STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF LABOR
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004

AUDITORS OF PUBLIC ACCOUNTS

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October 28, 2005

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We have examined the financial records of the Department of Labor for the fiscal years ended June 30, 2003 and 2004. Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all State agencies. This examination has therefore been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

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

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

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

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

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

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

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

The Department of Labor is administered by a Commissioner who is appointed by the Governor under Sections 4-5 to 4-8 of the General Statutes. Shaun B. Cashman was appointed Commissioner effective January 16, 2001, and continues to serve in that capacity.

Significant Legislation:

Public Act 03-207 **An Act Concerning the Apprentice Training Program**

The Act requires the payment of various registration fees effective July 1, 2003.

Councils, Boards and Commissions:

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

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

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

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

<u>Connecticut State Board of Labor Relations:</u>

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

<u>Employment Security Board of Review:</u>

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

Connecticut Occupational Safety and Health Review Commission:

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

Advisory Council on Displaced Homemakers:

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

Employment Security Division Advisory Board:

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

RÉSUMÉ OF OPERATIONS:

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

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

General Fund:

General Fund Receipts:

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

	Fiscal Year Ended June 30,		
	2002	**2003**	**2004**
Employer contributions	$ 10,722	$ 4,049	$ 1,567
Federal contributions	28,955,861	28,388,088	17,514,329
Other grants – restricted	3,188,313	1,972,296	590
Recoveries of expenditures	383,464	491,016	169,562
Fees and fines	161,049	125,766	109,815
Refunds of expenditures	464,027	343,976	64,224
Miscellaneous	6,545	7,315	6,282
Total General Fund Receipts	$33,169,981	$31,332,506	$17,866,369

Total receipts decreased by $1,837,475 and $13,466,137 during the 2002-2003 and 2003-2004 fiscal years, respectively. The decreased receipts for both fiscal years can primarily be attributed to a decrease in Federal contributions. Federal receipts for the Welfare-to-Work Program decreased $832,795 and $972,782 for the fiscal years ended June 30, 2003 and 2004, respectively. Receipts for the Workforce Investment Act Program increased $890,073 during the fiscal year ended June 30, 2003, and then decreased $9,529,833 during the fiscal year ended June 30, 2004. Also contributing to the decrease in General Fund receipts during the fiscal year ended June 30, 2004, was a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, receipts formerly credited to the General Fund were credited to a newly established special revenue fund.

General Fund Expenditures:

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

	Fiscal Year Ended June 30,		
	2002	**2003**	**2004**
Budgeted Accounts:			
Personal Services	$16,302,818	$13,542,464	$10,029,837
Contractual Services	3,581,196	2,721,826	2,539,308
Commodities	240,384	171,596	114,171
Revenue Refunds	0	66,225	0
Sundry Charges	39,240,014	37,106,954	28,419,197
Capital Outlay	56,682	38,891	56,465
Total Budgeted Accounts	59,421,094	53,647,956	41,158,978
Restricted Accounts	3,431,111	2,742,070	0
Total Expenditures	$62,852,205	$56,390,026	$41,158,978

Net expenditures charged to General Fund accounts totaled $56,390,026 during the fiscal year ended June 30, 2003, as compared to $62,852,205 during the 2001-2002 fiscal year. During the 2003-2004 fiscal year expenditures charged to the General Fund totaled $41,158,978.

Total budgeted expenditures decreased $5,773,138 and $15,231,048 during the fiscal years ended June 30, 2003 and 2004, respectively. During the fiscal year ended June 30, 2003, expenditures for Personal Services and Sundry Charges decreased $2,760,354 and $2,133,060, respectively. During the fiscal year ended June 30, 2004, expenditures for Personal Services and Sundry Charges decreased $3,512,627 and $8,687,757, respectively. Decreases noted in expenditures for Personal Services can be attributed to the effects of the closing of four Job Centers, and the lay off and early retirement of State employees. The decreases in expenditures for Sundry Charges can primarily be attributed to the decreases in expenditures for Other Grants which decreased $1,559,124 and $6,240,279 for the fiscal years ended June 30, 2003 and 2004, respectively.

Restricted Accounts expenditures decreased $689,041 during the 2002-2003 fiscal year and then increased $550,778 during the 2003-2004 fiscal year. Total restricted account expenditures for the fiscal year ended June 30, 2004, decreased by $2,742,070. This decrease was due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained above.

Special Revenue Funds:

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

Employment Security Administration Fund:

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

Unemployment Compensation Advance Fund:

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

Employment Security Special Administration Fund:

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

During June 2003 and 2004, $2,400,000 and $2,600,000, respectively, were transferred to the Employment Security Administration Fund for the purpose of offsetting projected deficits of Federal administrative funds.

Grants and Restricted Accounts Fund:

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

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

Schedule of Receipts

	Fiscal Year Ended June 30,		
	2002	**2003**	**2004**
Employment Security Administration Fund	$70,450,340	$78,091,691	$76,549,818
Unemployment Compensation Advance Fund	2,766,544	945,374	282,768
Employment Security Special Administration Fund	2,349,633	2,659,135	2,456,670
Workers' Compensation Fund	0	0	10,768
Individual Development Account Reserve Fund	282,378	840,000	75,500
Grants and Restricted Accounts Fund	0	0	2,950,614
Total	$75,848,895	$82,536,200	$82,326,138

Total receipts increased by $6,687,305 during the 2002-2003 fiscal year from the 2001-2002 fiscal year total of $75,848,895. This increase was primarily attributable to an increase in Employment Security Administration Fund receipts of $7,641,351. Receipts for this Fund are used for the purpose of defraying the cost of administrating the Department's Employment Security Division. During the 2003-2004 fiscal year, receipts decreased by $210,062. Although receipts of $2,950,614 were added to the special revenue receipts from the Grants and Restricted Accounts Fund which were previously reported in the State General Fund, this increase was more than offset by decreases of $1,541,873, $764,500 and $662,606 in the Employment Security Administration Fund, the Individual Development Account Reserve Fund and The Unemployment Compensation Advance Fund, respectively.

Schedule of Expenditures

	Fiscal Year Ended June 30,		
	2002	**2003**	**2004**
Employment Security Administration Fund	$77,870,852	$79,615,162	$68,416,080
Employment Security Special Administration Fund	2,200,000	2,400,000	2,600,000
Workers Compensation Fund	687,587	669,237	651,349
Inter Agency/Intra Agency Grants	733,845	65,628	77,582
Individual Development Account Reserve Fund	134,947	124,029	871,091
Capital Equipment Purchase Fund	40,890	412,383	28,794
Federal and Restricted Accounts Fund	0	0	3,292,848
Total	$81,668,121	$83,286,439	$75,937,744

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

	Fiscal Year Ended June 30,		
	2002	**2003**	**2004**
Personal services	43,562,091	44,501,639	39,413,575
Contractual services	10,190,497	8,978,060	9,941,755
Commodities	725,116	736,569	678,901
Revenue refunds	3,265,369	3,260,808	0
Sundry charges (Fringe benefits and grants)	23,466,546	24,279,069	24,661,470
Fixed Charges (State Aid Grants)	0	10	0
Equipment	458,502	1,530,284	1,242,043
Total Expenditures	$81,668,121	$83,286,439	$75,937,744

Total expenditures increased $1,618,318 from the 2001-2002 total of $81,668,121 to the 2002-2003 fiscal year total of $83,286,439. Increases were noted in expenditures for personal services, sundry charges and equipment. These increases in expenditures were partially offset by a decrease reflected in contractual services. During the 2003-2004 fiscal year expenditures decreased $7,348,695 from $83,286,439 in the 2002-2003 fiscal year to $75,937,744 in the 2003-2004 fiscal year. The primary reason for this decrease in expenditures can be attributed to the reduction of expenditures for personal services and sundry charges (fringe benefits). Employee lay offs and the early retirement incentive program contributed to these decreases. These decreases were partially offset by the increase of $871,661 in expenditures for contractual services. During the 2003-2004 fiscal year expenditures charged to IT consultant services increased by $1,483,284 and were primarily for payments to the Department of Information and Technology. In addition, expenditures of $3,292,848 charged to the Federal and Restricted Accounts Fund were previously recorded in the State General Fund.

Fiduciary Funds:

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

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

Schedule of Receipts

	Fiscal Year Ended June 30, 2002	2003	2004
Unemployment Compensation Fund	$463,466,825	$797,381,852	$801,200,588
Adjustment Due to Netting	67,500,000	0	0
Adjustment for Overstatement	(1,181,000)	0	0
Adjusted Unemployment Compensation Fund	529,785,825	797,381,852	801,200,588
Fringe Benefit Recovery Fund	463,121	404,722	168,221
Funds Awaiting Distribution Fund	1,112,859	1,625,471	796,765
Total	$531,361,805	$799,412,045	$802,165,574

Schedule of Disbursements

	Fiscal Year Ended June 30, 2002	2003	2004
Unemployment Compensation Fund	$669,946,711	$961,225,728	$820,927,365
Adjustment Due to Netting	67,500,000	0	0
Adjusted Unemployment Compensation Fund	737,446,711	961,225,728	820,927,365
Funds Awaiting Distribution Fund	971,571	1,575,387	892,195
Total	$738,418,282	$962,801,115	$821,819,560

Unemployment Compensation Fund:

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

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

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

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

	Fiscal Year Ended June 30,		
	2002	**2003**	**2004**
Employer tax contributions	$385,009,995	$513,839,145	$571,090,852
Federal Reimbursable Advances	67,500,000	192,600,000	137,830,000
Federal contributions	8,517,921	7,721,189	9,948,196
Adjustment for overstatement	(1,181,000)	0	0
Adjusted Federal contributions	7,336,921	7,721,189	9,948,196
Reimbursement from the State, municipalities and nonprofits	22,070,043	43,058,076	50,041,207
Reimbursement from other states	6,486,417	6,421,995	6,856,360
Federal Trust Fund interest income	41,382,449	33,741,447	25,433,973
Total	$529,785,825	$797,381,852	$801,200,588

Total employer tax contributions increased by $128,829,150 and $57,251,707 during the fiscal years 2002-2003 and 2003-2004, respectively. During good economic conditions, unemployment is lower and thus less revenue is needed in the Unemployment Compensation Fund. As a result, there were fluctuations in rates effective January 1st, of each calendar year that affect the amount paid for employer tax contributions. The Fund Solvency Rate is charged in addition to the basic charged rate and is based upon the solvency of the State’s Unemployment Compensation Fund. Charged rates are based upon the State’s experience rating system. For the State’s experience rating system, tax rates are based on the ratio of an employer’s benefit charges over a three-year period to its payroll over the same period. The range of tax rates is shown below. The New Employer Rate is charged to newly liable employers who have not had unemployment benefits charged to their account for at least one full fiscal year ending the preceding June 30th.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
2002	1.3 %	2.1 %	1.8 % to 6.7 %
2003	1.4 %	2.1 %	1.9 % to 6.8 %
2004	1.4 %	2.4 %	1.9 % to 6.8 %

Federal Reimbursable Advances increased $125,100,000 and then decreased $54,770,000 during the fiscal years 2002-2003 and 2003-2004, respectively.

Federal Trust Fund interest income decreased by $7,641,002 and $8,307,474 during the fiscal years 2002-2003 and 2003-2004. The Trust Fund balance at July 1, 2002, was $675,426,132 and has steadily decreased over the audited period. As a result, Trust Fund income has also decreased. As of June 30, 2004, the balance was $476,198,327.

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

	Fiscal Year Ended June 30,		
	2002	**2003**	**2004**
Benefits paid with employer contributions	$629,184,056	$705,532,671	$619,782,201
Benefits paid with Federal contributions	9,250,751	198,219,682	147,934,278
Adjustment Due to Netting	67,500,000	0	0
Total Benefits paid with Federal contributions	76,750,751	198,219,682	147,934,278
Benefits paid for the State, municipalities and nonprofits	24,589,565	51,184,490	46,676,205
Benefits paid for other states	6,828,839	6,065,935	6,472,531
Miscellaneous	93,500	222,950	62,150
Total	$737,446,711	$961,225,728	$820,927,365

Benefits paid with employer contributions increased by $76,348,615 and then decreased by $85,750,470 during the 2002-2003 and 2003-2004 fiscal years, respectively. The benefits paid with employer contributions during the 2001-2002 fiscal year was $629,184,056. These changes were attributable to fluctuations in the unemployment rate and initial claims.

Funds Awaiting Distribution Fund and Wage Restitution Account:

Fund collections totaled $2,422,235 and disbursements and transfers totaled $2,467,582, respectively, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled $2,415,635 and disbursements and transfers totaled $2,459,182.

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

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

CONDITION OF RECORDS

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

Required Regulations and Reporting:

Our review of the reports and regulations applicable to the Department as specified in various statutory references revealed that the Department has yet to adopt certain regulations and file required reports.

Criteria: Various statutory references require that the Department adopt regulations in which procedures and certain requirements are addressed. In addition, various statutory references also require the reporting of certain items.

Condition: We selected 18 statutory references for review for the adoption of regulations and/or reports to be submitted. Out of the 18 reviewed, we found that nine regulations, as mandated by statute, had not been adopted.

We again noted that a report dealing with factory inspections, and statutorily required by Section 31-9 of the General Statutes, was submitted to the Governor as part of the Department's annual report.

Effect: Legislation that has been enacted is not being followed.

Cause: The Department has stated that regulations were not adopted for various reasons. Reasons given have been that the regulations are outdated or the Department has currently commenced the regulatory process to enact the requirements.

The Department stated that the report required to be submitted by the Department of Factory Inspection by Section 31-9 of the General Statutes was submitted by the Department of Labor as part of its annual report to the Governor because there has not been a Department of Factory Inspection since the 1970's.

Recommendation: The Department should comply with the various statutory requirements, which mandate the adoption of regulations and/or the submission of various reports. If the Department feels that the governing statute is outdated or no longer needed, it should seek the introduction of legislation to repeal that particular statute. (See Recommendation 1.)

Agency Response: "The Department will review the statutes cited in the Auditor's Finding to: (1) insure that any ongoing regulation adoption process is completed, and (2) determine whether to propose repeal of any of the provisions cited."

Equipment Inventory and Reporting:

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

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

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

Condition: Our review disclosed errors in the Department's CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2003 and 2004, as follows:

- Reported site improvements were overstated by $46,324.
- Reported books, maps, records and videos balances were overstated by $12,202 for the fiscal years ended June 30, 2003 and 2004.
- Reported balances for capitalized furnishings and equipment were understated by $426,023 and $269,975 for the fiscal years ended June 30, 2003 and 2004, respectively.
- Detailed inventory records did not agree with addition and/or deletion figures reported for capitalized furnishings and equipment for the fiscal years ended June 30, 2003 and 2004.
- Although we previously identified numerous items that were not included in the detailed inventory listing, we found that 56 of those items totaling approximately $167,000 were still not contained in the detailed inventory report and are still active in the system.

A laptop computer costing $2,186 was stolen and not reported to the Auditors of Public Accounts or the State Comptroller as required by Section 4-33a of the General Statutes. In addition, the computer was not removed from the agency's detailed inventory listing.

Cause: The Department does not know the reason why the Asset Management System total report differs from the detail report for additions and deletions.

The Department could not explain why the items previously identified as active in the inventory system were not contained in the detailed inventory listing.

Due to Agency oversight the stolen computer was not reported as required nor removed from the detailed inventory listing.

Effect: The CO-59 report cannot be relied upon for accuracy.

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

Recommendation: The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. (See Recommendation 2.)

Agency Response: "We agree with the audit finding. The $12,202 overstatement for books and maps was a clerical input error. A deletion of the books and maps was inadvertently done on the wrong line of the inventory listing.

The addition of the air conditioning unit in the amount of $46,324.40 was an oversight and will be adjusted on the next CO-59.

The reported balances for capitalized furnishings and equipment, as well as the issue with the detailed inventory records not agreeing with the additions and/or deletions figures, is an ongoing software problem that we hope will be permanently corrected with the implementation of the new Core-CT module.

As to the 56 items that seem to be missing from the detailed inventory report, attached is a list of these items that show they are in the system. Due to the aforementioned software problems with the current system they did not appear on the original listing.

Due to confusion as to the procedures on reporting stolen property in our Hartford Office, the Facilities Management Unit was not notified timely. A CO-853, Report of Loss or Damage to Real and Personal Property, was submitted on August 6, 2004."

Enforcement of Wage Garnishments:

Our review again disclosed that once the court approved wage garnishments, the Department did not always follow-up on the enforcement of some of the wage garnishments.

Background: When the claimant does not repay according to the mandatory repayment schedule, the Department sends the claimant a final notice of noncompliance and applies for a wage garnishment. The Department verifies employment of the claimant on its wage files before applying for a wage garnishment. If it is determined that the claimant is employed and earns at least minimum wage, the Department assembles a wage garnishment packet for court approval. Once the court approves the document, it is sent to one of the State Marshals in order for it to be served to the employer so that a wage garnishment can be placed on the claimant's wages.

Criteria: According to Subsections (a) and (b) of Section 31-273 of the General Statutes, if a claimant charged with an overpayment of unemployment compensation benefits fails to repay according to a repayment schedule, the administrator may recover such overpayment through a wage execution against the claimant's earnings upon his return to work. Section 52-361a of the General Statutes authorizes a clerk of the Superior Court to issue a wage execution, directed to a levying officer, to enforce the payment of the amount owed to the creditor. The wage execution shall be served within one year from its issuance.

Good business practice requires that the Department have adequate controls in place to determine if the wage garnishment was served to the correct employer and within the required time period.

Condition: We reviewed five court approved wage executions to determine whether the claimants' current employer was served the court approved documents to garnish the claimants' wages. We also reviewed the accounts receivable system to determine whether the Department is receiving remittances from the State Marshals for amounts collected from the claimants' employers. We noted the following exceptions for two of the five wage executions reviewed:

- One claimant has changed employers since the wage execution was served, and the Department has not yet reissued the order.
- We could not determine if a wage execution order had been served to a claimant's employer. This claimant's wage execution file could not be located. No collections have been remitted to the Department even though the claimant has been employed by the same employer.

Effect: The Department is not recovering all of the overpayments from wage garnishments.

There is potential that wage garnishments are being collected but not remitted to the Department.

Cause: The Department is not effectively monitoring wage garnishment cases in which no collections have been remitted against them.

Recommendation: The Department should ensure that claimant's current employers are verified, and that the State Marshals promptly serve the approved court documents for wage garnishment. In addition, the Department should exercise due diligence to ensure that all files are properly accounted for. (See Recommendation 3.)

Agency Response: "A reduction in BPCU [Benefit Payment Control Unit] staff due to early retirement resulted in a backlog of cases. The assignment of staff new to the process resulted in the reduction of the quality and quantity of our wage garnishments.

We are addressing this issue through training, redistribution and the addition of new staff to ensure that all potential garnishment employers are verified and that all State Marshals promptly serve court papers."

Other Matters:

We were informed by the State Department of Labor (DOL) that as the mail processing contractor, Electronic Mailing Services (EMS) applied postage meter imprint (from the United States Department of Labor Federal Mail account) to the Unemployment Insurance mailings at a prescribed presort discount rate. The contractor maintained a U. S. postage meter inventory on site and was required to provide monthly mail activity reports to the State DOL for reconciliation. As payment for mail processing service, EMS was reimbursed through the issuance of postage meter strips, which in turn were presented at the U.S. Post Office for cash vouchers. After an internal audit by the State DOL, it was determined that during the period of January 2003 through November 2004, EMS may have withdrawn approximately $750,000 to $900,000 in excess postage meter strips without any corresponding mail activity reports. We were also informed that EMS has not satisfactorily responded to the State DOL requests for additional information to substantiate those additional expense reimbursements. The State DOL feels that there is reasonable doubt as to the validity of the reimbursements.

What EMS apparently did was to request that more postage be added to the meters than was needed for both the mailing and their fee for this service. EMS then drew down this excess by returning the unused postage to the Post Office.

Since November 2004, the State DOL now performs, in house, the services previously performed by EMS.

This matter is currently being investigated by the Federal Office of the Inspector General.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

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

- A comprehensive disaster recovery plan should be developed. This recommendation has been resolved.

- The Department should follow established procedures to ensure that IBM Systems passwords are revoked promptly upon employees' separation from State service. This recommendation has been implemented.

- The Department should strengthen control procedures to ensure compliance with Section 31-254 of the General Statutes. This section requires the Department to administer a State directory of new hires which is to be matched with child support and public assistance records provided by the Department of Social Services. This recommendation has been implemented.

- The Department should follow procedures for reimbursement of the travel advances paid from the Petty Cash Fund as required by the State Comptroller. This recommendation has been implemented.

- The Department should maintain an accurate receivable record for the amounts due from a claimant and amounts received against the claimant's account. This recommendation has been resolved.

- The Department should comply with the various statutory requirements which mandate the adoption of regulations and/or the submission of various reports. If the Department feels that the governing statute is outdated or no longer needed it should seek the introduction of legislation to repeal that particular statute. This recommendation is being repeated as Recommendation 1 of this report.

- The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. As insufficient action has been taken on this recommendation, it is being repeated in essence as Recommendation 2 of this report.

- The Department should establish an inventory recording system that accounts for all items of equipment inventory. As insufficient action has been taken on this recommendation, it is being repeated in essence as Recommendation 2 of this report.

Performance Audit – Accounts Receivable

- The Department should consider charging interest on the outstanding balances of overpayments as an inducement for the claimants to pay off the outstanding amounts and as a deterrent to claimants who would collect unemployment compensation benefits they are not entitled to collect. With the passage of Public Act 04-60, this recommendation has been implemented.

- The Department should enforce the mandatory overpayment repayment schedules it establishes to ensure that claimants who were overpaid continue to make monthly payments in accordance with the terms of their schedules. This recommendation has been implemented.

- The Department should promptly send a notice of noncompliance with the mandatory overpayment repayment schedule to claimants who were overpaid and have not made any payment or have stopped making payments on their overpayment. This would enable the Department to promptly start wage garnishment proceedings for those claimants in order to recoup the overpayment. This recommendation has been implemented.

- The Department should establish and implement proper procedures to ensure that claimants' current employers are verified, and that the State Marshals promptly serve the approved court documents for wage garnishment to the correct employers to ensure that the claimants' wages are garnished. Our review disclosed that as insufficient action has been taken on this recommendation; therefore it is, in essence, being repeated as Recommendation 3 of this report.

- The Department should establish a uniform administrative procedure for the levying officers to follow in remitting the amount collected from wage garnishments. The Department should ensure that the State Marshals are remitting collections from wage executions in accordance with the provisions of Section 6-35 of the General Statutes. This recommendation has been resolved with the passage of Public Act 03-224.

- The Department should amend the computer program to capture all claimants with fraudulent overpayment balances that were identified and entered on the accounts receivable system. Those claimants and their balance of overpayments should be included in the accounts receivable list sent to the Department of Administrative Services' Financial Services Center so that they can forward this information to the Department of Revenue Services for possible State income tax refund intercept. This recommendation has been implemented.

- The Department should attempt to identify and collect all overpayments made to claimants who are employed. These overpayments should not be written-off because they are eight years old or older. This recommendation has been resolved.

- The Department should seek legislation to amend Section 31-273, subsection (a), of the General Statutes and Section 31-273-3 of the Regulations of Connecticut State Agencies in order to apply the State income tax refund intercept provisions of Section 12-742, to non-fraudulent receivables. The Department does not feel that legislation is needed nor does it plan to advocate for legislative amendment. This recommendation has been resolved.

- The Department should impose the number of administrative penalty weeks for fraud, attempted fraud, and offenses in accordance with Section 31-273-6 of the Regulations of Connecticut State Agencies. This recommendation has been resolved.

- The Department should continue to accrue interest on the unpaid contributions in accordance with the provisions of Section 31-265 of the General Statutes. This recommendation has been implemented.

- The Department should track employers with outstanding balances of contributions in accordance with approved Chapter 11 Bankruptcy Plans of Reorganization. This will ensure that the employers are making scheduled payments in accordance with the terms of the reorganization plan. This recommendation has been implemented and/or otherwise resolved.

Current Audit Recommendations:

1. **The Department should comply with the various statutory requirements which mandate the adoption of regulations and/or the submission of various reports. If the Department feels that the governing statute is outdated or no longer needed it should seek the introduction of legislation to repeal that particular statute.**

   Comment:

   We found that the Department was not in compliance with various statutory requirements that call for the adoption of regulations or the submission of reports.

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

   Comment:

   Our review found errors in each annual CO-59 Fixed Assets/Property Inventory Report during our audited period. We also found that a laptop computer that was stolen was not reported as required no removed from the Agency's detailed inventory listing.

3. **The Department should ensure that the claimants' current employers are verified, and that the State Marshals promptly serve the approved court documents for wage garnishment. In addition, the Department should exercise due diligence to ensure that all files are properly accounted for.**

   Comment:

   Our review disclosed that one claimant had changed employers since the wage execution was served and that the Department did not reissue the order. We also noted that because one wage execution file could not be located, we could not determine if the wage execution order was ever served.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Labor (DOL) for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the DOL for the fiscal years ended June 30, 2003 and 2004, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted certain matters involving the internal controls over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: deficiencies in equipment inventory and reporting and the enforcement of wage garnishments.

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

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

CONCLUSION

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

Edward C. Wilmot
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts