

STATE OF CONNECTICUT



**AUDITORS' REPORT
DEPARTMENT OF LABOR
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 and 2012**

AUDITORS OF PUBLIC ACCOUNTS
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AUDITORS OF PUBLIC ACCOUNTS

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INTRODUCTION AUDITORS' REPORT DEPARTMENT OF LABOR FOR THE FISCAL YEARS ENDED JUNE 30, 2011 and 2012

We have examined the financial records of the Department of Labor for the fiscal years ended June 30, 2011 and 2012. 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 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 helping them find suitable employment and by providing monetary benefits that are dependent upon the claimant's employment and wage history. Included among the other functions of the department are the 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. During the audited period, field operations of the department were carried out from fourteen job centers and two call centers throughout the state. The department is responsible for the following programs:

- Unemployment Insurance – Provides monetary benefits to the unemployed that 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 contributions collected by the department.

- Workforce Investment Act (WIA) –Advocates One-Stop Career Centers to provide universal access to effective employment and training programs. The department has both a partnership and a broad administrative role in implementing this 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 for Needy Families program by the Department of Social Services.

Effective July 1, 2011, in accordance with Section 81 of Public Act 11-48, the Office of Workforce Competitiveness (OWC) became an administrative unit of the Department of Labor. Most of OWC's functions and duties were assigned to the Department of Labor, and are administered with OWC's help. These functions and duties include serving as the Governor's principal workforce development policy advisor and liaison with local, state, and federal workforce development agencies; and serving as the lead state agency for developing employment and training strategies and initiatives needed to support Connecticut's position in the knowledge economy.

The Department of Labor is administered by a commissioner appointed by the Governor under Sections 4-5 to 4-8 of the General Statutes. Linda Agnew served as acting commissioner from January 26, 2010 through January 27, 2011. Dennis Murphy served as acting commissioner from January 28, 2011 through February 28, 2011, from June 30, 2012 through October 4, 2012, and currently serves as deputy commissioner. Glenn Marshall was appointed commissioner on March 1, 2011 and served through June 29, 2012. Sharon Palmer was appointed commissioner on October 5, 2012 and continues to serve in that capacity.

SIGNIFICANT LEGISLATION

- *Public Act 11-36* – The law allows 21 days for unemployment compensation claimants to appeal a determination that they (1) received more benefits than they were entitled to, (2) received benefits through fraud, or (3) made a false claim for benefits. This act extends the appeal deadline in such cases if the claimant can show good cause for the delay in appealing or has an appeal filed by mail postmarked prior to the deadline. Appeals postmarked by private postage meters do not qualify for the extension. This act went into effect on October 1, 2011.
- *Public Act 11-48* – Section 81 of this act requires that, effective July 1, 2011, the Office of Workforce Competitiveness (OWC) shall be within the Department of Labor. Under prior law, OWC was within the Office of Policy and Management for administrative

purposes only. Under the act, any OWC orders or regulations continue in force and effect until amended, repealed, or superseded. If these orders or regulations conflict with the Department of Labor, the commissioner may implement policies and procedures consistent with the act while in the process of adopting them in regulation. The act assigns most of OWC's functions and duties to the department, explicitly requiring the department to administer them with OWC's help. The act transfers several OWC committees and commissions to the department.

- *Public Act 11-52* – This act requires most employers of 50 or more people in the state to provide certain employees with paid sick leave accruing at a rate of one hour per 40 hours worked. It provides paid sick leave to hourly service workers who work one of 68 federal Standard Occupational Classification System titles named in the act. Anyone aggrieved by an alleged violation of the act may file a complaint with the labor commissioner, who can impose a civil penalty of up to \$100 per violation on employers found liable. The act bans employers from retaliating or discriminating against employees who request or use leave per the act or leave that the employer voluntarily provides. The labor commissioner can impose a fine of up to \$500 per violation on employers found liable of retaliation. The commissioner can also order other appropriate relief, such as rehiring or payment of back wages. Parties can appeal the commissioner's decision to Superior Court. The act requires employers to provide service workers with notice of the rights and protections it provides and allows the labor commissioner to develop regulations for additional notice requirements. This act went into effect on January 1, 2012.
- *Public Act 11-87* – This act increases the availability of unemployment extended benefits by lengthening, from two to three years, the “look-back period” that is used to determine when extended benefits are available. Under the act, the extended look-back period remains in effect until December 31, 2011, or as long as the federal government continues to allow the extension and provides 100 percent funding for it, whichever is longer. The act does not otherwise change the eligibility requirements or benefit amounts for individuals applying for extended benefits. This act went into effect on July 8, 2011.
- *Public Act 11-223* – This act prohibits employers and their agents, representatives, or designees from requiring an employee's or prospective employee's consent to a request for a credit report as a condition of employment unless (1) the employer is a financial institution, (2) such report is required by law, (3) the employer reasonably believes the employee committed a violation of the law related to the employee's employment, or (4) such report is substantially related to the employee's current or potential job or the employer has a bona fide reason to request or use information in the report that is substantially job-related and is disclosed to the employee or applicant in writing. The act allows an employee or prospective employee to file a complaint about a violation of the act with the labor commissioner. The commissioner must conduct an investigation and make findings within 30 days. If the findings warrant, the commissioner must hold a hearing. Violators face a \$300 civil penalty for each violation. At the request of the labor commissioner, the Attorney General must initiate a civil lawsuit to recover the

penalties. Any amount recovered shall be deposited into the General Fund. This act went into effect on October 1, 2011.

- *Public Act 11-1* (October Special Session) – Sections 4 and 5 of the act, effective October 27, 2011, create the Subsidized Training and Employment Program (known as STEP-UP) and establish it within the Department of Labor. The purpose of the program is to provide eligible small businesses and small manufacturers with grants for a portion of an eligible employee's costs of employment, including training, during the first six months of employment. It also requires the labor commissioner to report on the program and allows the commissioner to adopt regulations to implement it. For the fiscal years ended June 30, 2012 and 2013, the act authorizes up to \$10 million in general obligation bonds annually for the program. It allocates separate annual subsidies for small businesses and small manufacturers of \$5 million each in the fiscal years ended June 30, 2012 and 2013. The act outlines the eligibility requirements for the program.
- *Public Act 12-46* – Beginning with the 2013 calendar year, this act changes the method used to calculate the ideal amount of money that should be retained in the unemployment compensation trust fund. Under existing law, the fund's goal is 0.8 percent of the total wages paid by contributing employers. In 2013, the act changes the goal to an average high cost multiple (AHCM) of 0.5, then increases it by 0.1 per year until it reaches an AHCM of 1.0 (one year's worth of average recessionary level unemployment benefits) in 2018. From that point forward, the act requires the fund's goal to be an AHCM of 1.0. By law, a portion of the unemployment taxes paid by employers is based on the fund balance rate, which can vary between zero (when the trust fund has reached its funding goal) and a statutory maximum of 1.4 percent (when the fund is significantly below its goal) of the first \$15,000 in annual wages paid to each employee. The act maintains these minimum and maximum tax rates and, as under prior law, also requires the fund administrator to lower the rate when the fund exceeds its goal and prohibits the administrator from setting a rate that will result in the fund exceeding its goal. The act went into effect on October 1, 2012.
- *Public Act 12-1 (June Special Session)* – Section 101 of the act, effective July 1, 2012, places the Commission on Human Rights and Opportunities (CHRO) within the Department of Labor for administrative purposes only. CHRO had previously been within the Department of Administrative Services for administrative purposes only. Sections 202 and 203 of the act, effective June 15, 2012, expand and make programmatic and administrative changes to the Subsidized Training and Employment Program. The act opens the program to more small businesses and small manufacturers. Sections 204 and 205 of the act, effective June 15, 2012, establish the Unemployed Armed Forces Member Subsidized Training and Employment program, which is similar to Step-Up. The program provides grants subsidizing businesses' cost of hiring unemployed veterans during their first 180 days on the job. The act allows the commissioner to adopt implementing regulations.

COUNCILS, BOARDS AND COMMISSIONS

Connecticut State Apprenticeship Council:

The council advises and guides the commissioner in formulating work training standards and developing apprenticeship-training programs.

Connecticut Board of Mediation and Arbitration:

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

Connecticut State Board of Labor Relations:

The board investigates complaints of unfair labor practices, by employers, 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).

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 6.) No regulations concerning the Employment Security Division are adopted without consulting the advisory board.

Connecticut Employment and Training Commission:

Public Act 11-48, effective July 1, 2011, transferred the Connecticut Employment and Training Commission (CETC) from OWC to the Department of Labor. CETC oversees the development of the Statewide Workforce Investment Policy. CETC's duties include:

- Carrying out the duties of the State Job Training Coordinating Council pursuant to the Job Training Partnership Act.
- Reviewing all employment and training programs in the state to determine their success.

- Developing a plan for coordination of all employment and training programs to avoid duplication and promote the delivery of comprehensive employment and training services.
- Overseeing the Regional Workforce Development Boards.
- Implementing the federal Workforce Investment Act of 1998.
- Developing incumbent worker, vocational and manpower training programs.
- Developing a strategy for providing comprehensive services to eligible youth, including apprentice programs.

RÉSUMÉ OF OPERATIONS

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

General Fund

General Fund Receipts

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Federal Contributions	\$40,932,256	\$36,461,021	\$30,390,880
Recoveries of Expenditures	140,935	185,026	175,754
Fees and Fines	229,061	403,830	422,930
Refunds of Expenditures	260,609	381,922	308,023
Miscellaneous	<u>2,861</u>	<u>1,207</u>	<u>947</u>
Total General Fund Receipts	<u>\$41,565,722</u>	<u>\$37,433,006</u>	<u>\$31,298,534</u>

Total receipts decreased by \$4,132,716 and \$6,134,472 during the fiscal years ended June 30, 2011 and 2012, respectively. The decreased receipts for both fiscal years can primarily be attributed to decreases in federal contributions. The department received funds under the American Recovery and Reinvestment Act (ARRA) of \$16,577,534, \$10,403,959, and (\$94,206) during the fiscal years ended June 30, 2010, 2011 and 2012, respectively. The decrease in ARRA funds during the fiscal year ended June 30, 2012 was partially offset by an increase in receipts for the Workforce Investment Act program.

General Fund Expenditures

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Personal Services and Employee Benefits	\$13,205,637	\$14,513,119	\$14,569,022
Employee Expenses, Allowances, Fees	163,065	143,776	170,620
Contractual Services	1,857,126	1,872,755	2,103,831
Commodities	78,487	95,504	65,404
Other	5,049	4,256	2,902
Grants	54,442,988	50,161,569	46,499,670
Capital Outlay	<u>133,057</u>	<u>13,296</u>	<u>101,270</u>
Total Expenditures	<u>\$69,885,409</u>	<u>\$66,804,275</u>	<u>\$63,512,719</u>

Total expenditures decreased by \$3,081,134 and \$3,291,556 during the fiscal years ended June 30, 2011 and 2012, respectively. Grant expenditures decreased by \$4,281,419 and \$3,661,899 during the fiscal years ended June 30, 2011 and 2012, respectively, primarily due to a decrease in federal expenditures funded by the American Recovery and Reinvestment Act. This decrease was partially offset by an increase in expenditures for the Workforce Investment Act program and an increase in expenditures due to the merger of the Office of Workforce Competitiveness with the department during the fiscal year ended June 30, 2012.

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 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 administrative costs of 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. The 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 employer contributions. Money in the fund shall be used for the payment of administrative 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 that exceed \$500,000 are to be appropriated to the Unemployment Compensation Fund. During the fiscal years ended June 30, 2011 and 2012, \$2,000,000 and \$2,800,000, 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

The purpose of the Grants and Restricted Accounts Fund is to account for certain federal and other revenues that are restricted from general use.

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:

	<u>Schedule of Receipts</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Employment Security Administration Fund	\$95,327,221	\$98,832,163	\$97,435,828
Grants and Restricted Accounts Fund	982,014	13,185,070	32,886,407
Employment Security Special Administration Fund	2,314,954	2,037,360	2,791,370
Special Assessment Unemployment Compensation Advance Fund	16,882	23,220	3,985
Banking Fund	81,793	0	0
Individual Development Account Reserve Fund	95,000	95,000	90,250
Workers' Compensation Fund	13,578	75,393	53,998
Total	<u>\$98,831,442</u>	<u>\$114,248,206</u>	<u>\$133,261,838</u>

Total receipts increased \$15,416,764 and \$19,013,632 during the fiscal years ended June 30, 2011 and 2012, respectively. These fluctuations were primarily attributable to increases in Grants and Restricted Accounts Fund receipts. During the fiscal year ended June 30, 2011, the department received \$12,107,638 in funds under the American Recovery and Reinvestment Act for the Temporary Assistance for Needy Families Emergency Contingency Fund.

During the fiscal year ended June 30, 2012, the department received \$30,349,437 in special assessment receipts in the Grants and Restricted Accounts Fund, as a result of a special assessment levied in August 2011 to contributory employers. The special assessment was levied in order to repay the interest owed on loans received from the federal government beginning in October, 2009, as a result of the Unemployment Compensation Fund becoming insolvent. The loans were interest-free through December 31, 2010. Interest owed on the loans was \$14,304,308 and \$19,142,451 as of June 30, 2011 and 2012, respectively. Interest repayments of \$22,647,024 were made during the fiscal year ended June 30, 2012.

Receipts for the Employment Security Administration Fund are used for the purpose of defraying the administrative costs of the department's Employment Security Division.

	<u>Schedule of Expenditures</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Employment Security			
Administration Fund	\$96,957,192	\$94,917,490	\$96,524,659
Grants and Restricted Accounts Fund	1,184,676	13,347,913	2,068,540
Employment Security Special			
Administration Fund	2,300,000	2,000,000	2,800,000
Small Town Economic Assistance			
Program – Grants to Local Government	0	0	2,025,127
Banking Fund	473,519	500,000	500,000
Individual Development Account			
Reserve Fund	153,084	136,373	404,060
Workers' Compensation Fund	599,304	610,421	651,783
Capital Equipment Purchase Fund	19,358	132,703	191,471
Housing Trust Fund	0	300,000	0
Total	<u>\$101,687,133</u>	<u>\$111,944,900</u>	<u>\$105,165,640</u>

Expenditures for the STEAP – Grants to Local Government Fund increased during the fiscal year ended June 30, 2012, due to the establishment of the subsidized training and employment program in accordance with Public Act 11-1 of the October Special Session.

Special revenue expenditures for the past three fiscal years are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Personal Services and Employee Benefits	\$72,830,381	\$76,088,558	\$78,671,036
Employee Expenses, Allowances, Fees	419,347	430,518	503,209
Contractual Services	20,218,498	18,365,225	16,986,004
Commodities	685,450	643,164	618,257
Grants	5,911,894	15,476,771	6,453,084
Capital Outlay	1,630,022	910,430	1,905,829

Other	<u>(8,460)</u>	<u>30,234</u>	<u>28,221</u>
Total Expenditures	<u>\$101,687,132</u>	<u>\$111,944,900</u>	<u>\$105,165,640</u>

Total expenditures increased by \$10,257,768 during the fiscal year ended June 30, 2011 and decreased by \$6,779,260 during the fiscal year ended June 30, 2012. Contractual services decreased by \$1,853,273 and \$1,379,221 during the fiscal years ended June 30, 2011 and 2012, respectively. Included in this increase was a decrease in the department's postage costs by \$1,416,260 and \$1,553,580 during the fiscal years ended June 30, 2011 and 2012, respectively, because in February 2011, the department stopped issuing paper checks for unemployment insurance benefits and implemented a new system that allowed unemployment insurance claimants to receive benefits by direct deposit or debit card. Grants increased by \$9,564,877 during the fiscal year ended June 30, 2011, primarily due to the receipt of Temporary Assistance for Needy Families Emergency Contingency funds received as part of the American Recovery and Reinvestment Act. Capital outlays increased during the fiscal year ended June 30, 2012, primarily due to the replacement of the department's phone system with a voice over internet protocol telephone network to increase the agency's capacity to handle its unemployment insurance claim load.

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:

	<u>Schedule of Receipts</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Unemployment Compensation Fund	\$2,780,304,256	\$2,485,043,449	\$1,983,213,680
Funds Awaiting Distribution Fund	<u>8,509,449</u>	<u>9,869,098</u>	<u>10,541,653</u>
Total	<u>\$2,788,813,705</u>	<u>\$2,494,912,547</u>	<u>\$1,993,755,333</u>

	<u>Schedule of Disbursements</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Unemployment Compensation Fund	\$2,700,918,427	\$2,322,813,567	\$2,124,545,994
Funds Awaiting Distribution Fund	<u>8,759,539</u>	<u>9,946,294</u>	<u>10,507,817</u>
Total	<u>\$2,709,677,966</u>	<u>\$2,332,759,861</u>	<u>\$2,135,053,811</u>

Unemployment Compensation Fund

Section 31-261 of the General Statutes authorizes the Unemployment Compensation Fund to be used for the receipt of employer 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.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Employer Tax Contributions	\$602,653,386	\$712,880,147	\$793,081,975
Reimbursement from the State, Municipalities and Nonprofits	76,331,101	75,983,836	72,645,451
Reimbursement from Other States	16,862,036	15,155,988	13,382,991
Reimbursements from the Federal Employee Compensation Account	11,974,000	20,967,500	15,341,500
Federal Contributions	1,572,048,205	1,348,633,100	965,893,962
Federal Loans	498,452,705	311,422,878	122,867,801
Federal Trust Fund Interest Income	<u>1,982,823</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,780,304,256</u>	<u>\$2,485,043,449</u>	<u>\$1,983,213,680</u>

Total receipts decreased by \$295,260,807 and \$501,829,769 during the 2010-2011 and 2011-2012 fiscal years, respectively. Federal contributions decreased by \$223,415,105 and \$382,739,138 during the 2010-2011 and 2011-2012 fiscal years, respectively. The majority of federal contributions were for the Emergency Unemployment Compensation program, which is a federally-funded program that provides extended unemployment insurance benefits to unemployed individuals who have already collected all regular state benefits or have expired benefit claims and meet the federal eligibility guidelines. Federal Extended Benefits were also a significant portion of federal contributions beginning in April 2009, by virtue of the total unemployment rate averaging for three consecutive months, 6.5 percent or greater. In addition, the federal share of extended benefits was 100 percent throughout the audited period. Federal Extended Benefits ended in Connecticut in May 2012. Reimbursements from the Federal

Employee Compensation Account (FECA) represent receipts for ex-federal employees and ex-military.

Reimbursements from the state, municipalities and non-profits decreased by \$347,265 and \$3,338,385 during the 2010-2011 and 2011-2012 fiscal years, respectively. These entities do not pay employer tax contributions. Instead, they are billed when a former employee begins collecting unemployment compensation.

In October 2009, the department began receiving loans from the federal government because the Unemployment Compensation Fund became insolvent. As a result, no interest income was received during the 2010-2011 and 2011-2012 fiscal years because, in accordance with federal regulations, any interest earnings are reduced by any loans made to the state.

Total employer tax contributions increased by \$110,226,761 and \$80,201,828 during the fiscal years 2010-2011 and 2011-2012, respectively. During poor economic conditions, unemployment is higher, thus more revenue is needed in the Unemployment Compensation Fund. The Fund Solvency Rate and the Charged Rate affect the amount of employer tax contributions received. The Fund Solvency Rate is based upon the solvency of the state's Unemployment Compensation Fund. During the audited period, the maximum Fund Solvency Rate was charged. 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. Thus, with the high unemployment rate, the experience rates of employers have increased. 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
2012	1.4%	4.2%	1.9% to 6.8%
2011	1.4%	3.7%	1.9% to 6.8%
2010	1.4%	2.9%	1.9% to 6.8%

The Unemployment Trust Fund balance at June 30, 2010, 2011 and 2012, was \$204,189,623, \$337,798,730, and \$198,964,649, respectively.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Benefits Paid with Employer			
Contributions, Federal Loans and Federal			
Reed Funds	\$1,128,861,694	\$862,735,226	\$783,886,394
Benefits Paid for the State,			
Municipalities and Nonprofits	76,512,725	76,916,058	73,686,714

Benefits Paid for Other States	1,826,323	14,663,703	13,532,438
Benefits Paid from Federal Employee Contribution Account	11,987,076	20,915,297	15,271,319
Benefits Paid with Federal Contributions	1,467,730,608	1,347,583,283	965,301,328
Principal Payments on Trust Fund Advances	<u>0</u>	<u>0</u>	<u>272,867,801</u>
Total	<u>\$2,700,918,426</u>	<u>\$2,322,813,567</u>	<u>\$2,124,545,994</u>

Total disbursements decreased by \$378,104,860 and \$198,267,573 during the 2010-2011 and 2011-2012 fiscal years, respectively. Benefits decreased partially due to Unemployment Insurance claimants having exhausted all possible benefits available to them. In May 2012, the Federal Extended Benefits program ended in Connecticut. Federal disbursements also decreased due to the end of the Federal Additional Compensation (FAC) program in December 2010. FAC provided a \$25 weekly supplement to the unemployment compensation of eligible claimants.

As mentioned previously, in October 2009, the department began receiving loans from the federal government because the Unemployment Compensation Fund became insolvent. In addition to making \$272,867,801 in principal payments on Trust Fund advances, in accordance with federal regulations, Federal Unemployment Tax Act (FUTA) tax credit reductions totaling \$27,849,417 were used to pay down the principal balance during the fiscal year ended June 30, 2012. As of June 30, 2012, the principal balance on the loans was \$632,026,166.

Funds Awaiting Distribution Fund and Wage Restitution Account

Fund collections totaled \$20,410,752, and disbursements and transfers totaled \$20,454,111, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled \$2,449,657 and disbursements and transfers totaled \$2,493,017.

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 recorded 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 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 examination of the records of the Department of Labor identified several areas requiring improvement or further attention as discussed below:

Lack of Timely Reconciliations:

Background: The department maintains an Unemployment Compensation Fund benefit account that is used for issuing Unemployment Insurance benefit payments to eligible unemployed workers. Prior to February 2011, all activity was accounted for in one checking account. With the department's transition to debit cards and direct deposit in February 2011, the department maintained two checking accounts. During the fiscal years ended June 30, 2011 and 2012, total benefit payments disbursed through the two checking accounts were \$2,298,833,960 and \$1,839,614,452, respectively.

Criteria: Proper internal controls dictate that bank reconciliations should be performed in a timely manner.

Condition: During our prior audit, we reported that the department had not performed monthly bank reconciliations of its Unemployment Compensation Fund benefit account since February 2009. During our current review, we noted that the department has made significant progress in performing its reconciliations. However, beginning in October 2011, the department began carrying an unresolved variance of approximately \$8 million in its reconciliations for one of its two checking accounts that was not resolved until July 2013. Reconciliations for subsequent months have not been revised to resolve the variance.

Effect: Internal controls are weakened when outstanding differences are not resolved timely.

Cause: We were informed that the Fund Accounting Control Unit had been waiting for necessary programming changes to be made to the automated reports needed to perform such reconciliations, which has caused delays in the completion of the reconciliations.

Recommendation: The Department of Labor should complete reconciliations and resolve variances of the Unemployment Compensation Fund benefit bank account in a timely manner. (See Recommendation 1.)

Agency Response: "The agency agrees with this finding. During the prior audit it was reported that the department had not performed monthly bank reconciliations of its Unemployment Compensation Fund benefit account since February 2009, due to deficiencies in our automated systems. Since

that audit, many automation deficiencies have been corrected and the Fund Accounting Control Unit has made significant progress in this area; completing successful reconciliations through January 2012. The unresolved variance described in the current finding is simply a function of our remaining outstanding reconciliations. The agency fully expects to resolve all discrepancies as reconciliations are completed.”

Lack of Regulations:

Criteria: Section 31-265 of the General Statutes requires that unemployment compensation contributions not paid on the date on which they are due and payable shall bear interest for each month or fraction thereof after such date until payment, plus accrued interest, has been received by the administrator.

Section 31-268 of the General Statutes requires that the Department of Labor shall adopt regulations in accordance with the provisions of chapter 54 providing that if, through error and without fraudulent intent, the incorrect amount of contributions has been paid, adjustments may be made without interest in computing contributions due and payable subject to conditions prescribed by the department.

Section 31-225a(e)(2)(A) of the General Statutes requires that Sections 31-265 and 31-268 shall also apply to special assessment collections.

Condition: Although under certain circumstances the department waives interest and penalties for the late payment of unemployment taxes and special assessments, the department has not adopted the regulations required by Section 31-268 of the General Statutes.

Effect: There is non-compliance with the General Statutes. Without formal regulations in place, there could be a lack of consistency in the application of waivers.

Cause: We were unable to determine the reason regulations were not adopted.

Recommendation: The Department of Labor should implement regulations as required by the General Statutes. (See Recommendation 2.)

Agency Response: “The agency agrees with this finding. The agency’s Tax Division and Office of Program Policy researched the history of Section 31-268 and the requirement to adopt regulations pertaining to the waiver of interest on adjustments. No information was discovered regarding the lack of regulatory action. As such, the agency will propose regulations in accordance with the requirements of Section 31-268 of the General Statutes.”

Late Deposits:

Criteria: Section 4-32 of the General Statutes requires that an agency shall account for receipts within 24 hours, and if the total receipts are \$500 or more, deposit the same within 24 hours of receipt. Total daily receipts of less than \$500 may be held until the receipts total \$500, but not for a period of more than seven calendar days.

Condition: Our review of 40 receipts totaling \$42,516 disclosed that four receipts totaling \$3,526 were deposited one day late and two receipts totaling \$1,372 were posted to the department's accounting records one to three days late. Our review also disclosed five receipts totaling \$6,776 that were not date stamped or logged into a receipts journal. We were unable to determine the initial receipt date for these receipts.

Effect: Untimely deposits deprive the state of the use of revenue. Without knowing the initial receipt date, we cannot determine whether receipts were deposited in a timely manner as required by Section 4-32 of the General Statutes.

Cause: We were unable to determine the reason for the delay in depositing and accounting for receipts.

One payment was received prior to the department instituting a procedure that requires logging receipts into a receipts journal. It could not be determined why the remaining four receipts were not date stamped.

Recommendation: The Department of Labor should strengthen internal controls to ensure that receipts are deposited and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes. (See Recommendation 3.)

Agency Response: "The agency agrees with this finding, as Benefit Payment Control (BPC) failed to document the actual received date for three of the four cash payments. BPC developed and implemented "date stamp/receivable" quality controls beginning in December 2012. These controls address the stated deficiency and are continuously monitored by the BPC supervisory staff. Further, the Employer Tax Accounting Unit (ETAU) instituted a receipts date stamp/logging process in June 2011. These procedures have been reinforced with ETAU staff. Business Office staff has been made aware to check for a date stamp on all receipts before processing payments into the accounting system. Accounting staff has notified all appropriate departments to submit receipts to the accounting unit immediately and under no circumstances should they not be deposited."

Wage Restitution Account:

Criteria: Section 31-69a of the General Statutes provides that any employer who violates any provisions of Chapter 563a, 557, 558 or Section 31-288(g) is

liable to the Labor Department for a civil penalty of three hundred dollars for each violation of said Chapters and Section 31-288(g). Civil penalty amounts recovered are deposited into the Grants and Restricted Accounts Fund.

Section 31-71h-2 of the State Regulations requires that the Labor Commissioner shall assess a civil penalty of \$300 upon the following determination: (1) an employer has violated a statutory provision of part III of Chapter 557; or (2) an employer has violated a statutory provision of Chapter 558. In determining the number of violations committed by an employer, the commissioner shall assess a separate civil penalty for each individual employee adversely affected by the employer's violation.

Section 31-57f of the General Statutes requires certain employers with state contracts to pay their employees at rates not less than standard rates determined by the Labor Commissioner. Any employer who violates the provisions of Section 31-57f, shall pay a civil penalty of not less than \$2,500, but not more than \$5,000, for each offense. The contracting department of the state that has imposed such civil penalty on the employer shall, within two days after taking such action, notify the Department of Labor commissioner, in writing, of the name of the employer or agency involved, the violations involved and steps taken to collect the fine. Section 31-57f(k) gives the Department of Labor the authority to review complaints for nonpayment of the standard rate of wages.

Sound business practice dictates that case files should be automated.

Condition:

For the fiscal years ended June 30, 2011 and 2012, our review of nine employers that violated labor regulations disclosed that the department did not assess civil penalties against four employers totaling \$15,900, and there was no documentation in the case files to adequately support the decision of the department to not assess the civil penalty.

Our review also disclosed that the department cited an employer for violations of Section 31-57f of the General Statutes. The Department of Labor did not impose civil penalties because the department was not the state contracting department and there was no written documentation that the department notified the state contracting department of the violations. A civil penalty of at least \$152,500 should have been levied against the employer.

Our review also disclosed that the department maintains paper case files for its review of wage and workplace standards complaints. For 12 of the 15 case files reviewed, we noted that the preliminary notes/progress sheets and/or final report forms were completed by hand and three case files were missing documentation.

Effect: By not imposing civil penalties, the department may enable employers to perpetuate violations.

By automating case files, supervisors could more easily ascertain the status of open investigations and forms would be easier to read and access.

Cause: As a general practice, the department assesses civil penalties on employers who violate prevailing wage and minimum wage standards. Although the wage enforcement cases constitute a greater portion of the division's investigations, we were informed that the department's practice is to not assess civil penalties on employers who violate wage enforcement standards unless the employer is a repeat offender. This practice is based on the premise that, for many wage enforcement cases, the civil penalty is greater than the wages due and that imposing civil penalties for such cases would detract from the department's primary purpose of collecting wages due.

Although Section 31-57f of the General Statutes gives the Department of Labor the authority to review complaints on the non-payment of standard rates, the statute appears to give the state contracting department the authority to impose civil penalties. The Department of Labor did not notify state contracting departments of identified violations because state contracting departments do not have civil penalty procedures or appeals processes to impose and collect civil penalties for wage rate violations.

Recommendation: The Department of Labor should assess civil penalties as prescribed by Section 31-69a of the General Statutes. If the department determines that such statute is impractical, the department should consider requesting a legislative change. The department should seek legislative changes to Section 31-57f of the General Statutes to give the Department of Labor the authority to impose and collect such civil penalties. The department should consider implementing an automated case management system. (See Recommendation 4.)

Agency Response: "We agree in part with this finding. C.G.S Section 31-57f is under chapter 557 of Title 31 and therefore is subject to penalties under Section 31-69a. However under Section 31-57f (e) there is a higher civil penalty mandated of \$2,500 -\$5,000 for each offense which should be imposed by the contracting department of state. For the department to assess our civil penalty could subject the violating required employer to double jeopardy and we would rather the higher penalty be imposed. We will consult with our legal department and reach out to the contracting agencies to determine if they plan on meeting their obligations. If not we may seek a legislative change that would enable us to assess the penalty."

Timesheets and Timekeepers:

Background: The department uses timesheets as the basis for financial reporting of personal services costs. The department designates timekeepers for each unit to enter timesheet data into the department's timekeeping system. Access for a timekeeper to enter timesheet data into the system must be requested by management, authorized by the Business Management Unit and processed by the Internal Security Unit.

Criteria: The department's Weekly Payroll Time Reporting Procedural Manual requires employees to sign a weekly timesheet and submit it to their supervisor for verification and signature. The manual also requires that all leave time is recorded in 15 minute increments, except when zeroing out balances. The manual states that all timesheets are to be forwarded to the Business Management Unit within one week of data entry into the timekeeping system.

Proper internal controls provide assurances that employee timesheets are accurately completed, properly approved, correctly processed and adequately monitored.

Standard business practice dictates that when a change is made to a document that supports expenditures, such as a timesheet, the change is initialed by an authorized individual.

The department has a standardized form for employees to request approval for leave time. The leave request form is completed in advance for vacation or personal leave and within 48 hours of return to work for sick or emergency leave.

The state's records retention and disposition schedule for personnel records requires that employee leave request records be retained for a minimum of one year from the date of review and may be destroyed after receipt of a signed Form RC-108, Records Disposition Authorization.

Condition: Our review of the department's payroll procedures revealed the following internal control deficiencies:

- Since the timekeeping system does not have the capability to track who enters timesheet data into the system, the number of employees who had access to enter timesheet data into the timekeeping system appeared excessive at 225 employees, or approximately 25 percent of agency employees.
- The Payroll Unit did not compare employee timesheets, including timekeeper's timesheets, to the data that was entered into the timekeeping system. Since timekeepers enter their own timesheet data into the timekeeping system and submit the approved

timesheets to the Business Management Unit for filing, it appears that the department did not have an adequate segregation of duties or oversight over the processing of timekeeper's timesheets.

Our review of timesheets for ten timekeepers for the fiscal years ended June 30, 2011 and 2012, disclosed the following for one timekeeper:

- For 27 out of 55 timesheets reviewed, the timekeeper's timesheets did not have an original supervisor's signature. Although the timekeeper's signature was original, the supervisor's signature appeared to be photocopied. A further review of five weekly timesheets for all employees in the timekeeper's unit revealed that the timekeeper's timesheets were the only timesheets without an original supervisor's signature.
- For three of the timekeeper's timesheets that included an original supervisor's signature, changes were made to the timesheets with white-out that changed leave time to paid time worked. The supervisor did not initial the changes. We also noted that the supervisor did not initial changes made to other employee timesheets.
- Approved leave request forms were not maintained centrally by the Payroll Unit. We were unable to review the timekeeper's leave request forms for the full audited period, since the timekeeper's unit only retained employee leave request forms for the prior calendar year. The timekeeper's unit discarded the employee leave request forms without obtaining a records disposition authorization.
- In nine instances, the timekeeper charged vacation leave in 20 minute increments.

Under a different review, we noted that the department did not have two timesheets on file for one manager who had access to enter timesheet data into the timekeeping system. Although the Payroll Unit attempted to retrieve the timesheets, the manager did not submit the timesheets or provide other supporting documentation.

Effect: Inadequate internal controls provide opportunity for timesheet errors or abuse to go unnoticed.

Cause: There appears to be a lack of adequate internal controls and oversight by the department's Payroll Unit. There is a discrepancy between the instructions for completing timesheets on the department's standardized timesheet versus the Weekly Payroll Time Reporting Procedural Manual regarding the minimum increments of leave time allowed.

Recommendation: The Department of Labor should strengthen internal controls over the processing of timesheets. (See Recommendation 5.)

Agency Response: “We agree with this finding. The payroll unit is addressing the number of employees that have access to the timesheet system. Due to having 50+ cost centers and the need for back-up time sheet entry we expect to make a significant reduction in specific departments.

The payroll staff has been notified and is currently comparing all timekeeper timesheets to the data entered into the timesheet system. The payroll unit has also begun a random comparative sampling of non-timekeeper timesheets to that of the data entered into the FARS timesheet system.

The timesheet and instructions are being revised in order to address some of the discrepancies and internal control issues that exist. Employee and supervisor signature must be in blue ink in order to prevent anyone from submitting timesheet photocopies. Minimum increments of leave time have also been addressed with the new timesheet format.”

Leave Accruals and Balances:

Background: The department uses two systems for processing payroll transactions. The Financial Accounting and Reporting System (FARS) is the department’s primary accounting system for processing timesheets and maintaining employee leave accruals and balances. The Core-CT system is the state’s primary accounting system, which the department uses to issue payroll and for statewide financial reporting. FARS interfaces with Core-CT weekly, bi-weekly and monthly, depending on the type of data transfer. The department establishes employee data in both systems and, if needed, processes payroll corrections after the interface in both systems.

The state is required to make certain disclosures in its Comprehensive Annual Financial Report regarding compensated absences. The State Comptroller collects this information from compensated absences reports run from Core-CT. State agencies are responsible for reviewing the report and disclosing any discrepancies.

Criteria: Proper internal controls provide assurances that payroll transactions are correctly processed and adequately reviewed.

Collective bargaining contracts stipulate that an employee shall not accrue leave time in a calendar month in which the employee is unpaid an aggregate of more than five working days.

Condition: Our review of the compensated absences reports for fiscal years ended June 30, 2011 and 2012, disclosed the following:

- Ten employees accrued leave time in Core-CT at incorrect rates.

- Nine employees accrued leave time in Core-CT, even though each employee had more than five days unpaid in aggregate the previous month.
- For three employees, the department did not deduct donated leave time in Core-CT.
- For four employees, the department manually entered leave time changes in FARS, but not in Core-CT.
- For nine employees, the department manually entered the incorrect accruals in Core-CT.
- For nine employees, the department manually adjusted leave balances in Core-CT incorrectly.

Effect: Since the state relies on Core-CT for financial reporting purposes, when employee leave accruals and balances are incorrect in Core-CT, the state may incorrectly report liabilities in the Comprehensive Annual Financial Report.

Cause: Employee leave plans were incorrectly established in Core-CT. The Payroll Unit experienced many personnel changes during the audited period.

Recommendation: The Department of Labor should strengthen internal controls to ensure that employee leave accruals and balances in Core-CT match FARS and are correct. (See Recommendation 6.)

Agency Response: “We agree with this finding. The payroll unit has been instructed and trained on how to properly reconcile the leave and accrual balances between the Core-CT and FARS accounting systems. Emphasis has been placed on the importance of keeping the employee reconciliations current. The payroll unit has set up procedures that present an easier and uniform method to reconcile the two leave systems thereby reducing the time previously needed and increasing accuracy.”

Overtime and Compensatory Time:

Criteria: The collective bargaining contract for Engineering, Scientific and Technical P-4 employees exempts employees paid above salary group 24 from overtime payment and instead authorizes them to receive compensatory time. When the appointing authority determines that the granting of compensatory time would create a hardship on the agency, payment of straight time may be granted with the approval of the Secretary of Office of Policy and Management (OPM).

The Department of Administrative Services (DAS) Management Personnel Policy 06-02 states that managers must receive written authorization in advance to work extra time by the agency head or designee in order to record the extra hours as compensatory time. The written authorization must outline the reasons for compensatory time and proof of advance authorization must be retained in the employee's personnel file for audit purposes.

Effective March 24, 2011, the Labor Department requires overtime and compensatory time requests to be adequately justified by supervisors and approved by executive management.

The Office of the State Comptroller's Retirement Services Division calculates employee pension benefits, in part, based on an employee's average salary of the three highest paid years of service.

Condition:

Our review of ten employee overtime expenditures for the fiscal years ended June 30, 2011 and 2012, disclosed that the department paid three P-4 exempt employees for overtime payments in lieu of compensatory time, totaling 20 hours, without obtaining OPM approval and for two of those three employees without obtaining executive approval. Further review revealed that the department paid the three P-4 exempt employees for overtime payments in lieu of compensatory time, totaling 807 hours, 615 hours and ten hours, respectively, during the audited period without obtaining OPM approval.

Our review of annual attendance records of ten employees who earned compensatory time disclosed that six P-4 exempt employees did not obtain executive approval to earn compensatory time, totaling over 31 hours. Our review also revealed that one of those six P-4 exempt employees regularly earned compensatory time and overtime during the audited period, totaling over 83 hours of compensatory time and 141 hours of overtime without obtaining OPM approval to pay the exempt employee overtime payments in lieu of compensatory time.

Our review of annual attendance records of one manager who earned compensatory time disclosed that the manager did not receive written authorization to accrue compensatory time in two instances, totaling 16 hours.

Effect:

Without proper oversight and documentation, the department has less assurance that the services it has compensated its employees for have actually been received.

Cause:

The department did not have adequate procedures in place to ensure that compensatory time and overtime policies were followed. We were informed that the department paid overtime in lieu of compensatory time to minimize the hardship on the agency, which sought to ensure the proper

execution of the special tax assessments and continued coverage of mainframe operations.

Recommendation: The Department of Labor should strengthen internal controls over compensatory time and overtime to ensure compliance with collective bargaining contracts, DAS Management Personnel Policy 06-02, and departmental procedures. (See Recommendation 7.)

Agency Response: “We agree with this finding. Overtime audit procedures have been put in place that include running a Core-CT overtime report for the pay period being processed. This report captures all employees who submitted overtime for that pay period. We then check for overtime approval letters for all employees listed on this report. If no approval has been received, the timekeeper/supervisor/business management unit is contacted to see if overtime was submitted for approval. If approval is not received by payroll Wednesday, overtime is removed for payment and the timekeeper, supervisor and business management unit are notified.

Employee’s job titles are also audited for overtime eligibility. If an employee is not eligible for overtime, but has put in for it, the overtime will not be paid unless OPM approval has been received.”

Performance Evaluations:

Criteria: The performance evaluation is a method of assessing employee job performance in relation to pre-established standards. Standard business practice advocates that supervisors evaluate employee job performance in writing at least once each year. Generally, the objectives of a performance evaluation are to:

- Give written feedback to employees;
- Document employee performance in organizational records;
- Identify training needs of employees and the organization;
- Form a basis for personnel decisions;
- Facilitate communication between employees and management.

Condition: Our review disclosed that performance evaluations were not completed for managers during the fiscal years ended June 30, 2011 and 2012. We also noted that eight units of the department did not complete employee performance evaluations for non-managers during the fiscal year ended June 30, 2012.

Effect: Management’s ability to develop employee performance plans, track employee career development, and form a basis for personnel decisions is

significantly diminished in the absence of written performance evaluations.

Cause: Administrative controls were inadequate for ensuring the completion of performance evaluations.

Recommendation: The Department of Labor should ensure that annual performance evaluations are performed on all of its employees. (See Recommendation 8.)

Agency Response: “We agree with this finding for FY12. Performance Assessment and Recognition System (PARS) goals were set for managers for Fiscal Year 2013. We expect that all managers who were assigned PARS goals will be evaluated against their attainment of those goals. Since the fiscal year ending June 30, 2012, we had 100 percent compliance on employee performance appraisals for non-managers with a January 1, 2013 anniversary increase (AI) date. We fully expect to receive 100 percent of the evaluations for those employees with a January 1, 2014 AI date.”

Offline Checks:

Background: In accordance with Section 31-273 of the General Statutes, unemployment compensation overpayments made to individuals may be collected through various methods, including cash payments, offsets of benefit amounts, wage executions or by intercepting the individual’s state income tax refund, pursuant to Section 12-742 of the General Statutes. When the amount recovered by the department is greater than the individual’s overpayment balance, the department issues a refund check for the excess. This can occur when an individual makes a payment after the state income tax intercept has been established.

The department’s IBM system is used for the disbursement of benefit checks and the tracking of unemployment compensation claimant overpayments. Cash disbursements that are not processed as part of the mainframe benefit payment process, such as refunds, are referred to as “off-line” checks.

Criteria: Sound business practice dictates that controls are in place to prevent individuals from receiving refunds in excess of the amounts due to them.

Sound business practice dictates that all activity related to an individual’s overpayment be recorded in the system used to track overpayments.

Condition: Our review of 25 off-line checks totaling \$2,670 revealed the following:

- A duplicate refund payment was issued to one individual in the amount of \$94. Both checks were cashed by the individual. This error was not detected by the department.

- Four refund payments totaling \$317 were not recorded in the individuals' accounts in the department's IBM system.

Effect: A duplicate refund payment caused one individual to be overpaid and inadequate recording of overpayments causes records to be unreliable.

Cause: The department does not have adequate procedures in place for processing off-line checks.

If the individual's overpayment balance is zero at the time the tax intercept is received, the department's IBM system does not record it in the accounts receivable screen. Although the department has a manual procedure in place for recording the client refund check in the message screen, this procedure was not followed.

Recommendation: The Department of Labor should strengthen internal controls over off-line checks to ensure that only proper amounts are paid and that all transactions are recorded in the IBM system. (See Recommendation 9.)

Agency Response: "The Agency agrees with this finding, as Benefit Payment Control (BPC) erroneously initiated duplicate "refund" payments, in the amount of \$94.00. BPC developed and implemented "off-line refund" quality controls beginning in December 2012. These controls address the stated deficiencies and are continuously monitored by the BPC supervisory staff. Any deviation from procedure will be addressed for corrective action."

Petty Cash:

Criteria: The State Accounting Manual states that every transaction must be tangibly documented with forms such as, but not limited to: vendor's invoices, cash register tape, petty cash receipt or post office receipt. Each such document must be itemized and detailed, to the extent possible, showing quantity, description, prices and total.

The State Accounting Manual states that whenever possible, a state purchasing card should be used instead of petty cash. Conference fees should be prepaid on a state purchasing card, if available. Where time constraints exist, payment can be prepaid through petty cash.

Comptroller Memorandum No. 2011-11 states that, effective July 1, 2011, payments for purchases by all state agencies under \$1,000 shall be made using the State of Connecticut Purchasing Card. Purchasing cards must be used for payments to any vendor that provides commodities, services or utilities. Exceptions to this policy would be for purchases that must be approved by the Department of Administrative Services, vendors who do not accept credit cards and purchases to restock inventories carried in the Core-CT inventory module.

Condition: Our review of 26 petty cash expenditures for the fiscal years ended June 30, 2011 and 2012, disclosed two instances in which expenditures were reimbursed through the petty cash fund without adequate supporting documentation. We also noted three instances in which conference registration fees were processed through the petty cash fund that could have been processed using a state purchasing card.

Effect: There is noncompliance with the State Accounting Manual and Comptroller Memorandum No. 2011-11. Inadequate supporting documentation may lead to the improper use of funds.

Cause: Although in one instance the lack of proper supporting documentation was questioned by the petty cash custodian, expenditures were reimbursed without requiring the recipient to submit adequate supporting documentation.

It appears that it is the department's practice to process conference fees through petty cash.

Recommendation: The Department of Labor should strengthen internal controls over petty cash to ensure that funds are only expended for properly supported expenditures and that state purchasing cards are used rather than petty cash when feasible. (See Recommendation 10.)

Agency Response: "We agree with this finding. The Petty Cash Custodian is now requiring the travel coordinator to pay all conference and registration fees on the State Purchasing Card when allowable and when time constraints do not exist. The Custodian is also made aware to ensure all supporting documentation for proper expenditures is received prior to giving any reimbursements. The State Accounting Manual has been reviewed to avoid any further non compliances of the petty cash fund."

Expenditures:

Criteria: Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order or other documentation approved by the Comptroller. Comptroller Memorandum No. 2008-38 identifies payment types that do not require a purchase order.

The State Accounting Manual and Comptroller Memorandum No. 2004-06 require each state agency issuing any purchase order of one million dollars or more to forward the purchase order and all supporting documentation to the Comptroller's Accounts Payable Division for pre-audit. Payments will not be processed until the completion of such audit and the approval of the purchase order.

The State Accounting Manual establishes guidelines for expenditure processing, including the criteria for determining the correct receipt date.

The State Accounting Manual requires that agencies are responsible to ensure that accounts payable procedures are supported by proper internal controls.

Condition:

Our review of 112 expenditures disclosed the following:

- Twenty-three purchase orders of one million dollars or more were not submitted to the Comptroller for pre-audit. These purchase orders were associated with 51 expenditure transactions.
- Purchase orders for two expenditures were not generated.
- Receipt dates for 18 expenditures were recorded incorrectly.

Effect:

Obligations incurred prior to the commitment and approval of funding have less assurance that funds will be available at the time of payment. Incorrect recording of receipt dates could result in the improper reporting of year-end vendor payables and a lack of compliance with Generally Accepted Accounting Principles.

Cause:

We were informed that the department was uncertain whether grants were applicable to the Comptroller's pre-audit requirement. We were also informed that the department did not generate purchase orders when a vendor was a state agency because the department thought such expenditures were exempt from this requirement.

The department's grantee reimbursement request form did not include a field for the date of the end of the billing period.

Recommendation:

The Department of Labor should strengthen internal controls over expenditures and follow the guidelines provided in the State Accounting Manual. (See Recommendation 11.)

Agency Response:

"We agree with this finding. The Comptroller's Office has been contacted regarding procedures to submit one million dollar purchase orders for review and approval. In the future the contract face sheet (i.e., CO-802A, personal service agreement), full description of goods and/or services including the terms and conditions, contract dates, budget/funding sheet, subcontractor information, if applicable, and signature page(s) documents will be attached in Core-CT for purchase orders equaling or exceeding the one million dollar amount.

Purchase orders will be created when doing business with other state agencies.

In accordance with the State Accounting Manual, a desk reference has been created to assist staff in determining the appropriate receipt date for grants and non-grant vouchers. These requirements have been discussed and their importance has been reiterated to the staff. "

Contracts:

Background: The Department of Labor enters into contracts with Workforce Investment Boards (WIBs) for the award of various grants. In part, each contract includes a purpose, implementation plan, and budget along with requirements, terms, conditions, assurances, and certifications. Contracts are typically signed by the WIB's authorized officer, DOL commissioner, DOL Business Management Unit and the Attorney General.

Criteria: Sound business practice dictates that contracts should be properly completed and fully executed prior to the start and payment of services.

Condition: Our review of 31 Workforce Investment Board contracts revealed the following:

- For one contract, the department paid eight invoices totaling \$1,521,954 to one WIB prior to the contract being completed with an approved budget and prior to signature by the DOL Business Management Unit and/or the Attorney General.
- For one contract, the department paid three invoices totaling \$510,644 to one WIB prior to the contract being completed with approved general terms and conditions and prior to signature by the Attorney General.
- Twenty-three contracts were signed from one to ten months after the contract period start date.

Effect: Expenditures could be made that are not for allowable activities.

Cause: It appears that there were delays in the execution of the contracts. For one contract, we were informed that the former commissioner signed the contract to allow a ten percent advance of funds while the department worked with the WIB to resolve outstanding contract items, such as the proposed use of funds and budgeted line items that were not in compliance with federal regulations and budgeted costs that could not be adequately traced through the indirect cost structure. However, the Program Manager continued to approve the WIB's requests for payment beyond the ten percent advance. The department eventually came to agreement with the WIB approximately five months after payments on the contract began.

For one contract, we were informed that the department was delayed in executing the contract due to revisions to the general terms and conditions. Although no contract was in place, the Program Manager approved the WIB's requests for payment. The contract was fully executed approximately four months after payments on the contract began.

Recommendation: The Department of Labor should strengthen internal controls to ensure that contracts are properly completed and fully executed prior to the contract period start date and issuance of payment. (See Recommendation 12.)

Agency Response: “We agree with this finding. Delays were experienced in the execution of certain contracts due to extended negotiations regarding costs or deliverables. Also adding to the delay was the late enactment of the FY 2012 state budget. The Agency recognizes the need to be more expeditious with the contracting process and to establish longer lead times for contract execution. We will work more diligently with the Attorney General’s Office and the contractor to resolve the issues and to have contracts executed on a timely basis. Payments to contractors will not be authorized without an executed contract in place.”

Grants Monitoring:

Criteria: Department of Labor contracts contain standardized general conditions, which include provisions requiring the contractor to file certificates of insurance with the department and audit provisions requiring the grantee receiving state funds to comply with Sections 4-230 through 4-236 of the General Statutes.

Section 4-231 of the General Statutes provides that each non-state entity that expends a total amount of state financial resources equal to or in excess of three hundred thousand dollars in any fiscal year shall have a single audit or a program-specific audit made for such fiscal year. Section 4-232(b)(1) of the General Statutes requires that each such non-state entity shall file a copy of the audit report with the cognizant agency, state grantor agencies and pass-through entities no later than six months after the end of the audited period.

Section 4-233(d) of the General Statutes provides that, if an independent public audit of the non-state entity finds any material or reportable noncompliance with applicable laws, regulations and grant or contract provisions, or finds any significant deficiency or material weakness with respect to internal controls, the non-state entity shall submit to appropriate state officials a corrective action plan to eliminate such material or reportable noncompliance, significant deficiency or material weakness.

Condition: Our review of 25 grants for the fiscal years ended June 30, 2011 and 2012, disclosed that the department did not monitor grantees for compliance with contract provisions as follows:

- The department did not review grantee single audit reports, which would have revealed that three grantees did not submit a single audit report and one grantee did not submit a corrective action plan.

- The department did not obtain grantee certificates of insurance for any grant contracts.

Effect: The failure to perform timely monitoring of grantees weakens controls over grant programs. The lack of evidence of insurance coverage may present an increased risk to the state.

Cause: The department was understaffed during the audited period. Effective July 1, 2011, the department incurred additional grant contracting responsibilities with the merger of the Office of Workforce Competitiveness into the Department of Labor.

Recommendation: The Department of Labor should strengthen internal controls over the monitoring of grants to ensure compliance with contract provisions and corresponding legislation. (See Recommendation 13.)

Agency Response: “We agree with this finding. The department will follow OPM’s process for “Audits of Local Governments and Non-Profit Agencies” which states that beginning with reports filed for the fiscal year ended June 30, 2013, the filing on the Electronic Audit Reporting Systems (EARS) is mandatory for all parts of the state single audit reporting package. Going forward a list will be made of all the DOL non-profit and municipality contractors that are required to submit a state or federal single audit; periodically the EARS will be checked for submitted single audits. The single audits will be reviewed and any findings related to the agency, where OPM names the agency as the cognizant agency, will be studied and a resolution will be worked out between the agency and the contractor. As the audits come in, the list will be adjusted to keep record of submissions, any findings and how the issues were resolved. The new contract data system includes tabs to input all the standard closeout information including the single audit receipt and issues.

The insurance contract language has been changed to eliminate the requirements that Department of Labor obtain grantee certificates of insurance. The requirement remains that the grantee must have insurance but the requirement that DOL gets a copy has been eliminated. Our legal staff informed us that the indemnity clause protects the agency/state.”

Auditors’ Concluding Comment:

Monitoring that sufficient insurance coverage is in place is a sound business practice designed to provide assurance that financial resources will be available to protect the state in the event of a claim. The indemnity clause specifies the situations under which it is agreed that the contractor will hold DOL harmless, but alone does not provide that same assurance.

Subsidized Training and Employment Grants:

Criteria:

Public Act 11-1 Section 4 enacted by the October 2011 Special Session of the General Assembly established the subsidized training and employment program, referred to as STEP-UP, for eligible small businesses and eligible small manufacturers to subsidize, for the first six months, a part of the cost of employment and training. An eligible small business means a business that employed not more than 50 full-time employees during the previous 12 months, has operations in Connecticut, has been registered to conduct business for not less than 12 months, and is in good standing with the payment of all state and local taxes. An eligible small business may apply for a grant for a new employee, which does not include a person who was employed by the small business during the prior 12 months. The act allows an eligible small business to receive a grant subsidizing each eligible new employee's training and compensation, up to \$20 per hour. The size of the subsidy phases out over the employee's first six months of employment, and is 100 percent in the first month and ends at 25 percent in the sixth month. An eligible small manufacturer means a business described in sectors 31 to 33, inclusive, of the North American Industry Classification System (NAICS) that employed not more than 50 employees during the preceding 12 months. An eligible small manufacturer may apply for a grant for persons newly hired. The department shall review and approve such manufacturer's description of the proposed training as part of the application.

Public Act 12-1 Section 202 enacted by the June 2012 Special Session of the General Assembly expanded the provisions of STEP-UP to retailers and businesses employing up to 100 people. The act changes the subsidy period for non-manufacturing small businesses from calendar months to a 180-day period, but does not change the subsidy levels, which range from 100 percent to 25 percent.

The Department of Labor retained one of the state's Workforce Investment Boards to administer STEP-UP and all five of the state's WIBs to implement the program. The STEP-UP contracts between the WIBs and the Department of Labor require the department to verify that the employers are in good standing with the department's unemployment insurance tax requirements and have no outstanding wage and workplace violations prior to participation. The contracts state that the WIBs are responsible for detailed recordkeeping for each worker/business match, including eligibility certifications for workers and businesses, verification of income, residence, executed agreements, monthly timesheets and any additional information substantiating eligibility and performance.

The department's standard business practice for preapproval of state grants includes a review of the entity's good standing with Occupational Safety and Health Act (OSHA) compliance.

Condition:

Our review of 25 STEP-UP employer/employee agreements disclosed the following:

- The department could not provide supporting documentation in ten instances that it confirmed the employer's good standing with unemployment insurance tax requirements or wage and workplace standards prior to grant approval. In addition, the department verified the incorrect employer number for unemployment insurance taxes for one grant. The employer number that the department should have verified had a tax delinquency.
- The department did not review the good standing of any employers for possible OSHA violations prior to STEP-UP grant approvals. Since OSHA violations of private employers are published on the U.S. DOL website, we performed our own review. We noted that one out of 22 STEP-UP employers had three serious OSHA violations and therefore, would not have been issued a grant award if the department had used the same guidelines used for its other grants programs. It should be noted that the violations were abated prior to the award of the grant.

The department did not design the eligibility determination process to include adequate verifications of all employer eligibility criteria prior to grant approval. The department's contracts with the WIBs require that most employer eligibility requirements be verified through self-attestation and did not include recourse or consequence if the employer made a false statement. When the department performed monitoring procedures of the WIBs, the department reviewed a sample of 25 employers of STEP-UP small business employer/employee grants. When the department verified the payment of state and local taxes, the department discovered that seven small businesses were not in good standing with state and/or local taxes and for four small businesses, the good standing was unclear with local taxes. Although many employers did not meet eligibility requirements, the department directed the administrative WIB to continue reimbursement payments to such employers. Approximately five months after its monitoring review, the department sent a letter to such employers requesting supporting documentation to verify compliance of the questioned eligibility requirements.

The design of the eligibility determination process did not include adequate procedures to verify all employee eligibility criteria prior to grant approval. The department-issued standard STEP-UP employer/employee agreements did not require information to determine whether an individual was a new employee for a small business or a newly hired employee for a small manufacturer. In addition, when the department reviewed a sample of 48 STEP-UP employees to determine whether the five WIBs maintained supporting records on file, the department's monitoring

procedures did not include determining whether employees were new or newly hired. Since employer wage data is maintained in the department's Employer Tax System, we reviewed the wage data for 48 employees. We noted that three out of 24 small business employees were not new employees and one out of 24 small manufacturing employees was not a newly hired employee. In addition, we noted that the department did not monitor three WIBs for supporting timesheets for 29 out of 48 employees or proposed small manufacturing training plans for 14 out of 24 small manufacturing employees.

Our review also disclosed that the department imposed a standard \$12,000 reimbursement limit on small business STEP-UP employer/employee agreements, which appears contrary to the intent of the legislation since the legislation contains specific instructions for calculating the amount to be reimbursed.

Effect: Grant funds may be reimbursed to employers that do not meet all employer and employee eligibility requirements. The \$12,000 reimbursement limit imposed by the department may prevent grantees from realizing the full benefits of the program. Without OSHA reviews, grant funds may support employees working in unsafe working conditions.

Cause: We were informed that the department's former management designed STEP-UP to be business friendly by reducing the burden on employers to support eligibility requirements prior to grant approval and eliminating employer OSHA reviews prior to grant approval. We were informed by management that it directed the administrative WIB to continue payments to employers who appeared ineligible because the STEP-UP contracts and agreements did not provide guidance for recourse or consequence. The department lacks a developed STEP-UP monitoring process.

Recommendation: The Department of Labor should develop and implement procedures that ensure compliance with STEP-UP legislation, contracts and agreements. The department should consistently apply its standard business practices for pre-approval of state grants to STEP-UP grants, including OSHA reviews. (See Recommendation 14.)

Agency Response: "We agree with this finding. Early implementation of the STEP-UP program involved a more relaxed system of documenting employer eligibility. The ten files reviewed were verified verbally and no electronic or paper records were kept. The one tax delinquency mentioned was due to an error of the submitter. Procedures are now in place to prevent a repeat of this event. Verbal approvals ended effective June 1, 2012

The department's implementation of the STEP-UP program adheres to the statutes concerning the requirements for employer eligibility. The statute provides that the small business or small manufacturer must be "...in good standing with the payment of all state and local taxes...." Although not

within the statute, the department added the requirement of determining whether there are any wage complaints against the employer due to the fact that issues concerning wages are within the jurisdiction of the department. Further, the statute does not require federal OSHA reviews. However, due to the department's concern for the safety of the employees, the department added federal OSHA verifications to the contract in Modification #1 (December 2012). However, due to technical issues, the department has experienced delays in implementation of the process. The department will implement an OSHA verification process prospectively for all new employers seeking to participate in STEP-UP. The department has issued guidance to the WIBs regarding acceptable forms of documentation regarding the status of state and local taxes, payable by employers seeking to participate in STEP-UP. The monetary limit of \$12,000 for reimbursement of STEP-UP payroll was implemented to serve as many eligible employees as possible."

Property Inventory and Reporting:

Criteria: Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the Comptroller. The State Property Control Manual specifies requirements and standards that state agency property control systems must comply with, including maintaining a software inventory and tagging, and recording and maintaining capital assets and controllable property in the Core-CT Asset Management module. Assets with a cost of \$1,000 or more are capitalized and, when applicable, property with a unit cost of less than \$1,000 is recorded as controllable. The agency is required to transmit annually to the Comptroller a detailed inventory of all property, real or personal, owned by the state and in custody of such agency.

The State Property Control Manual also requires that a complete physical inventory of all property must be taken each year to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year.

Condition: Our review of inventory for the fiscal years ended June 30, 2011 and 2012, disclosed the following:

- In preparing the CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2011 and 2012, equipment was overstated by \$23,402 for the fiscal year ended June 30, 2012. Licensed software was understated by \$13,817 for the fiscal year ended June 30, 2011, and \$2,027 for the fiscal year ended June 30, 2012.
- Three items reported to the department as stolen were not removed from inventory records. These items had a total cost of \$2,693.

- A physical inspection of 25 inventory items maintained in the Core-CT Asset Management module revealed one obsolete item valued at \$1,175 that was still listed as “in-service” and one item with a cost of \$1,237 that could not be located.
- Review of 15 equipment purchases revealed two items with a total value of \$2,318 that were not recorded in the Core-CT Asset Management Module and were not included as additions on the CO-59.
- Two software items totaling \$12,720 were not included in the software inventory and one item costing \$1,189 was listed twice.
- The department only properly inventoried approximately 1,000 of 3,650 items during the fiscal year 2011-2012 physical inventory inspection.

Effect: Deficiencies in the control over equipment inventory provide a decreased ability to properly safeguard state assets and accurately report the department’s inventory. The department is not in compliance with the requirements of the State Property Control Manual.

Cause: Internal controls over fixed assets and personal property were inadequate.

The department did not properly transfer physical inventory data from the inventory scanners to Core-CT.

Recommendation: The Department of Labor should improve internal controls over the custody and reporting of its property inventory. (See Recommendation 15.)

Agency Response: “We agree with this finding. The \$23,402 was total adjustments that were made to additions on the Annual Inventory Report including items that need to be re-categorized. The figure will be adjusted on the 2013 CO-59 (Annual Inventory Report). The licensed software understatement of \$13,817 for the fiscal year ended 2011 includes a prior audit adjustment not made of \$3,077, a CD that was not included for \$40 & visual studio software for the amount of \$10,720.

The licensed software understatement of \$2,027 for fiscal year ended 2012 includes a software addition of \$2,000 and a CD in the amount of \$27, the total amount will be added to fiscal year 2013 CO-59 Inventory Report.

The three items stolen were two laptops and one tablet. The CO-853 loss reports including police reports were prepared and sent to the Comptroller’s office but were not deleted from the inventory listing. The three items will be deleted from Core-CT and will be reflected on the 2013 CO-59 Report.

The item valued at \$1,175 was a server that was scrapped and never removed from the inventory listing. The \$1,237 was an OWC-owned fax machine that was transferred to DOL when OWC was merged into DOL. We will make the system change and the total will be reflected in the 2013 Annual Report.

The total value of \$2,318 is two separate fax machines equaling \$1,158, a piece that was ordered but delivered to the field location by the vendor without notification that the equipment had arrived. The asset was not entered in Core-CT in a timely manner. The asset has been added to Core-CT and will be reflected on the 2013 CO-59 Report.

Two software items were overlooked and not added to the separate excel spreadsheet software inventory. When preparing the CO-59 the amounts were overlooked and will be added to the 2013 CO-59 Report.”

Reporting Requirements:

Background: The Department of Labor is mandated to submit approximately 28 reports under various sections of the General Statutes and Public Acts. The information provided is necessary to facilitate executive and legislative oversight of the assistance programs administered by the department.

Criteria: Section 31-3n subsection (d) of the General Statutes requires the department to submit by January 31 for final approval by the Governor, an annual plan containing each regional workforce development board's priorities and goals for regional employment and training programs.

Section 31-3u subsection (c) of the General Statutes requires the department to submit an annual report outlining assistance provided to employers for job training or retraining of current or prospective employees in newly created jobs and meeting certain quality standards to the joint standing committees of the General Assembly.

Special Act 11-4 requires that on or before January 1, 2012, the department shall submit a plan to coordinate and consolidate the department's enforcement and investigative responsibilities to promote more timely and efficient action on statutory violations to the Governor and the joint standing committee of cognizance of the General Assembly.

Section 10-95h of the General Statutes, as amended by Public Act 11-48 Section 89, as amended by Public Act 11-1 Section 34 of the October Special Session of the General Assembly, requires the department to submit annually on or before November 15th a report including information identifying general economic trends in the state, occupational information regarding the public and private sectors, and information identifying emerging regional, state and national workforce needs over the

next thirty years to the joint standing committees of cognizance of the General Assembly.

Section 4-124uu of the General Statutes, as amended by Public Act 11-48 Section 97 subsection (c), requires that not later than January 1, 2012 and annually thereafter, the Office of Workforce Competitiveness shall submit a status report on the establishment and operation of the film industry training program to the Department of Labor commissioner, the Connecticut Employment and Training Commission, and the joint standing committees of cognizance of the General Assembly.

Public Act 11-133 requires that effective October 1, 2011, the Office of Workforce Competitiveness shall biennially submit a report identifying the sectors in which workforce shortages exist and the types of workforce skills needed in such sectors to address workforce shortages and which career pathways should be established to the Board of Governors of Higher Education.

Section 4-124w subsection (b) of the General Statutes, as amended by Public Act 11-48 Section 81, requires that not later than October 1, 2012, and annually thereafter, the Office of Workforce Competitiveness shall submit with the assistance of the Labor Department, a report specifying a forecasted assessment by the Labor Department of workforce shortages in occupations in this state for the succeeding two and five-year periods to the Governor and the joint standing committees of cognizance of the General Assembly.

Section 31-11dd of the General Statutes, as amended by Public Act 11-48 Section 95, requires the Adult Literacy Board of the Connecticut Employment and Training Commission to report annually through the commission to the Governor and General Assembly, recommendations for sources and levels of funding to meet the goals and objectives outlined in the strategic plan. The Adult Literacy Board shall also prepare the adult literacy section of the commission's annual report card.

Section 31-3bb of the General Statutes requires that on or before October 1, 1998, and annually thereafter, the Connecticut Employment and Training Commission shall submit a report card of each program emphasizing employment placement included in the commission's annual inventory to the Office of Policy and Management and the joint standing committees of cognizance of the General Assembly.

Section 11-4a of the General Statutes requires the department to file a copy of reports submitted to the General Assembly or any committee of the General Assembly with the State Librarian and the Office of Legislative Research.

An adequate system of internal controls should include a method for management to monitor the submission of all mandated reports.

Condition: Our review disclosed that the department did not submit the following mandated reports:

- Annual regional plans that were due January 1, 2011 and 2012;
- Annual reports outlining assistance provided to employers for job training or retraining of current or prospective employees in newly created jobs and meeting certain quality standards;
- A plan due on or before January 1, 2012 to coordinate and consolidate the department's enforcement and investigative responsibilities to promote more timely and efficient action on statutory violations;
- Annual reports due November 15, 2011 and 2012 including information identifying general economic trends in the state, occupational information regarding the public and private sectors, and information identifying emerging regional state and national workforce needs over the next thirty years;
- An annual report on the establishment and operation of the film industry training program that was due January 1, 2012;
- A biennial report on workforce shortages;
- An annual report of forecasted assessments of workforce shortages in occupations in this state for the succeeding two and five year periods that was due on October 1, 2012;
- An annual report on the recommendations of the Adult Literacy Board;
- The Connecticut Employment and Training Commission annual program report card due October 1, 2012.

Effect: Executive and legislative oversight of the department is diminished and there is non-compliance with the General Statutes and public acts.

Cause: Management oversight over the submission of mandated reports was lacking.

Recommendation: The Department of Labor should institute procedures to ensure that all required reports are submitted or should seek legislation to have the General Statutes amended. (See Recommendation 16.)

Agency Response: “We agree with this finding. The Connecticut Labor Department recognizes that various statutes mandate that the agency file the cited reports with the Governor’s Office and other state and legislative entities. The Labor Commissioner has appointed a new administration to exercise direct oversight over the production and filing of the required reports cited in the audit. It is a priority of the new management to file the mandated reports.”

Board and Commissions:

Background: The General Statutes relating to the Department of Labor provide for five boards, three commissions, and one council, which will be collectively referred to as “boards” and include the Apprenticeship Council, Board of Labor Relations, Board of Mediation and Arbitration, Board of Review, Occupational Safety & Health Review Commission, Employment Security Division Advisory Board, Connecticut Employment and Training Commission, Employee Misclassification Advisory Board, and Joint Enforcement Commission on Employee Misclassification. The Joint Enforcement Commission on Employee Misclassification incorporates five agencies and consists of the commissioner of the Department of Labor, commissioner of the Department of Revenue Services, chairperson of the Workers’ Compensation Commission, Attorney General, and Chief State’s Attorney, or their designees.

Criteria: Section 1-225 of the General Statutes requires public agencies to post meeting minutes to the public agency’s internet website not later than seven days after such meeting; file not later than January 31st of each year with the Secretary of the State a schedule of regular meetings for the ensuing year and to post such schedule on the public agency’s website; and file not less than 24 hours before a meeting the agenda of such meeting with the Secretary of the State and post such agenda on the public agency’s internet website.

Section 31-57i of the General Statutes provides for the Employee Misclassification Advisory Board to advise the Joint Enforcement Commission on employee misclassification in the construction industry. The advisory board consists of members representing management and labor in the construction industry, is appointed by specified state elected officials, and serves terms coterminous with the terms of the appointing authority.

Section 31-91 of the General Statutes provides for the Board of Mediation and Arbitration, consisting of two panels of three members each. Section 31-98(b) of the General Statutes provides that, upon the conclusion of proceedings, each member of the panel of the Board of Mediation and Arbitration receives compensation for specified services, including one hundred fifty dollars for each additional day beyond the first day, provided

that no proceeding may be extended beyond two days without the prior approval of the commissioner of the Department of Labor for each such additional day.

Section 31-96 of the General Statutes requires the commissioner of the Department of Labor, with the advice and approval of the Board of Mediation and Arbitration, to appoint at least five mediators to act for it in making investigations and adjusting labor disputes.

Section 31-250a of the General Statutes provides for the Employment Security Division Advisory Board, which consists of eight members who are appointed by specified state elected officials for a specified initial term and, if applicable, reappointed to a four year term. The Advisory Board includes, in part, one member representing employers appointed by the majority leader of the House of Representatives and one member representing labor organizations appointed by the president pro tempore of the Senate for an initial term of two years, one member representing employers appointed by the majority leader of the Senate for an initial term of three years, and one member representing employers appointed by the minority leader of the Senate for an initial term of four years.

Condition:

Our review of the boards for fiscal years ended June 30, 2011 and 2012, revealed the following:

- Three boards did not post meeting minutes to the department's website, four boards did not file a schedule of meetings for the ensuing year with the Secretary of the State and four boards did not post such schedule on the department's website. Two boards did not file the agenda of regular meetings with the Secretary of the State and four boards did not post such agendas on the department's website.
- In reviewing the minutes of the joint meetings of the Joint Enforcement Commission on Employee Misclassification and the Employee Misclassification Advisory Board, we noted that attendance was lacking for the advisory board members. Of the four joint meetings held during the audited period, three, two and no advisory board members attended the meetings, respectively. At one meeting, we could not determine who was in attendance, as it was not documented in the minutes.
- The department paid members of the Board of Mediation and Arbitration for hearings that continued beyond two days without obtaining the prior approval of the commissioner of the Department of Labor, as required by statute.
- Two of the five mediator positions required by Section 31-96 were vacant during the audited period.

- Two members of the Employment Security Division Board were not appointed to the correct initial term.

Effect: Public notice was not provided for board meetings, minutes and agendas. The boards were not operating in compliance with the General Statutes with regard to appointments and full membership.

Cause: A lack of administrative oversight contributed to this condition. The department did not effectively work with the boards and appointing authorities. It appears that the mediator positions required by Section 31-96 were vacant, as there was not a need for five positions.

Recommendation: The Department of Labor should work with the boards to ensure compliance with Freedom of Information requirements and the General Statutes. The department should notify appointing authorities of existing vacancies or attendance issues to ensure adequate representation at all board meetings. If the department determines that any statutes are impractical or outdated, the department should consider requesting a legislative change to the respective statute. (See Recommendation 17.)

Agency Response: “We agree with this finding. The department acknowledges the need to comply with Freedom of Information Act (“FOIA”) requirements regarding the scheduling of meetings and the filing of agendas and minutes. The agency has taken measures to remind all Boards and Commissions of the FOIA requirements by circulating the audit findings to the respective Boards and Commissions.

With respect to the Joint Enforcement Commission on Employee Misclassification (“JEC”), measures have been taken to standardize the recording of minutes so as to identify JEC and advisory board members in attendance, and to encourage attendance at meetings to the fullest extent possible.

Additionally, Boards and Commissions have completed the task of filling vacancies by seeking appointments to each respective Board and Commission for the correct terms to ensure adequate representation at all meetings. Furthermore, in regard to the Board of Mediation and Arbitration, the Labor Commissioner has adopted a general policy authorizing the Board to schedule continued hearings as administratively necessary. In addition, the full complement of five (5) statutorily required mediator positions has not been filled due to a present lack of need and funding. The number of mediator positions is assessed on an annual basis.”

Occupational Safety and Health:

Background: The Department of Labor's Division of Occupational Safety and Health (OSHA) administers the state's public employer state plan and enforces

occupational safety and health standards as they apply to all municipal and state employees. The Department of Labor does not enforce occupational safety and health standards in private businesses. In those businesses, OSHA standards are enforced by the U.S. Department of Labor.

Criteria: Sound businesses practices dictate that deficiencies should be corrected in a timely manner.

Condition: The U.S. Department of Labor performs an annual assessment of the department's OSHA activities. In the assessment covering the period of October 1, 2010 through September 30, 2011, the U.S. DOL reported that several key deficiencies cited in the 2009-2010 assessment continued to be uncorrected through 2011 and included the following:

- The department did not meet the five-day standard for average number of days to initiate a complaint inspection.
- The department did not meet the one-day standard for average number of days to initiate complaint investigations.
- The department did not meet its annual goal for inspections.
- The department's lapse time from inspection to citation issuance needed improvement.

The 2011 assessment results also noted new deficiencies that included the following:

- The department did not meet its annual goal for public sector consultation visits.

Effect: The department's OSHA unit is not effectively meeting federal standards for inspections, investigations and consultation visits and thus is not meeting federal OSHA's expectations for ensuring safe and healthy work places for public workers in Connecticut.

Cause: It appears that staffing issues may have contributed to these conditions. In addition, as a result of Tropical Storm Irene, OSHA was dispatched to ensure worker safety during recovery efforts.

Recommendation: The Department of Labor should implement procedures to ensure that deficiencies identified by the U.S. DOL relative to OSHA are resolved in a timely manner. (See Recommendation 18.)

Agency Response: "We agree with this finding. The CONN-OSHA Division works very closely with the USDOL Boston Regional Office when any deficiencies are identified in their Federal Annual Monitoring and Evaluation (FAME) report. As a result, we are required to develop a mutually agreed upon Corrective Action Plan (CAP) that addresses these deficiencies. This

division continues to implement procedures using the CAP to resolve any deficiencies in a timely manner.”

Other Matters

Connecticut General Statutes Section 4-33a provides that all state department heads shall promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular, or unsafe handling or expenditure of state funds...or breakdown in the safe keeping of any other resources of the state within their knowledge.

During the course of our audits of state agencies in accordance with national governmental audit standards (SAS 99), we inquire of various agency personnel whether they are aware of any fraudulent, illegal, or other inappropriate activities that happened at the agencies.

During the course of such inquiries, we learned that on May 25, 2012, a Department of Labor employee processed an Emergency Unemployment Compensation (EUC) claim for a friend who was a former employee of the department, so that the claimant friend would be paid benefits at a higher rate. The claimant was overpaid \$159 per week for five weeks for a total of \$795. The department discovered this irregularity in January 2013 and conducted an investigation.

As a result of the department’s investigation, on January 29, 2013, the employee was dismissed effective February 11, 2013, for violating the employee conduct policy, which prohibits the processing of claims for friends and family. The employee was rehired through a last chance stipulated agreement that was entered into on May 1, 2013.

The agency failed to inform our office of this matter as required by law. The failure to promptly bring such matters to our attention not only violates Connecticut General Statutes Section 4-33a, it also prevents our office from having the necessary information to determine whether appropriate steps are taken by the agency to deter fraudulent behavior and to determine whether such proper controls are in place to detect such fraud.

In reviewing this matter, we also reviewed the department’s establishment and classification of an overpayment for the irregularly processed EUC transaction. The irregular processing of the EUC claim resulted in an overpayment of \$795, of which \$477 was classified as non-fraud since the fraud was not committed by the claimant. The remaining balance was classified as fraud, as the department subsequently determined that the claimant was ineligible for benefits effective June 3, 2012. The department classified the \$477 non-fraud overpayment as gross administrative error and it was waived. Although agency Regulations Section 31-273-4 permits the department to waive overpayments in certain circumstances, the department made a waiver decision based on how it anticipated the Board of Review would rule if the claimant had appealed the overpayment, instead of assessing the overpayment and presenting the facts. In addition, Section 31-273 of the General Statutes requires that, in order for the department to collect a non-fraud overpayment, it must be identified and disclosed to the claimant within one year of the date of receipt of such payments. In this case, although the department’s human resources investigation was completed in January 2013, an overpayment was not established until August 23, 2013 for benefits paid in May and June 2012.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department of Labor should institute procedures to ensure that bank reconciliations of the Unemployment Compensation Fund benefit bank account are performed in a timely manner. This recommendation is being repeated to reflect current conditions. (See Recommendation 1.)
- The Department of Labor should institute procedures to ensure that all unemployment contribution return records are retained in accordance with the General Statutes. This recommendation has been resolved.
- The Department of Labor should perform and document the required interest rate calculation each year to ensure compliance with Section 31-265 of the General Statutes. This recommendation has been resolved.
- The Department of Labor should comply with the records retention/disposition schedule issued by the Connecticut State Library. This recommendation has been resolved.
- The department should institute procedures to comply with the State Accounting Manual and to ensure that receipts are deposited and accounted for in a timely manner or should request a waiver from the State Treasurer. This recommendation is being repeated to reflect current conditions. (See Recommendation 3.)
- The department should assess civil penalties as prescribed by Section 31-69a of the General Statutes. If the department determines that such statute is impractical, the Department should consider requesting a legislative change. The department should seek legislative changes to Section 31-57f of the General Statutes to give the Department of Labor the authority to impose and collect such civil penalties. This recommendation is being repeated. (See Recommendation 4.)
- The Department of Labor should establish procedures to ensure that persons leaving state service receive an exit interview and a written summary of the post-state employment rules. This recommendation has been resolved.
- The Department of Labor should strengthen internal controls over compensatory time to ensure compliance with DAS Management Personnel Policy #06-02 and to ensure that only eligible employees are permitted to earn compensatory time. This recommendation is being repeated to reflect current conditions. (See Recommendation 7.)
- The Department of Labor should strengthen controls over petty cash and should deposit the amount over the authorized balance into the Employment Security Fund. The department should also consider reducing its authorized petty cash to an amount that is sufficient to adequately meet the department's needs. This recommendation is being repeated in part. (See Recommendation 10.)

- The Department of Labor should strengthen internal controls and follow the guidelines provided in the State Accounting Manual when posting receipt dates for grant payments. This recommendation is being repeated to reflect current conditions. (See Recommendation 11).
- The department should strengthen internal controls over the monitoring of grants. This recommendation is being repeated to reflect current conditions. (See Recommendation 13.)
- The department should improve its internal controls over the custody and reporting of its property inventory. This recommendation is being repeated. (See Recommendation 15.)
- The Department of Labor should institute procedures to ensure that all reports required by statute are submitted as required or should seek legislation to have the General Statutes amended. This recommendation is being repeated. (See Recommendation 16.)
- The department should work with the boards to ensure compliance with Freedom of Information requirements and the General Statutes relating to the boards. The department should notify appointing authorities of existing vacancies to ensure adequate representation at all board meetings. If the department determines that any statutes are impractical or outdated, then the department should consider requesting a legislative change to the respective statute. This recommendation is being repeated. (See Recommendation 17.)

The following prior audit recommendations were included in the final, separate audit report of the Office of Workforce Competitiveness.

- The Office of Workforce Competitiveness should, in conjunction with the Department of Administrative Services, improve purchasing procedures to ensure compliance with Section 4-98 subsection (a) of the General Statutes. With the merger of the Office of Workforce Competitiveness into the Department of Labor, effective July 1, 2011, the Department of Administrative Services is no longer responsible for OWC's business office functions. Our review of expenditures at the Department of Labor disclosed similar conditions. Therefore, the finding is repeated to reflect current conditions. (See Recommendation 11.)
- The Office of Workforce Competitiveness should verify that the provisions agreed upon by its vendors or contractors have been properly executed and are in compliance with Sections 4a-60 and 4a-60 subsection (a). This recommendation has been resolved.
- The Office of Workforce Competitiveness should institute steps to obtain evidence of current insurance coverage for all of its contractors. This recommendation is being repeated to reflect current conditions. (See Recommendation 13).
- The Office of Workforce Competitiveness should pursue technical legislative changes to Sections 31-3bb, 31-3h subsection (b) (3) and 31-3h subsection (c). This would resolve

the conflicts between the statutory requirements and the programmatic reporting requirements or submission dates. This recommendation is being repeated to reflect current conditions. (See Recommendation 16.)

Current Audit Recommendations:

1. The Department of Labor should complete reconciliations and resolve variances of the Unemployment Compensation Fund benefit bank account in a timely manner.

Comment:

Although the department has made significant progress from the prior audit in performing reconciliations, beginning in October 2011, the department began carrying an unresolved variance of approximately \$8 million in its reconciliations for one of its two checking accounts that was not resolved until July 2013. Reconciliations for subsequent months have not been revised to resolve the variance.

2. The Department of Labor should implement regulations as required by the General Statutes.

Comment:

Under certain circumstances, the department waives interest and penalties for the late payment of unemployment taxes and special assessments; however, the department has not adopted the regulations required by Section 31-268 of the General Statutes.

3. The Department of Labor should strengthen internal controls to ensure that receipts are deposited and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes.

Comment:

Our review of 40 receipts totaling \$42,516 disclosed that four receipts totaling \$3,526 were deposited one day late and two receipts totaling \$1,372 were posted to the department's accounting records one to three days late. Our review also disclosed five receipts totaling \$6,776 that were not date stamped or logged into a receipts journal. We were unable to determine the initial receipt date for these receipts.

4. The Department of Labor should assess civil penalties as prescribed by Section 31-69a of the General Statutes. If the department determines that such statute is impractical, the department should consider requesting a legislative change. The department should seek legislative changes to Section 31-57f of the General Statutes to give the Department of Labor the authority to impose and collect such civil penalties. The department should consider implementing an automated case management system.

Comment:

Our review of employers that violated labor regulations disclosed instances in which the department did not assess civil penalties and there was no documentation in the case files to

support why the department did not assess the civil penalties. Our review also disclosed instances in which case file documentation was completed by hand.

5. The Department of Labor should strengthen internal controls over the processing of timesheets.

Comment:

Our review disclosed several internal control deficiencies over the processing of employee and timekeeper timesheets.

6. The Department of Labor should strengthen internal controls to ensure that employee leave accruals and balances in Core-CT match FARS and are correct.

Comment:

Our review of the compensated absences reports for the fiscal years ended June 30, 2011 and 2012 disclosed numerous errors in accrued leave balances in Core-CT.

7. The Department of Labor should strengthen internal controls over compensatory time and overtime to ensure compliance with collective bargaining contracts, DAS Management Personnel Policy 06-02, and departmental procedures.

Comment:

Our review disclosed instances of employees earning overtime and compensatory time without proper approvals.

8. The Department of Labor should ensure that annual performance evaluations are performed on all of its employees.

Comment:

Our review disclosed that performance evaluations were not completed for managers during the fiscal years ended June 30, 2011 and 2012. We also noted that eight units of the department did not complete employee performance evaluations for non-managers during the fiscal year ended June 30, 2012.

9. The Department of Labor should strengthen internal controls over off-line checks to ensure that only proper amounts are paid and that all transactions are recorded in the IBM system.

Comment:

Our review of 25 off-line checks totaling \$2,670 revealed that a duplicate refund payment was issued to one individual in the amount of \$94 and four refund payments totaling \$317 were not recorded in the individuals' accounts in the department's IBM system.

10. The Department of Labor should strengthen internal controls over petty cash to ensure that funds are only expended for properly supported expenditures and that state purchasing cards are used rather than petty cash when feasible.

Comment:

Our review of 26 petty cash expenditures for the fiscal years ended June 30, 2011 and 2012, disclosed two instances in which expenditures were reimbursed through the petty cash fund without adequate supporting documentation. We also noted three instances in which conference registration fees were processed through the petty cash fund that could have been processed using a state purchasing card.

11. The Department of Labor should strengthen internal controls over expenditures and follow the guidelines provided in the State Accounting Manual.

Comment:

Our review of 112 expenditures disclosed that twenty-three purchase orders of one million dollars or more were not submitted to the Comptroller for pre-audit; purchase orders for two expenditures were not generated; and receipt dates for 18 expenditures were recorded incorrectly.

12. The Department of Labor should strengthen internal controls to ensure that contracts are properly completed and fully executed prior to the contract period start date and issuance of payment.

Comment:

Our review of 31 Workforce Investment Board contracts revealed that (1) for one contract, the department paid eight invoices totaling \$1,521,954 to one WIB prior to the contract being completed with an approved budget and prior to signature by DOL Business Management Unit and/or the Attorney General; (2) for one contract, the department paid three invoices totaling \$510,644 to one WIB prior to the contract being completed with approved general terms and conditions and prior to signature by the Attorney General; (3) twenty-three contracts were signed from over one month to over ten months after the contract period start date.

13. The Department of Labor should strengthen internal controls over the monitoring of grants to ensure compliance with contract provisions and corresponding legislation.

Comment:

Our review of 25 grants for the fiscal years ended June 30, 2011 and 2012 disclosed that the department did not review any grantee single audit reports, which would have revealed that three grantees did not submit a single audit report and one grantee did not submit a corrective action plan. The department also did not obtain grantee certificates of insurance for any grant contracts.

14. The Department of Labor should develop and implement procedures that ensure compliance with STEP-UP legislation, contracts and agreements. The department should consistently apply its standard business practices for pre-approval of state grants to STEP-UP grants, including OSHA reviews.

Comment:

Our review disclosed internal control deficiencies in the department's monitoring of STEP-UP grants and in the design of the eligibility process.

15. The Department of Labor should improve internal controls over the custody and reporting of its property inventory.

Comment:

Our review disclosed several errors in the preparation of the CO-59 Fixed Assets/Property Inventory Reports and errors in the department's property control records.

16. The Department of Labor should institute procedures to ensure that all required reports are submitted or should seek legislation to have the General Statutes amended.

Comment:

Our review disclosed that nine mandated reports were not submitted by the department for at least one of the two years reviewed.

17. The Department of Labor should work with the boards to ensure compliance with Freedom of Information requirements and the General Statutes. The department should notify appointing authorities of existing vacancies or attendance issues to ensure adequate representation at all board meetings. If the department determines that any statutes are impractical or outdated, the department should consider requesting a legislative change to the respective statute.

Comment:

Our review disclosed that the boards did not consistently file with the Secretary of the State and post on the department's website, meeting schedules, agendas, and minutes. We also noted issues with member absenteeism, vacancies, term appointments and lack of approval for certain payments.

18. The Department of Labor should implement procedures to ensure that deficiencies identified by the U.S. DOL relative to OSHA are resolved in a timely manner.

Comment:

In the U.S. Department of Labor's annual assessment of the department's OSHA activities covering the period of October 1, 2010 through September 30, 2011, it was reported that several key deficiencies cited in the 2009-2010 assessment continued to be uncorrected through 2011.

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 for the fiscal years ended June 30, 2011 and 2012. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Department are complied with, (2) the financial transactions of the Department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Labor for the fiscal years ended June 30, 2011 and 2012, 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 Department of Labor complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements, 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.

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

Management of the Department of Labor is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department of Labor's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of Department of Labor's internal control over those control objectives.

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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations,

contracts, and grant agreements that would be material in relation to the Department's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Department's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation 5 – timesheets and timekeepers, Recommendation 12 – contracts, Recommendation 13 - grants monitoring, Recommendation 14 – Subsidized Training and Employment Grants, and Recommendation 15 - property inventory and reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Labor complied with laws, regulations, contracts and grant agreements, 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 Department's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

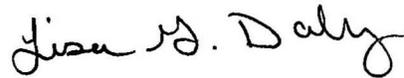
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying Condition of Records and Recommendations sections of this report.

The Department of Labor's responses to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Department of Labor's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of Department management, 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 courtesies and cooperation extended to our representatives by the personnel of the Department of Labor during the course of our examination.



Lisa G. Daly
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts