases the total invoice included more than one asset, each having a value of less than $1,000. These items should have been classified as controllable assets rather than capital equipment.

- It could not be determined why mathematical errors were made, some purchases were recorded in the wrong fiscal year or why CO-59 equipment inventory balances do not agree with Core-CT inventory balances.

Effect: Because the July 1, 2005, beginning balance reported on the CO-59 report was understated by $23,434, total furnishing and equipment additions were overstated by $155,682 and the capitalized furnishing and equipment balances were understated by a net $50,803, the submitted CO-59 cannot be relied upon for accuracy.

The Department does not have an accurate listing of its equipment inventory.

*Recommendation***:** The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. (See Recommendation 4.)

Agency Response: "We agree in part with this audit finding. The beginning balance carried forward into fiscal year 2005 did not reflect a deletion of $23,434.

Fiscal year 2005 was our transition year from our legacy AMS inventory control system to Core-CT. In the future, we will carry forward prior year balances without adjustments, which should eliminate any discrepancies between ending and beginning balances on the CO-59. Additionally, upgrading the CO-59 to a spreadsheet format will further enhance accurate reporting and eliminate any mathematical errors.

The Department will revise its data entry procedures to ensure that inventory items are recorded in the correct general ledger."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

The following is a summary of the recommendations presented in our prior audit reports.

- The Department should comply with the various statutory requirements, which mandate the adoption of regulations and/or the submission of various reports. If the Department feels that the governing statute is outdated or no longer needed, it should seek the introduction of legislation to repeal that particular statute. This recommendation has been resolved.
- The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. As insufficient action has been taken on this recommendation, it is being repeated in essence as Recommendation 4 of this report.
- The Department should ensure that claimant's current employers are verified and that the State Marshals promptly serve the approved court documents for wage garnishment. This recommendation has been resolved.

Current Audit Recommendations:

1. **If a State contract is in place, the Department should issue purchase orders and pay invoices based upon these contracted amounts. In addition, personnel should not be allowed to circumvent these State contracting price schedules when placing an order against these State contracts.**

   Comment:

   We noted that, rather than make payments to a vendor based on a sliding price scale established by contract, the Department was making payments based on a flat rate for pre-sort mail services for first class and standard mail. This resulted in an overpayment to the vendor of $1,238.02.

2. **The investigators of the Department's Wage and Workplace Standards Division should obtain from employers the full names and addresses of employees in order to ensure that these individuals receive monies owed to them. When the information is not available from the employers, the Department should obtain identifying information from their Employer Tax System.**

   Comment:

   Our review of the records relating to Wage Restitution activity revealed that some of the monies collected by the Wage and Workplace Standards Division on behalf of individuals who were not located were turned over to the State Treasurer's Unclaimed Property Unit. We found that the unclaimed property report lacked the addresses for 59 individuals. Of the 59 cases, 41 were also missing the social security number.

3. **The Department should establish procedures to prevent employees from receiving payment for vacation and/or sick leave while collecting unemployment compensation. The Department should collect the amount overpaid to one former employee.**

   Comment:

   Our review disclosed that a former employee received approximately $4,800 in unemployment compensation while also being paid for vacation and sick leave.

4. **The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual.**

   Comment:

   As detailed in the Condition of Records section of this report, we again found errors in the Department's CO-59 Fixed Assets/Property Inventory Reports and that some equipment purchases were not recorded correctly.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Labor (DOL) for the fiscal years ended June 30, 2005 and 2006. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the DOL for the fiscal years ended June 30, 2005 and 2006, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the DOL complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the DOL is the responsibility of the DOL's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2005 and 2006, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Labor is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal controls over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Labor's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the failure to obtain all necessary information by the Department's Wage and Workplace Standards Division, non-compliance with State contracts, the erroneous payment of unemployment compensation to a former employee, and the deficiencies in equipment inventory.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal controls over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the Department of Labor during this examination.

Edward C. Wilmot
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts