

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF LABOR
FISCAL YEARS ENDED JUNE 30, 2015 AND 2016*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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April 14, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Department of Labor (DOL). The objectives of this review were to evaluate the department's internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2015 and 2016.

The key findings and recommendations are presented below:

Page 18	Our review disclosed errors in the maintenance and reporting of DOL property inventory, including items' physical locations not agreeing with those listed in Core-CT, incomplete software inventory records, a lack of disposal of surplus and obsolete assets, one item that was not visibly tagged, and one item with an identification tag that was associated with a different asset in Core-CT. The Department of Labor should ensure that internal controls over the custody and reporting of its assets are appropriately designed and implemented. DOL should annually take a complete and accurate physical inventory and include any updates in the Core-CT asset Management module. (Recommendation 4)
Page 24	Our audit confirmed that a field investigator falsely reported time. Supervisors of the Wage and Workplace Standards Unit do not review state vehicle start and end locations reported on the monthly vehicle usage reports for compliance with DAS General Letter 115. The Department of Labor should develop and implement policies and procedures to ensure it holds staff accountable for their reported time. (Recommendation 7)
Page 31	Our review of 26 Step Up participants with total grant payments of \$161,148 revealed that grant payments, totaling \$10,292, for 2 participants were not included in the employer's quarterly wage filing reports. The Department of Labor should work closely with the Workforce Development Boards to develop effective monitoring procedures to ensure that Subsidized Training and Employment Program grants are properly used. DOL should strengthen its internal controls to ensure compliance with Step Up legislation, contracts, and agreements. Furthermore, DOL should evaluate the program to ensure it has achieved its intended purpose. (Recommendation 11)
Page 35	Subsidized wage grants totaling \$982,117 were paid for 71 participants whose earnings were not reported in the employers' quarterly wage filing reports. The Department of Labor should reevaluate the Subsidized Training and Employment Program and establish the necessary controls to ensure that grants are properly used. The department should also fulfill statutory monitoring requirements to better achieve the Step Up objectives. (Recommendation 12)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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April 14, 2020

AUDITORS' REPORT

We have audited certain operations of the Department of Labor in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2015 and 2016. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the

department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with policies and procedures or legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Labor.

COMMENTS

FOREWORD

Statutory authorization for the Department of Labor (DOL) 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 services, and maintenance of labor statistics. During the audited period, field operations of the department were carried out from 13 job centers and 2 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 Innovation and Opportunity Act (WIOA) – 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 Services – Provides job placement and other employment services to unemployed individuals and provides employers with a source of qualified applicants.

- **Jobs First Employment Services** – Provides employment services to recipients determined to be eligible for assistance under the Temporary Assistance for Needy Families (TANF) 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 the OWC 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. In addition, the department serves 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. Sharon Palmer was appointed commissioner on October 5, 2012 and served in that capacity until December 31, 2015. Dennis Murphy served as acting commissioner from January 1, 2016 until February 5, 2016. Scott D. Jackson was appointed commissioner on February 5, 2016 and served in that capacity until June 22, 2018. Kurt Westby was appointed commissioner on June 22, 2018 and is currently serving in that capacity.

SIGNIFICANT LEGISLATION

- **Public Act 15-5**, of the June 2015 Special Session, Section 413, effective upon passage, required the Department of Labor, in consultation with the State Treasurer, State Comptroller, and the Department of Administrative Services, to establish procedures to implement a paid family and medical leave (FML) program. The act also required the Department of Labor in consultation with the State Treasurer, to contract with a consultant to perform an actuarial analysis and report on the employee contribution level needed to ensure sustainable funding and administration for the program. Additionally, the act required the Department of Labor to submit a report on the implementation plan and actuarial analysis to the General Assembly by February 1, 2016.
- **Public Act 15-6**, effective October 1, 2015, prohibited employers from requesting or requiring an employee or job applicant to provide an employer with a user name, password, or other way to access the employee's or applicant's personal online account; authenticate or access such an account in front of the employer; or invite, or accept an invitation from, the employer to join a group affiliated with such an account.
- **Public Act 15-47**, effective October 1, 2015, authorized the Department of Labor, when awarding grants for occupational health clinics, to give priority to certain organizations providing services for working-age populations, including migrant and contingent workers. The department must give priority to clinics where work structures or workers' health disparities interfere with providing occupational health care services.

- **Public Act 15-127**, effective October 1, 2015, made several changes in the Subsidized Training and Employment Program (Step Up), including: (1) prohibiting eligible businesses and manufacturers from receiving grants for new employees hired to replace workers they currently employ or terminated, unless they demonstrate just cause; (2) requiring the Department of Labor to monitor the outside consultants or Workforce Development Boards it retains to run the programs, allowing it to pay for the monitoring with funds set aside for covering the programs' marketing and operations costs, and reducing the amount of funds set aside to cover such costs; (3) allowing the Department of Labor to use certain funds set aside for the Unemployed Armed Forces Member Step Up's administrative costs to cover transportation costs for eligible veterans; (4) renaming the Step Up “new apprentice” program the “preapprentice program” and expanding the eligible employees for which businesses may receive grants; and (5) specifying that the state and its political subdivisions do not qualify for Step Up grants.
- **Public Act 16-83**, effective January 1, 2017, prohibited employers from asking prospective employees about their prior arrests, criminal charges, or convictions on an initial employment application unless the employer must do so under a state or federal law or the prospective employee is applying for a position for which the employer must obtain a security or fidelity bond or an equivalent. The act also allowed a prospective employee to file a complaint with the Department of Labor alleging a violation of its employment application prohibition. Additionally, the act allowed a prospective or current employee to file a complaint with the department alleging an employer’s violation of certain other prohibitions on employment-related criminal record checks. In both cases, violators are subject to a civil penalty of \$300 per violation imposed by the department.
- **Public Act 16-114**, effective upon passage, required the Department of Education to establish a committee, including a representative from the Department of Labor, to coordinate efforts to educate middle and high school students about careers in manufacturing. Additionally, the act required the Department of Labor to update its apprenticeship website by March 1, 2017, with certain information such as a list of occupations in which apprentices are employed and comprehensive information regarding apprenticeship coursework and cost.
- **Public Act 16-125**, effective October 1, 2016, allowed employers to pay employees through payroll cards under certain conditions. An employee must voluntarily and expressly authorize payment with a card. The authorization must be free of any intimidation, coercion, or fear of discharge or reprisal by the employer. No employer can require payment through a card as a condition of employment or for receiving any benefits or other type of remuneration.
- **Public Act 16-169**, effective October 1, 2016, made numerous changes to the unemployment compensation statutes that generally give the Department of Labor greater flexibility in processing unemployment claims and appeals. Among other things, it allowed the Department of Labor to deliver certain unemployment notices and decisions by means other than mail, and it started the appeal period when the decision is provided to the party, rather than when it is mailed. The act also allowed the Department of Labor to prescribe

ways, other than a hearing, for employers and claimants to present evidence and testimony in certain unemployment proceedings.

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 Retirement Security Authority:

The authority designed and implemented a program to provide private-sector employees with retirement savings accounts if their employer does not offer one.

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

Connecticut Employment and Training Commission (CETC):

The Connecticut State Workforce Development Board (CETC) is authorized under the federal Workforce Innovation and Opportunity Act and state statute. CETC provides workforce-related policy and planning guidance to the Governor and General Assembly and promotes coordination of the state's workforce-related investments, strategies, and programs. Appointed by the Governor, its members represent Connecticut businesses, employers, key state agencies, regional/ local entities, organized labor, community-based organizations, and other stakeholders. The Office of Workforce Competitiveness (OWC) provides staff, leadership, support, and technical assistance to CETC.

Joint Enforcement Commission on Employee Misclassification:

The commission reviews employer misclassification of employees, a technique used to avoid obligations under state and federal labor, employment, workers' compensation, and tax laws. In addition, the commission coordinates the civil prosecution of violations of state and federal laws relating to employee misclassification, and reports any suspected violations of state criminal statutes to the Chief State's Attorney.

Employee Misclassification Advisory Board:

The board advises the Joint Enforcement Commission on Employee Misclassification on job misclassifications in the construction industry.

RÉSUMÉ OF OPERATIONS

The operations of the department, which were accounted for in the General Fund, several special revenue funds, 2 fiduciary funds, and a wage restitution account, are discussed below.

General Fund

General Fund Receipts

General Fund receipts during the audited period and the preceding fiscal year follow:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Federal Contributions	\$28,884,021	\$29,917,820	\$32,578,095
Recoveries of Expenditures	167,052	169,494	135,186
Fees and Fines	436,239	113,627	578,893
Refunds of Expenditures	358,918	387,446	405,599
Miscellaneous	1,114	4,941	2,205
Total Receipts	<u>\$29,847,344</u>	<u>\$30,593,328</u>	<u>\$33,699,978</u>

Total receipts increased by \$745,984 and \$3,106,650 in fiscal years 2014-2015 and 2015-2016, respectively, primarily attributed to the federal contributions for the Workforce Innovation and Opportunity Act Program.

General Fund Expenditures

General Fund expenditures during the audited period and the preceding fiscal year follow:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Personal Services and Employee Benefits	\$13,688,353	\$15,693,074	\$16,551,285
Employee Expenses, Allowances, Fees	208,457	233,639	1,616,812
Contractual Services	1,837,234	1,756,585	2,414,698
Commodities	74,106	112,387	67,879
Other	2,497	2,062	8,641
Grants	47,977,366	51,387,270	52,342,999
Capital Outlay	267,556	26,133	2,892
OSC Adjusting Entries – GAAP	<u>0</u>	<u>(78,223)</u>	<u>0</u>
Total Expenditures	<u>\$64,055,569</u>	<u>\$69,132,927</u>	<u>\$73,005,206</u>

Total expenditures increased by \$5,077,358 and \$3,872,279 in fiscal years 2014-2015 and 2015-2016, respectively. Grant expenditures increased by \$3,409,904 and \$955,729 in fiscal years 2014-2015 and 2015-2016, respectively, mainly attributed to grants to non-state agencies.

Special Revenue Funds

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

Employment Security Administration Fund

The Employment Security Administration Fund operates under Section 31-259 (a) through (c) of the General Statutes and consists of monies appropriated by the state, received from the federal government or any agency thereof, and from any other source, for the purpose of defraying the administrative costs of the Employment Security Division. According to Section 31-237(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 was established under Section 31-264a(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 (d) of the General Statutes to receive all penalty and interest on past due employer contributions. Resources 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, 2015 and 2016, DOL transferred \$3,650,000 and \$4,150,000, respectively, to the Employment Security Administration Fund to offset projected deficits of federal administrative funds.

Grants and Restricted Accounts Fund

The Grants and Restricted Accounts Fund accounts for certain federal and other revenues that are restricted from general use.

Individual Development Account Reserved Fund

The Individual Development Account Reserved Fund is authorized by Section 31-51aaa of the General Statutes to provide grants to community-based organizations. These organizations operate certified state programs that provide matching funds for the individual development accounts in their programs, to assist the organizations in providing training, counseling, and case management for program participants and program administration purposes.

Schedules of special revenue fund receipts and expenditures during the audited period and the preceding fiscal year are presented as follows:

	<u>Schedule of Receipts</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Employment Security Administration Fund	\$ 105,033,750	\$ 87,952,843	\$ 86,307,215
Grants and Restricted Accounts Fund	20,695,952	13,712,745	9,551,677
Employment Security Special Administration Fund	2,983,391	3,639,920	4,146,578
Special Assessment Unemployment Compensation Advance Fund	9,032	6,588	310,130
Banking Fund	152	926	1,774
Individual Development Account Reserve Fund	239,113	200,000	190,000
Workers' Compensation Fund	<u>16,879</u>	<u>242</u>	<u>0</u>
Total Receipts	<u>\$128,978,269</u>	<u>\$105,513,264</u>	<u>\$100,507,374</u>

Total receipts decreased by \$23,465,005 and \$5,005,890 in fiscal years 2014-2015 and 2015-2016, respectively, primarily because of decreases in Grants and Restricted Accounts Fund receipts.

The department received \$9,140,028 and \$3,672,523 in special assessment receipts in the Grants and Restricted Accounts Fund during fiscal years 2014-2015 and 2015-2016, respectively, through an August 2011 special assessment levied on contributory employers. DOL levied the special assessment 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. Interest repayments were made totaling \$13,088,011 and \$7,386,601 during fiscal years 2014-2015 and 2015-2016, respectively. A decrease in the Grants and Restricted Accounts Fund was due to the reduction in the loan balance and interest percentage charged.

Receipts for the Employment Security Administration Fund are used for the purpose of defraying the administrative costs of the department's Employment Security Division and can vary, depending on the number and amount of federal grants received during the year.

	<u>Schedule of Expenditures</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Employment Security Administration Fund	\$104,560,972	\$101,116,814	\$ 88,783,115
Grants and Restricted Accounts Fund	2,140,277	2,513,256	4,780,922
Employment Security Special Administration Fund	3,050,000	3,650,000	4,150,000
Small Town Economic Assistance Program – Grants to Local Government	7,913,595	7,751,849	8,914,396
Banking Fund	1,700,000	1,700,000	1,615,000
Individual Development Account Reserve Fund	790	321,268	102,764
Workers' Compensation Fund	670,189	670,530	661,693
Capital Equipment Purchase Fund	24,313	70,267	460,928
Housing Trust Fund	0	(175,991)	0
Economic Assistance Revolving Fund	468,885	(5,831)	0
Total Expenditures	<u>\$120,529,021</u>	<u>\$117,612,162</u>	<u>\$109,468,818</u>

Expenditures for the Small Town Economic Assistance Program – Grants to Local Government Fund increased in the 2015-2016 fiscal year as a result of grants, issued by the state for specific projects. In addition, decreases noted in the Employment Security Administration Fund in the 2014-2015 and 2015-2016 fiscal years were due to layoffs.

Special revenue expenditures by category during the audited period and the preceding fiscal year follow:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Personal Services and Employee Benefits	\$ 90,149,967	\$ 88,830,953	\$ 81,246,146
Employee Expenses, Allowances, Fees	664,174	539,527	355,941
Contractual Services	14,572,485	13,449,097	10,311,147
Commodities	465,802	429,562	311,451
Grants	14,128,522	13,710,106	16,641,797
Capital Outlay	503,990	605,933	533,393
Other	44,081	46,984	68,943
Total Expenditures	<u>\$120,529,021</u>	<u>\$117,612,162</u>	<u>\$109,468,818</u>

Total expenditures decreased by \$2,916,859 and \$8,143,344 in fiscal years 2014-2015 and 2015-2016, respectively. Personal Services and Employee Benefits decreased by \$1,319,014 and \$7,584,807 in fiscal years 2014-2015 and 2015-2016, respectively, primarily due to employee retirements. Contractual services decreased by \$1,123,388 and \$3,137,950 in fiscal years 2014-2015 and 2015-2016, respectively. Included in this were decreases in consultant services from \$3,068,605 in fiscal year 2013-2014 to \$2,672,005 in fiscal year 2014-2015 and \$1,101,238 in fiscal year 2015-2016. Grants decreased by \$418,416 in fiscal year 2014-2015 and increased by

\$2,931,691 in fiscal year 2015-2016 due primarily to fluctuations in the Subsidized Training and Employment Program.

Fiduciary Funds

Schedules of fiduciary fund receipts and disbursements during the audited period and the preceding year follow:

	<u>Schedule of Receipts</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unemployment Compensation Fund	\$1,183,661,648	\$907,934,262	\$847,469,898
Funds Awaiting Distribution Fund	<u>12,887,016</u>	<u>12,798,678</u>	<u>9,985,231</u>
Total Receipts	<u>\$1,196,548,664</u>	<u>\$920,732,940</u>	<u>\$857,455,129</u>

	<u>Schedule of Disbursements</u>		
	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unemployment Compensation Fund	\$1,286,530,391	\$1,150,540,840	\$812,162,324
Funds Awaiting Distribution Fund	<u>12,072,713</u>	<u>12,977,592</u>	<u>10,111,200</u>
Total Expenditures	<u>\$1,298,603,104</u>	<u>\$1,163,518,432</u>	<u>\$822,273,524</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 the collection of benefits paid for state and municipal government workers, and 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 U.S. Treasury for the benefit of the various state accounts which constitute the fund.

Unemployment Compensation Fund receipts during the audited period and the preceding fiscal year follow:

	Fiscal Year Ended June 30,		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Employer Tax Contributions	\$ 772,009,814	\$759,450,504	\$766,387,519
Reimbursement from the State, Municipalities and Nonprofits	65,161,442	54,526,989	46,321,810
Reimbursement from Other States	15,668,210	13,329,634	14,160,150
Reimbursements from the Federal Employee Compensation Account	12,958,000	8,826,500	6,127,000
Federal Contributions	224,919,703	9,430,046	3,518,433
Federal Loans	92,890,857	60,605,705	5,563,289
Short Time Compensation Grant Funds Distribution to Unemployment Trust Fund	0	0	1,260,659
Federal Trust Fund Interest Income	0	224,836	2,332,948
Income Derived from Claimant Fraud Penalty	<u>53,622</u>	<u>1,540,048</u>	<u>1,798,090</u>
Total Receipts	<u>\$1,183,661,648</u>	<u>\$907,934,262</u>	<u>\$847,469,898</u>

Total receipts decreased by \$275,727,386 and \$60,464,364 in fiscal years 2014-2015 and 2015-2016, respectively. Federal contributions decreased by \$215,489,657 and \$5,911,613 in fiscal years 2014-2015 and 2015-2016, respectively. In fiscal year 2013-2014, 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. Due to the end of the extended benefits in May 2012, and a reduction in the unemployment rate from 5.5% as of June 30, 2015 to 5.2% as of June 30, 2016, contributions have been declining. 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 \$10,634,453 in fiscal year 2014-2015 and increased \$8,205,179 in fiscal year 2015-2016. These entities do not pay employer tax contributions, and instead, are billed when a former employee begins collecting unemployment compensation.

Total employer tax contributions decreased by \$12,559,310 and increased by \$6,937,015 for fiscal years 2014-2015 and 2015-2016, respectively. The unemployment rate has steadily decreased, indicating a drop in unemployment claims. In addition, and as noted above, extended benefits ended in May 2012.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
2016	1.4%	4.3 %	1.9% to 6.8%
2015	1.4%	4.9%	1.9% to 6.8%
2014	1.4%	4.8%	1.9% to 6.8%

The Unemployment Trust Fund balance at June 30, 2014, 2015, and 2016, was \$209,496,325, \$135,027,249 and \$382,161,274, respectively.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Benefits Paid with Employer Contributions, Federal Loans and Federal Reed Funds	\$ 735,339,480	\$ 658,273,574	\$ 617,578,902
Benefits Paid for the State, Municipalities and Nonprofits	65,781,429	55,286,358	47,035,029
Benefits Paid for Other States	14,984,642	13,624,738	14,036,300
Benefits Paid from Federal Employee Contribution Account	12,126,945	8,802,958	6,201,083
Benefits Paid with Federal Contributions	223,452,788	15,059,735	5,414,118
Reed Act Fund Transfer	2,033,187	8,907,052	12,848,553
Principal Payments on Trust Fund Advances	232,811,920	390,512,135	108,380,267
STC Grant Funding Transfer	0	0	565,719
Other	0	74,290	102,353
Total Disbursements	<u>\$1,286,530,391</u>	<u>\$1,150,540,840</u>	<u>\$812,162,324</u>

Total disbursements decreased by \$135,989,551 and \$338,378,516 during the 2014-2015 and 2015-2016 fiscal years, respectively, due to fewer claimants filing for Unemployment Insurance benefits.

As previously mentioned, in October 2009, the department began receiving loans from the federal government because the Unemployment Compensation Fund became insolvent. Principal payments on the Unemployment Trust Fund loan were made, totaling \$390,512,135 and \$108,380,267 for the 2014-2015 and 2015-2016 fiscal years, respectively. In addition, and in accordance with federal regulations, Federal Unemployment Tax Act (FUTA), tax credit reductions totaling \$179,811,800 and \$104,473,782 were used to pay down the principal balance during the 2014-2015 and 2015-2016 fiscal years, respectively. As of June 30, 2016, the principal balance on the loans was paid off.

Funds Awaiting Distribution Fund and Wage Restitution Account

Fund collections totaled \$22,783,909, and disbursements and transfers totaled \$23,088,793, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled \$3,610,926, and disbursements and transfers totaled \$3,915,552.

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 2 years without being claimed shall escheat to the state subject to the provisions of Title 3, Chapter 32, Part III of the General Statutes.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of Department of Labor disclosed the following 15 findings and recommendations, of which 12 have been repeated from the previous audit:

Payroll and Personnel: Lack of Performance Appraisals

Criteria: Performance appraisals assist management in assessing employee job performance using established standards. Standard business practice dictates that supervisors evaluate employee job performance in writing at least once each year. Generally, the objectives of a performance appraisal 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; and
- Facilitate communication between employees and management.

Condition: DOL did not complete performance appraisals for 6 out of 15 employees reviewed.

Effect: The absence of written performance appraisals significantly diminishes management's ability to develop employee performance plans, track career development, and form a basis for personnel decisions.

Cause: Administrative controls were inadequate to ensure the completion of performance appraisals.

Prior Audit Finding: This finding has been previously reported in the last 2 audit reports covering the 2010-2011 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should ensure that it completes annual performance appraisals for all of its employees. (See Recommendation 1.)

Agency's Response: "According to our records for FY2015, there were only two performance appraisals that were not issued according to records. For FY2016, the agency issued performance appraisals for all bargaining unit employees. However, PARS ratings were not issued for all managerial employees. The agency has taken corrective action for to ensure the issuance of PARS ratings for all managerial employees."

Auditors' Concluding

Comments: The department stated that it issued no PARS ratings and failed to issue only 2 performance appraisals in fiscal year 2015. However, we reviewed personnel files in February and March 2018, and found that 6 of 15 employees did not have up-to-date annual performance evaluations in their personnel file.

Failure to Execute Contracts in a Timely Manner

Background: The Department of Labor enters into contracts with Workforce Development Boards (WDB) for the award of various grants. Each contract includes a purpose, implementation plan, budget requirements, terms, conditions, assurances, and certifications. Contracts are typically signed by the WDB 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 performance of such services.

Condition: As noted in the prior audit, we continued to note internal control weaknesses in our review of contracts for the audited period. We noted that 13 out of 20 contracts reviewed were not fully executed until after the start of the contract period.

Effect: Expenditures could be made for unallowable activities.

Cause: It appears that the delay in the contract execution was due to a lag between when the funding was put in place and the approval from the Office of the Attorney General.

The state DOL depends upon the U.S. DOL to fund these contracts, and there is always a delay. According to state DOL personnel, it is impossible for the department to fully execute contracts prior to July 1st. Since there is a 2-year period of performance of the Workforce Innovation and Opportunity Act (WIOA) federal grant awards, the department does not typically draw down the funds on new grants right away. Therefore, in most instances, when the department delays the service period start date on contracts, there is no impact on WDB services.

Prior Audit Finding: This finding has been previously reported in the last 2 audit reports covering the 2011-2012 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should strengthen internal controls to ensure that contracts are fully executed prior to the contract period start date, and should

delay the service period start date on these contracts, if necessary. (See Recommendation 2.)

Agency Response: “The Department agrees that certain contracts were executed after the start of the contract period. Unfortunately, we are unable to change this as there are factors outside of our control, such as availability of funding, unexpected changes in the documents or processes required and the approval process in-house and at outside entity. The contract states that the vendor will not be paid unless and until the contract is fully executed. Further, delaying the service period is not a viable option since performance outcomes are driven by program year periods beginning on July 1st and ending on the following June 30th.”

Inadequate Controls Over Cash Receipts

Criteria: The State Accounting Manual states that each agency must establish internal controls over cash receipts to minimize the risk of loss. An individual responsible for receiving cash should record the date of receipt, name of remitter, amount of the receipt, type of receipt, and purpose of the remittance in a journal. All receipts must be logged into a receipts journal or equivalent tracking record.

Cash should be properly safeguarded and controlled to avoid losses and deposited as soon as possible to decrease the chance of loss and to conform with the requirements of Section 4-32 of the Connecticut General Statutes.

An accountability report or cash proof is necessary to compare the monies actually recorded to the monies that should have been accounted for and deposited into a state bank account.

Condition: Our review of 25 cash receipts revealed 2 instances in which DOL did not accurately track cash receipts in its cash receipts log:

- On February 3, 2015, the cash receipts log noted 5 transactions totaling \$2,911, but the Dunbar deposit log and deposit slip noted the receipt of \$3,707. The cash receipts log did not include \$796 in transactions.
- On April 18, 2016, the cash receipts log noted 2 transactions totaling \$450, but the Dunbar deposit log and deposit slip noted the receipt of \$988. The cash receipts log did not include \$538 in transactions.

Effect: The risk of loss or theft significantly increases when the receipt of cash is not accurately documented or tracked.

- Cause:* Daily cash receipts were not accurately entered into the cash receipt log.
- Prior Audit Finding:* This finding has been previously reported in prior audit reports covering the 2007-2008 through 2013-2014 fiscal years.
- Recommendation:* The Department of Labor should strengthen internal control procedures to ensure that all cash receipts are logged into a receipts journal or equivalent tracking record. (See Recommendation 3.)
- Agency Response:* “The agency agrees with this finding and took immediate steps to review and improve its process for cash receipts as soon as these issues were communicated to agency staff in late November 2018. By December 2018, the cash receipt procedures were changed to include having two people receive cash that is walked into the agency and to add additional safeguards and verification steps, including multiple verifications by both unit staff and Fund Accounting staff that bank deposit slips and cash receipts are in agreement. In addition, staff has been advised to report any discrepancies to BPC supervisors immediately.”

Inadequate Controls over Equipment Inventory

- Criteria:* Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller. The State Property Control Manual specifies requirements and standards that state agency property control systems must comply with, including maintaining a software inventory to track and control all agency software media and tagging, recording, and maintaining capital assets and controllable property in the Core-CT Asset Management module.
- Condition:* Our review of the department’s inventory records revealed the following:
- An inspection of 85 items located at the central office, warehouse, or the Norwich, Danielson, or New London offices, revealed that 32 items, with values totaling \$70,457, did not agree with their locations listed in Core-CT.
 - An inspection of 60 items located at the central office, Norwich, Danielson, or New London offices, revealed that one item with a value of \$2,562, contained an identification tag associated with a different asset described in Core-CT.
 - Video conferencing screens were not visibly tagged at the Danielson and New London offices.

- No assets were disposed of during the audited period. However, we observed surplus and obsolete assets stockpiled in the warehouse.
- The department did not maintain complete and accurate software inventory records during the fiscal years 2014-2015 and 2015-2016.
- A review of 15 capital and controllable asset acquisitions during the fiscal years 2014-2015 and 2015-2016, revealed 3 items, with costs totaling \$60,730, for which their physical locations and Core-CT locations differed.

Effect: The department did not comply with the requirements of Section 4-36 of the General Statutes or the State Comptroller’s Property Control Manual. Deficiencies in control over equipment reduce assurance that assets are properly safeguarded and accurately reported.

Cause: Internal controls over fixed assets and property control were not adequately designed and implemented due to time and personnel constraints. The facilities director also stated that obsolete and surplus items remained in the warehouse due to disposal costs.

Prior Audit Finding: This finding has been reported in the last 8 audit reports covering the 1998-1999 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should ensure that internal controls over the custody and reporting of its assets are appropriately designed and implemented. DOL should take a complete and accurate annual physical inventory and include any updates in the Core-CT asset Management module. The department should properly dispose of obsolete and surplus items and remove them from the warehouse and Core-CT inventory records. (See Recommendation 4.)

Agency Response: “We agree with the findings. The lack of accuracy is the result of the process being compromised due to a large number of office closing, staff reductions, human resource issues and inventory processing modifications. The Commissioner and appropriate staff have met with the State Auditors on this matter and reviewed conditions and solutions. As a result a corrective plan has been developed which will result in an accurate inventory being available by the close of FY 18/19. This corrective plan includes:

- Upgrade of inventory scanning equipment
- (Re)training of appropriate staff in inventory roles and responsibilities

- Updated agency inventory manual and standard operating procedure manuals
- Cleanout and disposal of surplus equipment throughout DOL's offices and warehousing facilities
- Comprehensive statewide physical inventory scan
- Establish controls to insuring compliance with mandated inventory practices and reporting guidelines

DOL understands the importance of an accurate inventory and is committed to doing what is required to correct this situation.”

CO-59 Fixed Assets/Property Inventory Report Deficiencies

Criteria:

Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the State 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, recording, and maintaining capital assets and controllable property in the Core-CT Asset Management module. The agency is required to transmit a detailed inventory of all property, real or personal, owned by the state and in custody of such agency to the Comptroller annually.

State Comptroller Memorandum 2015-05 increased the state's capitalization threshold from \$1,000 to \$5,000, effective July 1, 2015. Acquisitions prior to July 1, 2015 should be reported based on the \$1,000 threshold. Property having a value less than the respective capitalization threshold is recorded as controllable property.

The Property Control Manual also requires that a complete physical inventory of all property be taken each year to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year. Additionally, the manual requires that form CO-853 (Report of Loss or Damage to State Owned Real and Personal Property) be used to report losses.

The State Comptroller Internal Control Guide indicates that assigning multiple roles to a single individual creates a conflict. Physical inventories of all property taken annually should be performed by persons not responsible for maintaining property records.

Condition: Our review of the CO-59 Fixed Assets/Property Inventory reports for the fiscal years ended June 30, 2015 and 2016, disclosed the following:

- DOL could not support the amounts it reported for equipment and licensed software.
- DOL did not file CO-853 property adjustment reports during the audited period for missing inventory items.
- DOL did not enter any disposed or surplus items into the Core-CT Asset Management Module during the audited period. The department stores obsolete assets and items awaiting surplus in its warehouse, and they remain in service per Core-CT inventory records.
- DOL did not perform complete physical inventories during the audited period.
- An adequate segregation of duties does not exist. The property coordinator is responsible for maintaining property records, performing annual physical inventories, and the disposal and surplus of items in the State and Federal Distribution Center.

Effect: The department did not comply with the requirements of Section 4-36 of the General Statutes, the State Property Control Manual, or the State Comptroller's Internal Control Guide. Deficiencies in control over equipment inventory reduce assurance that assets are properly safeguarded and accurately reported.

Cause: The department did not perform a physical inventory in fiscal year 2013-2014 and did not prepare a CO-59 form due to incomplete data. DOL did not correctly enter asset additions into Core-CT during the audited period and did not report any deletions. Core-CT reports cannot be considered reliable due to incomplete data. DOL did not complete its fiscal year 2014-2015 physical inventory and did not complete or upload a physical inventory into Core-CT for the fiscal year 2015-2016.

Prior Audit Finding: This finding has been reported in the last 8 audit reports covering the 1998-1999 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should improve internal controls to ensure that property inventory is maintained in the form prescribed by the Office of the State Comptroller. The department should review and adequately support its CO-59 reports for accuracy prior to submission. (See Recommendation 5.)

Agency Response: “We agree with the findings. This condition is a result of the process being compromised due to a large number of office closing, staff reductions, human resource issues and inventory processing modifications. The Commissioner and appropriate staff have met with the State Auditors on this matter and reviewed conditions and solutions. As a result, a corrective plan has been developed which will result in an accurate inventory equipment figure being available by the close of FY 18/19. This corrective plan includes:

- upgrade of inventory scanning equipment
- (re)training of appropriate staff in inventory roles and responsibilities
- updated agency inventory manual and standard operating procedure manuals
- cleanout and disposal of surplus equipment throughout DOL’s offices and warehousing facilities
- comprehensive statewide physical inventory scan
- establish controls to insuring compliance with mandated inventory practices and reporting guidelines

DOL understands the importance of accurate inventory reporting and is committed to doing what is required to correct this situation. The October 2019 CO-59 will reflect these changes and ensure that CO-59 reporting going forward is accurate.”

Utilization of State Fleet Vehicles

Criteria: The Department of Administrative Services’ (DAS) General Letter 115 states:

- Agencies are responsible for ensuring that the state-owned vehicles allocated to them are used in the most cost-effective and efficient manner possible;
- Motor vehicles determined by the Director of DAS Fleet Operations and/or the agency to be in excess of the agency’s requirements shall be returned to DAS Fleet Operations;
- Approval to assign a vehicle to an individual on a long-term basis shall not be granted if the vehicle will be driven less than an average

of 700 miles per month, except with explicit approval of the Director of DAS Fleet Operations.

Condition: Our review of monthly vehicle usage reports identified 2 instances in which DOL did not apply its cost-effectiveness test before permanently assigning state vehicles to its employees. If the department applied the test, it would not have assigned a state vehicle to these employees.

Adequate internal controls are not in place to ensure the accuracy and validity of monthly motor vehicle usage reports.

Effect: There is reduced assurance that the utilization of state vehicles is administered in an efficient and effective manner.

Cause: Lack of proper administrative oversight contributed to this condition.

Prior Audit Finding: This finding has been previously reported in the prior audit report covering the 2012-2013 and 2013-2014 fiscal years.

Recommendation: The Department of Labor should formalize its policies for assigning and monitoring state vehicles. The department should also determine whether it could improve its state vehicle allocation through the use of a motor pool. (See Recommendation 6.)

Agency Response: “While DOL has always attempted to apply a cost-effectiveness test before making determinations about allocations of state fleet vehicles, we agree with the recommendation that there should be more formalized policies for assignment of vehicles and record retention. DOL has now put in place mechanisms to apply cost-effective analyst for state vehicle assignments and retention in accordance with DAS policy. DOL has also updated its internal controls to insure the accuracy, retention and consistency of motor vehicle reports and records.

DOL reviewed whether vehicle allocation could be improved through the use of a motor pool. DOL previously discontinued the use of a motor pool due to lack of funding to maintain a formalized pool. Based on our most recent analysis we have again determined that a formalized pool would not be cost effective. We have although, developed processes to allow all DOL staff access to vehicles which are designated as “division vehicles” when not in use by assigned division(s).”

Lack of Management Oversight and Employee Accountability

Criteria: The Department of Administrative Services (DAS) General Letter 115 requires state-owned vehicles to be parked within a 5-mile radius of the official duty station of the principal driver.

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

Sound business practice dictates that management must be aware of their staff's schedules and locations, and must hold them accountable for their time.

Condition: Management and supervisors within the Wage and Workplace Standard Unit do not hold field investigators accountable for their time.

- The director of the Wage and Workplace Standard Unit informed us that a field investigator falsely reported time for years, but the department did not take action to investigate or reprimand the employee. Our investigation confirmed that the field investigator falsely reported time on May 14 and 17 in 2018. Weekly Investigator Reports stated a start time of 8:00 a.m.; however, the assigned state vehicle was observed still parked at the Department of Transportation station as of 8:20 a.m. and 9:00 a.m., on these dates, respectively.
- Supervisors of the Wage and Workplace Standards Unit did not review state vehicle start and end locations reported on the monthly vehicle usage reports for compliance with DAS General Letter 115. State-owned vehicles are not always parked within a 5-mile radius of the primary driver's assigned duty station.
- Supervisors of the Wage and Workplace Standards Unit did not compare weekly activity reports to time reported in Core-CT for accuracy prior to approval. Our review of the Wage and Workplace Standards Unit's investigator, who the director alleged falsely reported time, noted on a Weekly Investigator Report 8 hours of personal leave time used on March 8, 2018 that was not charged in Core-CT. The same supervisor approved the weekly report and Core-CT timesheet.

Effect: Internal controls are not effectively designed or implemented to prevent inaccurate time reporting for field investigators. Regarding state vehicle usage, the department did not comply with DAS General Letter 115. Furthermore, state vehicles could be improperly assigned to individuals

who do not meet required monthly official state business mile thresholds and could be used primarily for commuting.

Cause: There is a lack of management oversight, along with ineffective internal control policies and procedures.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Labor should develop and implement policies and procedures to ensure it holds staff accountable for their reported time. (See Recommendation 7.)

Agency Response: “The Agency believes that all findings should be formally incorporated into the report of the audit period during which they occur. We do not believe that the inclusion of 2017-2018 findings within a 2015-2016 audit is a just nor productive practice.

The auditor explained that the first finding resulted from a statement made by a former division director. While we agree that the former director should have addressed the abuse if he/she had knowledge of it, neither the agency nor the auditor were able to substantiate the accusation that false reporting of time had been a past practice.

The second condition was brought to the Agency’s attention in May 2018. In July 2018, a directive was issued to division staff requiring that State vehicles be parked overnight at assigned duty stations. The Agency acknowledges that State vehicles were permitted to be parked overnight at State-owned and municipal-owned facilities in 2015-2016, even when the facility was not within five miles of an official duty station.

According to agency records for the third condition, the employee originally indicated that he/she worked a regular shift on March 8, 2018. Whether this was intentional or accidental is unknown, however it was the employee’s first week using Core-CT to enter his/her timesheets. On May 10, 2018, a change was submitted and eight (8) hours of PL was properly charged for that day.

Auditors’ Concluding

Comments: In order to provide timely and useful oversight and accountability for stakeholders, it is necessary for auditors to present certain information in an audit report regardless of when it occurred.

The former Wage and Workplace Standards Division director recommended that the auditors investigate the field investigator for fraudulent time reporting and indicated that it had been occurring for several years without repercussion. Therefore, the agency was aware of the issue and did not take action.

Although 8 hours were charged to the employee's attendance records, the hours were not charged until after the auditors presented their observations to the field investigator's supervisor and payroll officer. The supervisor did not compare Weekly Investigator Reports to timesheets prior to approving them.

Lack of General Control Over Reporting Requirements

Background:

In accordance with Section 11-4a of the General Statutes, each commission, task force, or committee appointed by the Governor or General Assembly is required to report its findings and recommendations. The report should be electronically submitted to the clerks of the Senate and the House of Representatives, the Office of Legislative Research, and the State Librarian.

The Department of Labor must submit approximately 25 reports annually under various sections of the General Statutes and public acts. These reports are necessary to facilitate executive and legislative oversight of DOL-administered programs.

Criteria:

Section 31-3n(d) of the General Statutes requires the department to annually submit to the Governor a plan containing each regional workforce development board's priorities and goals for regional employment and training programs by January 31st.

Section 31-3pp(f) of the General Statutes requires the department to annually submit a report of the Subsidized Training and Employment Program to the General Assembly by January 15th.

Section 31-3uu(d) of the General Statutes requires the department to annually submit a report of the Unemployed Armed Forces Member Subsidized Training and Employment Program to the General Assembly by January 15th.

Section 4-124w(b)(8) of the General Statutes requires the Office of Workforce Competitiveness with the department's assistance, to annually submit a report specifying a forecasted assessment of workforce shortages in occupations in this state for the succeeding 2 and 5 year periods to the Governor and General Assembly by October 1st.

Section 4-124dd(d) of the General Statutes requires the Connecticut Allied Health Workforce Policy Board to annually submit a report on its findings and recommendations, including recommendations for legislation to address allied health workforce shortages in Connecticut to the General Assembly by January 1st.

Section 31-273(b) requires the department to annually submit the aggregate number and value of all unemployment compensation overpayment claims deemed uncollectible and therefore cancelled during the previous calendar year to the General Assembly on January 1st.

Public Act 14-42, Section 4, requires the Connecticut Employment and Training Commission (CETC) to develop and submit a plan for the coordination of all employment and training programs in the state to the Governor by January 31, 2015 and annually thereafter.

Public Act 15-5 of the June 2015 Special Session, Section 485(d), requires the Connecticut Low Wage Employer Advisory Board to submit a report on its findings and recommendations to the General Assembly by no later than December 1, 2015 and annually thereafter.

Public Act 14-131, Section 14(c), requires the department to submit a report including specified data pertaining to the apprentice-training program to the General Assembly by January 1, 2015 and annually thereafter.

Public Act 14-131, Section 15, requires the department, after consultation with other state agencies, to submit a report including recommendations for amending statutes and regulations and revising policies and procedures to ensure that relevant military education, skills, and training are given appropriate recognition in the occupational certification and licensing process to the General Assembly no later than July 1, 2015.

Public Act 14-217, Section 197(c), requires the CETC, in collaboration with the regional workforce development boards, to submit a statewide plan to provide education, training, and job placement in emerging industries to the General Assembly no later than September 1, 2015.

Condition: Our review disclosed that DOL did not submit 15 mandated reports for at least one of the two years reviewed. Furthermore, DOL submitted 6 reports late. We could not determine the timeliness of 3 other reports.

Effect: Executive and legislative oversight of the department is diminished. DOL did not comply with the General Statutes.

Cause: There is a lack of management oversight over the submission of mandated reports.

Prior Audit Finding: This finding has been previously reported in the last 3 audit reports covering the 2008-2009 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should institute procedures and establish effective internal controls to ensure that it submits all required reports. (See Recommendation 8.)

Agency Response: “The Agency strives to produce required reports in a timely manner, but agrees that this was not always accomplished. In January 2019, the Agency appointed a Legal Director who has implemented a system to track reporting requirements as they are added and deleted with annual legislation, and to ensure that all Directors agency wide are aware of their obligations and reports will be properly submitted.

Section 31-3n (d) The 2015 CETC Annual Plan was completed. The Workforce Development Boards’ (WDB) priorities, goals, and requirements are in the completed 2012-2016 WDB WIOA plans. Both are on CTDOL’s website.

Section 31-3pp(f) and Section 31-3uu(d) – The SFY15 Step Up Annual Report was completed and filed. The information for the Step Up report covering SFY16 was drafted yet not finalized or submitted. The future reports will be submitted in a timely manner.

Section 4-124w(b)(8) –Addressed in the 2014, 2015, and 2016 CETC Legislative Report Cards.

Section 4-124dd(d) – The 2015 Allied Health Workforce Policy Board Report was completed.

Section 31-273 (b) – Reports have been completed and sent to the appropriate entities.

Public Act 14-42 Section 4(b) – Addressed in the 2015 and 2016 CETC Annual Plan.

Public Act 15-5 Section 485(d) – Report was completed in 2016 and sent to the appropriate entities.

Public Act 14-131 Sections 14(c) and 15 – The CTDOL’s then Director of Veterans Workforce Development was responsible for this report and letter to other agencies. Upon his 2017 retirement, remaining staff was unaware that the report was outstanding. Although a letter was sent to agencies in 2014, there was no DOL follow up. Once made aware, a report was drafted and filed. A new letter is in the process of being disseminated to the appropriate parties.

Public Act 14-217 Section 197(c) – Addressed in the 2015 and 2016 WIOA Annual Reports.”

Auditors' Concluding

Comments: At the time of our review, DOL was unaware of or did not submit certain statutorily-required reports. We provided DOL with a list of required reports and their related statutes to assist the department with better tracking of reports and enhanced compliance.

Inadequate Maintenance of Case Files and Lack of Written Policies and Procedures

Criteria: Section 31-69a of the General Statutes provides that an employer who violates any provisions of wage and hour laws is liable for a civil penalty of \$300 for each violation to the Department of Labor.

Proper internal controls dictate that formal written policies and procedures should be established and disseminated to provide guidance to employees in the performance of their related duties.

Condition: Our review of 20 case files of employers that violated labor regulations disclosed the following:

- Thirteen files contained partially handwritten documents
- In one file, the violations in the Final Report and the Notice of Violation and Opportunity to Show Cause did not agree
- In 5 files, DOL did not assess a civil penalty or document an explanation why
- One file, regarding 35 employees, did not contain a Confirmation of Receipt of Complaint
- DOL could not locate one case file for review

Effect: Without adequate documentation, the department may be overlooking employer labor regulation violations.

The nature of the division's operations and other contributing factors create a high inherent risk of fraud that has not been appropriately addressed with internal controls such as a policies and procedures manual.

Cause: The department's internal controls are inadequate and certain systems lack uniformity. The division has not modernized its case management processing systems.

Prior Audit Finding: This finding has been previously reported in the audit report covering the 2012-2013 and 2013-2014 fiscal years.

Recommendation: The Department of Labor Wage and Workplace Standards Division should develop and implement standard internal control policies and procedures related to employer labor violations to ensure consistent investigation and recordkeeping practices. (See Recommendation 9.)

Agency Response: “The agency acknowledges that handwritten documents are not the best method of recording and documenting work. DOL always strives to address and track all complaints in a comprehensive manner, and we endeavor to create and maintain consistent and professional records. This process will be significantly improved by the case and document management system that is scheduled to launch in May 2019. This new digital system will capture, manage, store, report, and centralize business information to keep data current, accurate and quality controlled. This new solution will allow better utilization of resources, eliminate waste, and deliver services to customers with efficiency, while gaining greater data security.

The agency has set new parameters for civil penalty assessments, which includes a multi-tiered written approval process for modifications. In addition, the new case management system will increase internal controls and track the entire investigative process in a digital environment. All factors relevant to complaints are considered in a decision to modify a civil penalty, including whether or not all back wages were paid in full; the level of the assessment necessary to ensure immediate and continued compliance with Title 31 of the Connecticut General Statutes; the character and degree of the impact of the violation(s); and any prior violations by the employer of Title 31 of the Connecticut General Statutes.

The agency strives to maintain and archive all records in a manner consistent with best practices, and in compliance with applicable Connecticut General Statutes and regulations. The management and archival process will be greatly enhanced by the case and document management system that is scheduled to launch in May 2019. This new digital system will capture, manage, store, report, and centralize business information to keep data current, accurate and quality controlled.”

Delayed Deposits

Criteria: Section 4-32 of the General Statutes requires that an agency account for and deposit receipts within 24 hours, if the total receipts are \$500 or more.

Condition: Our review of 25 receipts, totaling \$173,659, disclosed that the department did not account for and deposit 4 receipts, totaling \$4,850, in a timely manner.

- Effect:* Untimely deposits deprive the state of revenue.
- Cause:* Internal controls are inadequate and a lack of uniformity exists within the department.
- Personnel issues within the Wage and Workplace Standards Unit have diminished cooperation and communication. Certain staff members avoid interaction with other staff, resulting in a breakdown in efficiency.
- Prior Audit Finding:* This finding has been previously reported in the last 3 audit reports covering the 2008-2009 to 2013-2014 fiscal years.
- Recommendation:* The Department of Labor should develop and implement internal control policies and procedures to ensure that receipts are deposited promptly and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes. (See Recommendation 10.)
- Agency Response:* “The agency agrees with this finding. The division makes every effort to make deposits in a timely manner, in accordance with section 4-32 of the Connecticut General Statutes.”

Lack of Oversight – Subsidized Training and Employment Program (Step Up)

Background: The Subsidized Training and Employment Program (Step Up) is a state-funded initiative administered by the Department of Labor and the state’s 5 Workforce Development Boards to promote job creation and worker opportunity for Connecticut’s small businesses or manufacturers. Step Up includes the Wage Subsidy Program and Small Manufacturer Training Grant Program, which offer incentives for employers to hire new employees and create jobs. A program participant must be unemployed prior to hire, a resident of a municipality with an unemployment rate above the state average, and in a lower family income category, with the exception of unemployed veterans. The program requires the employer’s business to be registered to conduct that business for at least 12 months, and to be in good standing with the payment of state and local taxes.

Business and manufacturing employers receive up to \$12,000 or \$12,500 in subsidized wage and training grant program incentives for a new hire over a 6-month period, respectively. The funds cover 100% of wages, or up to \$2,500 for training for the 1st month, incrementally decreased to 25% of wages, or up to \$1,600 for training for the 6th month.

Agreements between DOL and WDB require the department to verify that employers are in good standing with unemployment insurance tax

requirements. Employers should not have any outstanding wage and workplace or Occupational Safety and Health Administration (OSHA) violations. In addition, DOL should confirm applicants' veteran status, if applicable, prior to their participation. The WDB are responsible for executing Step Up agreements with participants based on self-attested information from participants and employers to determine eligibility. DOL designated one WDB to administer reimbursements.

Step Up is financed through bond issuances. Since the program's inception in 2011, approximately \$40 million has been disbursed to date.

Criteria:

Section 31-3pp(b)(1) of the General Statutes established Step Up within DOL to provide grants to eligible small businesses and small manufactures to subsidize, for the first 180 calendar days after a person is hired, a part of the cost of employment, including training costs.

Section 31-3pp(b)(3) of the General Statutes, as amended by Public Act 15-127, effective October 1, 2015, requires DOL to monitor outside consultants and the WDB that operate Step Up, and allows DOL to use up to 1% of any funds allocated in any fiscal year for the purpose of the marketing and operation of Step Up, and monitoring of the outside consultants or WDB.

Section 31-3pp(c)(1) of the General Statutes provides that an eligible small business may apply to DOL for a grant for a new employee, defined as a person who was unemployed prior to employment and was not employed by the small business during the previous 12 months, is a resident of a municipality that has an employment rate higher than the state unemployment rate or a population over 80,000, and has a family income equal to or less than 250% of the federal poverty level.

Section 31-3pp(d)(2) of the General Statutes states that no grant shall exceed a total of \$12,500 per newly hired employee.

Section 31-3pp(e)(1) of the General Statutes provides that an eligible small business or small manufacturer may apply to DOL for a grant to subsidize on-the-job training for a pre-apprentice. A pre-apprentice is a current student at a high school, preparatory school or institution of higher education, or not more than 18 years of age. A written agreement with an apprenticeship program sponsor for a term of training and employment not exceeding 2,000 hours or 24 months should be in place.

Section 31-3uu(b)(1) of the General Statutes established the Unemployed Armed Forces Member Step Up program within DOL to provide grants to eligible businesses to subsidize, for the first 180 calendar days after a person is hired, a part of the cost of employment, including training costs.

Sections 31-3pp(f) and 31-3uu(d) of the General Statutes requires DOL to submit to the General Assembly, annually by January 15th, a report that includes participation and employment data related to Step Up and Unemployed Armed Forces Member Step Up.

Condition:

Our review of Step Up grant payments to employers, totaling \$161,148 made on behalf of 26 participants, revealed the following:

- Grant payments totaling \$10,292 were made for 2 participants that were not included in the employer's quarterly wage filing reports. Based on documentation provided, we could not determine whether these participants actually participated in the program.
- There is no indication that one veteran's participant status was verified.
- There appears to be inconsistent information on file related to one participant's residence.
- Two participants were incorrectly categorized and, they both should be in the Armed Forces Member Step Up program instead of the regular STEP UP and Pre-apprentice programs.

We also noted that the Pre-apprentice Program has had only a few participants since its introduction on July 1, 2014. The reason for the low participation rate is unknown.

In addition, the department neither reserved nor used 1% of the funds for program monitoring, although it could have used up to \$47,016 for this purpose during the audited period.

Furthermore, the WDB engaged to administer Step Up did not consistently submit weekly reports to DOL as required by the contract. DOL did not issue an annual Step Up program report for the fiscal year 2015-2016, and it issued the report for 2014-2015 4 months late.

Our prior reviews disclosed that the department imposed a standard \$12,000 reimbursement limit on small business Step Up employer/employee agreements. The prior audit noted that the department should change the limit to \$12,500. Our current review revealed that the department did not update the grant agreements to reflect the change.

Effect:

Without the implementation of effective monitoring tools, contractual obligations may not be fulfilled. This increases the risk that grants are reimbursed to ineligible participants or that employers receive grants through falsified wage information. Furthermore, the department's previous

\$12,000 limit may prevent grantees from receiving the program's full benefits.

Cause: The department did not effectively implement procedures to ensure compliance with Step Up requirements and related contractual agreements. In addition, certain programs handled by DOL do not have adequate funding to ensure that they are properly administered.

Prior Audit Finding: This finding has been reported in the last 2 audit reports covering the 2010-2011 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should work closely with the Workforce Development Boards to develop effective monitoring procedures to ensure that Subsidized Training and Employment Program grants are properly used and to avoid potential fraudulent activity. DOL should strengthen its internal controls to ensure compliance with Step Up legislation, contracts, and agreements. Furthermore, DOL should evaluate the program to ensure it has achieved its intended purpose. (See Recommendation 11.)

Agency Response: "Since the inception of the Step Up program, CTDOL has conducted fiscal oversight/monitoring of the Administrative WDB as well as the WDBs whose sole function was to hire a coordinator in order to register employers and participants into the appropriate Step Up component. The fiscal review included pertinent documentation related to the executed Step Up contracts with the WDBs.

Prior to SFY15 (July 1, 2014) CGS 31-3pp did not include a monitoring requirement nor did it provide funding for monitoring. When 31-3pp was amended to include up to 1% of funds for monitoring purposes, the legislation stated, "the department shall monitor, in a manner prescribed by the commissioner, such outside consultants or Workforce Development Boards that operate the Subsidized Training and Employment program. At the discretion of the Labor Commissioner, the department may use up to one per cent of any funds allocated...in any fiscal year for the purpose of the marketing and operation of the Subsidized Training and Employment program, and the monitoring of the outside consultants or Workforce Development Boards."

The Agency maintains that even prior to the enactment of this specific language it had already conducted fiscal oversight of the WDBs. In SFY19, the Agency did retain 1% of the funds for monitoring purposes and has implemented enhanced monitoring processes.

The Agency's Apprenticeship staff presented our service menu to employers at Step Up conferences across the state. When contacted by employers looking to register a pre-apprentice, our staff referred them to the

Workforce Development Board's (WDB) Step Up Coordinators. CTDO received no data on their connection rates, but were told anecdotally that most companies did not want to participate in the program. Employers were not confident they would achieve an acceptable retention rate and return on their investment with students as part-time employees."

*Auditors' Concluding
Comments:*

A monitoring process should always be in place to ensure that a program operates as intended. This is even more important for a program like Step Up, which is administered by a third party.

In addition, at the time of our review, DOL was unaware of Public Act 15-127 (effective October 1, 2015), which allowed up to 1% of the STEP UP funds to be used for program monitoring. In fact, DOL only retained 1% of Step Up funds in fiscal year 2018-2019, nearly 4 years after the requirement was established.

Possible Misuse of State Grant – Subsidized Training and Employment Program (Step Up)

Criteria:

Section 31-3pp(b)(3) of the General Statutes, as amended by Public Act 15-127, effective October 1, 2015, requires DOL to monitor outside consultants and the Workforce Development Boards that operate Step Up, and allows DOL to use up to 1% of any funds allocated in any fiscal year for marketing and operation of Step Up, and monitoring of outside consultants or WDBs.

Section 31-225a(j)(1) of the General Statutes requires each employer or an agent that reports employment wages for Connecticut employees to submit, on forms supplied by DOL, a quarterly listing of wage information, including the name of each employee receiving employment wages, the employee's Social Security number, and the amount of wages paid to the employee during such calendar quarter.

Sound business practice dictates that a contract sets forth the terms and conditions of an agreement, which includes the legal liabilities for either party breaching such agreement. Furthermore, Step Up agreements should include language stating that grant recipients will be held accountable for improper claims or misuse of grants.

Condition:

Based on the initial finding for Step Up, we conducted an extended review of the program. Our review of 114 Step Up participants from 3 employers that received subsidized wage grants of \$1,297,048 revealed the following:

- Subsidized wage grants, totaling \$982,117, were paid by employers to 71 participants whose earnings were not reported in the employers' quarterly wage filing reports. Without properly reported

earnings, we do not have sufficient evidence to determine whether the individuals actually worked for these employers during the period.

- Step Up agreements entered into by small businesses and small manufacturers do not have provisions to address their legal responsibilities for improper claims or misuse of grants.

The department did not appropriately monitor the Step Up program as required by statute.

Effect: The lack of effective controls and monitoring increases the risk of misuse or fraudulent grant claims. These risks undermine the ability of the program to assist small businesses in hiring the unemployed, and ultimately waste state resources.

Cause: Step Up is not properly designed with the necessary controls to operate the program effectively, or a mechanism to ensure that participants actually participated in the program during the period in which grant were paid. Furthermore, the signed program agreements do not adequately state the legal responsibility of grant recipients. Additionally, the department did not monitor Step Up as required by statute.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Labor should reevaluate the Subsidized Training and Employment Program and establish the necessary controls to ensure that grants are properly used. The department also should fulfill statutory monitoring requirements to better achieve the Step Up objectives. (See Recommendation 12.)

Agency Response: “Since the inception of the Step Up program, CTDOL has conducted fiscal oversight/monitoring of the Administrative WDB as well as the WDBs whose sole function was to hire a coordinator in order to register employers and participants into the appropriate Step Up component. The fiscal review included a review of pertinent documentation related to the executed Step Up contracts with the WDBs. Prior to SFY15 (July 1, 2014) CGS 31-3pp did not include a monitoring requirement nor did it provide funding for monitoring. In SFY19, the Agency did retain 1% of the funds for monitoring purposes and has implemented enhanced monitoring processes; which include random onsite visits to participating employers and interviews with participating Step Up participants.*

* Additional information can be found in previous response to finding entitled, “Lack of Subsidize Training and Employment Program (STEP UP) Oversight”

In addition, the department will issue general conditions that must be signed by the employer as part of the initial application outlining the employer's responsibilities and the ramifications of the failure to follow the parameters of the Step Up agreement and the general conditions; which shall include a referral to the Office of the Attorney General which may institute an action for a refund of the wage subsidy or grant received and forfeiture of participation in the program in the future.

Quarterly wage filings are due on the last day of the month following the end of the quarter. Wages are posted when filed. Therefore a review of the wage records at the time of application will generally not have the most up-to-date filings but wage records may become available as the term of the grant continues."

Failure to Adhere to Established Petty Cash Procedures

Criteria:

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

The State Accounting Manual provides that petty cash funds be intended to facilitate purchases of small, but necessary operating items, not to exceed \$50, except for emergencies or specific exceptions granted by the Office of the State Comptroller. To obtain exemption for expenditures exceeding \$50, the agency should send an email to the Office of the State Comptroller for review. The email should contain the dollar amount, justification for the purchase, and the agency contact person.

The State Accounting Manual also states that whenever possible, agencies should use a state purchasing card (P-Card) instead of petty cash. Agencies should prepay conference fees on a state purchasing card, if available. When time constraints exist, payment can be prepaid through petty cash.

State Comptroller Memorandum No. 2011-11 states that payments for purchases by all state agencies under \$1,000 shall be made using a P-Card. P-Cards must be used for payments to any vendor that provides commodities, services or utilities. Exceptions to this policy include purchases that must be approved using the Core 10 process, vendors who do not accept credit cards, and purchases to restock inventories carried in the Core-CT inventory module.

Condition: Our review of 25 petty cash expenditures, for the fiscal years ended June 30, 2015 and 2016, disclosed the following:

- We could not locate supporting documentation for one \$20 expenditure.
- Two expenditures lacked authorization by a manager or supervisor.
- DOL processed 3 expenditures for the purchase of stamps, adapter cables, and name plates through petty cash. These could have been processed through Core-CT or using a purchasing card.
- The DOL-753 Petty Cash Receipt was not signed/approved by the custodian for all 25 expenditures reviewed.
- DOL did not obtain State Comptroller approval for 6 non-travel expenditures exceeding \$50.

Effect: DOL did not comply with the State Accounting Manual and State Comptroller Memorandum No. 2011-11. Inadequate supporting documentation and a lack of proper approval may lead to improper use of funds.

Cause: DOL reimbursed expenditures without obtaining proper approval or adequate supporting documentation.

Prior Audit Finding: This finding has been reported in the last 3 audit reports covering the 2008-2009 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should strengthen internal controls over petty cash to ensure that the department only spends funds for properly supported expenditures. DOL should use state purchasing cards rather than petty cash when feasible. (See Recommendation 13.)

Agency Response: “We agree with this finding. The Department of Labor has taken procedural action in strictly enforcing the State Accounting Manual and Comptroller Memorandum No. 2011-11 since these instances were presented to our department. In addition, the majority of the instances disclosed took place within the local office petty cash accounts.

As a result of these findings, local offices no longer have access to their own petty cash account. All petty cash requests are now submitted directly to Business Management for approval.”

Lack of Administrative Oversight on Boards and Commissions

Background: The General Statutes relating to DOL provide for 5 boards, 3 commissions, a council and an authority, which we collectively refer to as boards. The boards include the Connecticut State Apprenticeship Council, Connecticut Retirement Security Authority, Connecticut State Board of Labor Relations, Connecticut Board of Mediation and Arbitration, Employment Security Board of Review, Connecticut Occupational Safety & Health Review Commission, Connecticut Employment and Training Commission, Employment Security Division Advisory Board, Employee Misclassification Advisory Board, and Joint Enforcement Commission on Employee Misclassification. The Joint Enforcement Commission on Employee Misclassification incorporates 7 agencies and consists of the commissioners of Labor, Revenue Services, Insurance, Consumer Protection, the chairperson of the Workers' Compensation Commission, the Attorney General, and Chief State's Attorney, or their designees.

Criteria: Section 1-225 of the General Statutes requires public agencies to: (1) post meeting minutes to its website not later than 7 days after such meeting; (2) file a schedule of regular meetings for the ensuing year with the Secretary of the State not later than January 31st of each year, and to post such schedule on the agency's website; (3) file the agenda of such meeting with the Secretary of the State not less than 24 hours before a meeting, and post such agenda on the agency's website.

Section 31-22n of the General Statutes requires the Governor to appoint 12 members to the Connecticut State Apprenticeship Council, each of whom shall have some association with apprentice training.

Section 31-57h(b) of the General Statutes requires the Joint Enforcement Commission on Employee Misclassification to meet no less than 4 times each year.

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

Section 31-91 of the General Statutes provides for the Board of Mediation and Arbitration, consisting of 2 panels of 3 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 receive compensation for specified services, including \$150 dollars for each additional day beyond the first day, provided that no proceeding may be

extended beyond 2 days without the prior approval of the Labor Commissioner for each such additional day.

Section 31-96 of the General Statutes requires the Labor Commissioner, with the advice and approval of the Board of Mediation and Arbitration, to appoint at least 5 mediators to act on behalf of the board in conducting investigations and resolving labor disputes.

Section 31-250a of the General Statutes provides for the Employment Security Division Advisory Board, which consists of 8 members appointed by specified state elected officials for a specified initial term and, if applicable, reappointed to a 4-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 2 years; one member representing employers appointed by the majority leader of the Senate for an initial term of 3 years; and one member representing employers appointed by the minority leader of the Senate for an initial 4-year term.

Condition:

Our review of the boards for the fiscal years ended June 30, 2015 and 2016, revealed the following:

- One board (Board of Mediation and Arbitration) did not post a schedule of meetings, agendas and meeting minutes to the department's website. Two boards (Apprenticeship Council and Employment Security Advisory Board) did not file a schedule of meetings or the agenda of regular meetings for the ensuing year with the Secretary of the State. Some posted meeting minutes and agendas on the department website were not accessible for one board (Employment Security Advisory Board);
- The Employee Misclassification Advisory Board and Joint Enforcement Commission on Employee Misclassification did not hold any meetings during the audited period;
- The department paid members of the Board of Mediation and Arbitration for hearings that continued beyond 2 days without obtaining the statutorily required prior approval from the Labor Commissioner;
- Two of the 5 mediator positions required by Section 31-96 were vacant during the audited period;
- With only 11 board members, the Apprenticeship Council did not meet the minimum of 12 members required;

- One member of the Employment Security Advisory Board was not appointed to the correct initial term.

Effect: Boards did not provide public notice for their meetings, minutes, and agendas. The boards did not operate in compliance with the General Statutes regarding appointments, membership, and meetings.

Cause: A lack of administrative oversight contributed to this condition. DOL did not work effectively with the boards and appointing authorities.

Prior Audit Finding: This finding has been reported in the last 3 audit reports covering the 2008-2009 through 2013-2014 fiscal years.

Recommendation: The Department of Labor should work with its related boards to ensure compliance with the General Statutes. If the department determines that any statutory requirement is impractical or outdated, then it should request a legislative change. (See Recommendation 14.)

Agency Response: “The department always strives to ensure that the requirements for Boards and Commissions properly report and post scheduled meetings, agendas and minutes. In January of 2019, the department appointed an Agency Legal Director. The Director will put together a memo to the staff to ensure that all directors are aware of their obligations and will proactively enforce it.

The Department agrees in part and disagrees in part with this finding.

The statute does not designate the Department as the administrative arm of the Employee Misclassification Advisory Board and Joint Enforcement Commission on Employee Misclassification. The Department took on the administrative responsibility upon the enactment of this Board. No other agency or office on the Board stepped up to take over the responsibility. With expanding responsibilities and fewer staff, the Department was unable to continue its voluntary role to administer this Board.

All Boards are now aware of their responsibilities concerning the postings on DOL’s website and SOTS and will be reminded in a memo to be issued.

In the past and continuing, the Commissioner has delegated the granting of approval for any SBMA hearings that need to extend beyond 2 days to the Director of the SBMA. Such delegation is made pursuant to his powers under Connecticut General Statute, Section 4-8.

The Commissioner will continue to work with the appointing authorities to ensure that a Board has its full complement of members. However, other than reminding appointing authorities, in writing and in person, of their statutory obligations, the agency is unable to demand an appointment.”

Unacceptable Use of State Systems

- Criteria:* The Department of Administrative Services Bureau of Enterprise Systems and Technology's (DAS/BEST) Acceptable Use of State Systems Policy provides standards concerning the appropriate and inappropriate use of state systems, including E-mail, the internet, computers, laptops, and related technologies.
- Condition:* An investigation into state system usage revealed that one employee's use was not job-related and violated DAS/BEST policies.
- Effect:* Conducting non-state business on state-issued equipment increases the risk of compromising the state's security system, data, and network resources. Furthermore, inefficient use of time diminishes productivity and performance, and agencies may pay wages for work not performed.
- Cause:* There is a lack of administrative oversight and ineffective internal controls.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* The Department of Labor should conduct periodic reviews of state system use by its employees to ensure compliance with the Acceptable Use of State Systems Policy. (See Recommendation 15.)
- Agency Response:* "The Department of Administrative Services Bureau of Enterprise Systems has recently implemented a new internet filtering device. DOL is reviewing the reporting capabilities to capture, report on and distribute to DOL Management to perform periodic reviews to ensure compliance with the State's Acceptable Use of State Systems Policy. Target Completion Date: September 2019."

Lack of Grant Monitoring

- Criteria:* Section 4-231(a)(1) provides that each non-state entity expending a total amount of state financial assistance of \$300,000 or more in any fiscal year shall have a single audit or a program-specific audit for such fiscal year. Section 4-233(2)(d) also provides that the non-state entity shall submit to appropriate state officials a plan for corrective action if an audit conducted finds any material or reportable noncompliance with laws, regulations, and grant or contract provisions.
- Condition:* Our review of 25 grants associated with 29 payments (totaling \$1.9 million) for the fiscal years ended June 30, 2015 and 2016, revealed that the

department did not perform desk reviews of single audit reports for all grantees receiving over \$300,000.

Effect: Failure to perform monitoring of grantees weakens controls over grant programs.

Cause: Monitoring of grantees was not prioritized due to a lack of staffing.

Recommendation: The Department of Labor should strengthen internal controls over the monitoring of grants. The department also must ensure that non-state entities submit corrective action plans if an audit finds any material or reportable noncompliance with laws, regulations, and grant or contract provisions. (See Recommendation 16.)

Agency Response: “In SFY 2018, the Department of Labor implemented procedures to strengthen internal controls regarding Sub-Recipient monitoring in accordance with Federal guidelines stated in 2 CFR 200.521. Business Management reviews the financial from state single audit by logging into the “Electronic Audit Report System” (EARS) via website <https://www.appsvcs.opm.ct.gov/Auditing/Home.aspx>. Business management reports any issues or concerns back to the appropriate CT DOL management who oversee the program. Program staff follows up with the sub-recipient to ensure they take timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means, pertaining to the federal award. The program staff requests a corrective action plan from the sub-recipient, through standard management correspondence. Please note, the WIOA program is in the process of hiring two accounts examiners which will further strengthen the Department’s financial oversight of grantees. Modifications to the current process may be implemented based on these additional resources.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Department of Labor contained 27 recommendations. Fifteen have been implemented or otherwise resolved, and 12 have been repeated or restated with modifications during the current audit.

- The Department of Labor should ensure that it completes annual performance evaluations for all of its employees. **This recommendation is being repeated. (See Recommendation 1.)**
- The Department of Labor should strengthen its internal controls to ensure that employee leave accruals and balances in Core-CT match its Financial Accounting and Reporting System (FARS), and should report those accruals and balances correctly. **This recommendation will not be repeated.**
- The Department of Labor should strengthen internal controls over the processing and maintaining of employee timesheets. **This recommendation will not be repeated.**
- 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. **This recommendation will not be repeated.**
- The Department of Labor should institute procedures to ensure that all records are retained and disposed of in accordance with records retention policies. **This recommendation will not be repeated.**
- The Department of Labor should strengthen internal controls to ensure that the process used to write off employer receivables is completed in a timely manner and in the correct sequence. **This recommendation will not be repeated.**
- The Department of Labor should implement procedures to ensure that it resolves OSHA deficiencies identified by the U.S. Department of Labor in a timely manner. **This recommendation will not be repeated.**
- The Department of Labor should strengthen internal controls to ensure that receipts are deposited promptly and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes. DOL should log all receipts into a receipts journal or equivalent tracking device. **This recommendation is being repeated in part. (See Recommendation 3.)**

- The Department of Labor should institute procedures to ensure that it submits all required reports or seek legislation to have the General Statutes amended to reduce or eliminate its reporting requirements. **This recommendation is being repeated in part. (See Recommendation 8.)**
- The Department of Labor should monitor that sufficient insurance coverage is in place for grantees to ensure financial resources will be available to protect the state in the event of a claim. **This recommendation will not be repeated.**
- The Department of Labor should develop and implement procedures that ensure compliance with Step-Up legislation, contracts, and agreements. **This recommendation is being repeated. (See Recommendation 11.)**
- 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. **This recommendation is being repeated to reflect current conditions. (See Recommendation 13.)**
- The Department of Labor should work with its related boards to ensure compliance with the General Statutes. The department should notify appointing authorities of vacancies or attendance issues to ensure adequate representation at all board meetings. If the department determines that any statutes are impractical or outdated, it should consider requesting a legislative change. **This recommendation is being repeated. (See Recommendation 14.)**
- The Department of Labor should strengthen internal controls over expenditures and follow guidelines provided in the State Accounting Manual. **This recommendation is not being repeated.**
- The Department of Labor should strengthen internal controls to ensure that contracts are fully executed prior to the contract start date, and should delay the service period start date on these contracts, if necessary. **This recommendation is being repeated. (See Recommendation 2.)**
- The Department of Labor should strengthen internal controls over the review of employer labor violations to ensure that adequate documentation is maintained and should consider implementing an automated case management system.

The Department of Labor should seek legislative changes to Section 31-57f of the General Statutes to give itself the authority to impose and collect such civil penalties. **This recommendation is being repeated to reflect current conditions. (See Recommendation 9.)**

- The Department of Labor should improve internal controls over the custody and reporting of its property inventory. **This recommendation is being repeated. (See Recommendation 4.)**

- The Department of Labor should improve internal controls to ensure that property inventory is maintained in the form prescribed by the office of the State Comptroller and that accurate CO-59 reports are submitted annually and are adequately supported. **This recommendation is being repeated. (See Recommendation 5.)**
- The Department of Labor should improve management's reporting abilities within the Information Technology Unit so that accurate reporting and review can occur. **This recommendation will not be repeated.)**
- The Department of Labor should immediately address critical reports from the Department of the Treasury, Internal Revenue Service (IRS) and securely maintain its systems. **This recommendation will not be repeated.**
- The Department of Labor should investigate all complaints of alleged workplace violence in a timely manner and comply with all provisions of the Violence in the Workplace Policies & Procedures Manual. **This recommendation will not be repeated**
- The Department of Labor should amend its code of conduct to make clear that there will be no retaliation for reporting made in good faith. The Department should consider adding the ability for personnel to communicate their concerns anonymously to reduce fear of retaliation. Matters reported to human resources alleging violations of the code of conduct should be investigated in a timely manner. **This recommendation will not be repeated.**
- The Department of Labor's human resources personnel should build a positive work environment through professionally-administered training programs and by updating and enforcing the department's code of conduct. **This recommendation will not be repeated.**
- The Department of Labor's Human Resources Unit should implement standardized written performance and review procedures related to its complaint handling and investigation process. The department should collect all improper payments identified in an investigation. **This recommendation will not be repeated.**
- The Department of Labor should adhere to DAS General Letter 115. **This recommendation will not be repeated.**
- The Department of Labor should formalize its policies for the assignment of state vehicles and its retention of records related to vehicle usage. The department should determine whether state vehicle allocation could be improved through the use of a motor pool. **This recommendation will be repeated to reflect current conditions. (See Recommendation 6.)**
- The Department of Labor Wage and Workplace Standards Division should establish formal written policies and procedures for all of its operations. **This recommendation will be repeated to reflect current conditions. (See Recommendation 9.)**

Current Audit Recommendations:

- 1. The Department of Labor should ensure that it completes annual performance evaluations for all of its employees.**

Comment:

DOL did not complete performance appraisals for 6 out of 15 employees reviewed.

- 2. The Department of Labor should strengthen its internal controls to ensure that contracts are fully executed prior to the contract period start date, and should delay the service period start date on these contracts, if necessary.**

Comment:

We continue to note internal control weaknesses in our review of contracts. Thirteen out of 20 contracts were not fully executed until after the contract start date.

- 3. The Department of Labor should strengthen internal control procedures to ensure that all receipts are logged into a receipts journal or equivalent tracking record.**

Comment:

Our review of 25 cash receipts revealed that in 2 instances, the DOL cash receipt log did not accurately track cash receipts.

- 4. The Department of Labor should ensure that internal controls over the custody and reporting of its assets are appropriately designed and implemented. DOL should take a complete and accurate annual physical inventory and include any updates in the Core-CT asset Management module. The department should properly dispose of obsolete and surplus items and remove them from the warehouse and Core-CT inventory records.**

Comment:

Our review disclosed errors in the maintenance and reporting of DOL property inventory, including items' physical locations not agreeing with those listed in Core-CT, incomplete software inventory records, a lack of disposal of surplus and obsolete assets, one item that was not visibly tagged, and one item with an identification tag that was associated with a different asset in Core-CT.

- 5. The Department of Labor should improve internal controls to ensure that property inventory is maintained in the form prescribed by the Office of the State Comptroller. The department should review and adequately support its CO-59 reports for accuracy prior to submission.**

Comment:

Our review of CO-59 Fixed Assets/Property Inventory Reports disclosed that: DOL could not support amounts reported for equipment and licensed software; DOL did not file CO-853

property adjustment reports for missing inventory items; items awaiting disposal or surplus are stored in DOL's warehouse and remain in service in Core-CT; DOL did not perform complete physical inventories; and there is lack of segregation of duties related to asset management.

- 6. The Department of Labor should formalize its policies for assigning and monitoring state vehicles. The department should also determine whether it can improve its state vehicle allocation through the use of a motor pool.**

Comment:

Our review identified 2 instances in which DOL did not apply its cost-effectiveness test before permanently assigning state vehicles to its employees.

- 7. The Department of Labor should develop and implement policies and procedures to ensure that it holds staff accountable for their reported time.**

Comment:

Our audit confirmed that a field investigator falsely reported time. Supervisors of the Wage and Workplace Standards Unit did not review state vehicle start and end locations reported on the monthly vehicle usage reports for compliance with DAS General Letter 115. Supervisors of the Wage and Workplace Standards Unit did not compare weekly activity reports to time reported in Core-CT for accuracy prior to approval.

- 8. The Department of Labor should institute procedures and establish effective internal controls to ensure that it submits all required reports.**

Comment:

DOL did not submit 15 mandated reports for at least one of the 2 years reviewed. Also, DOL submitted 6 reports late, and we could not determine the timeliness of 3 reports.

- 9. The Department of Labor Wage and Workplace Standards Division should develop and implement standard internal control policies and procedures related to employer labor violations to ensure consistent investigation and recordkeeping practices.**

Comment:

DOL failed to adequately document information in case files and could not locate a case file we requested. Also, the Wage and Workplace Standards Division has not developed standard policies and procedures for performing investigations.

- 10. The Department of Labor should develop and implement internal control policies and procedures to ensure that receipts are deposited promptly and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes.**

Comment:

Our review of 25 receipts, totaling \$173,659, disclosed that the department did not account for and deposit 4 receipts, totaling \$4,850, in a timely manner.

- 11. The Department of Labor should work closely with the Workforce Development Boards to develop effective monitoring procedures to ensure that Subsidized Training and Employment Program grants are properly used and to avoid potential fraudulent activity. DOL should strengthen its internal controls to ensure compliance with Step Up legislation, contracts, and agreements. Furthermore, DOL should evaluate the program to ensure it has achieved its intended purpose.**

Comment:

Our review of 26 Step Up participants with total grant payments of \$161,148 revealed that grant payments totaling \$10,292 for 2 participants were not included in the employer's quarterly wage filing reports. Also, there was no indication that one veteran participant status was verified, and one participant's residence does not appear to be consistent. Additionally, two participants were categorized incorrectly in the regular Step Up or Pre-apprentice programs, rather than the Armed Forces Member Step-Up Program.

- 12. The Department of Labor should reevaluate the Subsidized Training and Employment Program and establish the necessary controls to ensure that grants are properly used. The department also should fulfill statutory monitoring requirements to better achieve the Step Up objectives.**

Comment:

Subsidized wage grants totaling \$982,117 were paid for 71 participants whose earnings were not reported in the employers' quarterly wage filing reports. Without properly reported earnings, we do not have sufficient evidence to determine whether the individuals actually worked for these employers during the period. We also noted that Step Up agreements with employers do not address their legal responsibilities for improper claims or misuse of grants.

- 13. The Department of Labor should strengthen internal controls over petty cash to ensure that the department only uses funds for properly supported expenditures. DOL should use state purchasing cards rather than petty cash when feasible**

Comment:

Our review of 25 petty cash expenditures disclosed that: we could not locate supporting documentation for one \$20 expenditure; two expenditures lacked authorization by a manager or supervisor; DOL processed 3 expenditures for the purchase of stamps, adapter cables, and name plates through petty cash – these could have been processed through Core-CT or using a purchasing card; the DOL-753 Petty Cash Receipt was not signed/approved by the custodian for all 25 expenditures reviewed; and DOL did not obtain State Comptroller approval for 6 non-travel expenditures exceeding \$50.

14. The Department of Labor should work with its related boards to ensure compliance with the General Statutes. If the department determines that any statutory requirement is impractical or outdated, then it should request a legislative change.

Comment:

One member of the Employment Security Advisory Board was not appointed to the correct initial term. Two mediator positions required by Section 31-96 of the General Statutes were vacant during the audited period. The department paid members of the Board of Mediation and Arbitration for hearings that continued beyond the statutory limit without obtaining the Labor Commissioner's prior approval. The Employee Misclassification Advisory Board did not hold any meetings during the audited period. Furthermore, instances were noted of meeting minutes as well as agendas and schedules of meetings for the ensuing year that were not properly posted or filed in accordance with Section 1-225 of the General Statutes.

15. The Department of Labor should conduct periodic reviews of state system use by its employees to ensure compliance with the Acceptable Use of State Systems Policy.

Comment:

An investigation into state system usage revealed that one employee's use was not job-related and violated DAS/BEST policies.

16. The Department of Labor should strengthen internal controls over the monitoring of grants. The department also must ensure that non-state entities submit corrective action plans if an audit finds any material or reportable noncompliance with laws, regulations, and grant or contract provisions

Comment:

Our review of 25 grants associated with 29 payments (totaling \$1.9 million) for the fiscal years ended June 30, 2015 and 2016, revealed that the department did not perform desk reviews of single audit reports for all grantees receiving over \$300,000.

ACKNOWLEDGMENTS

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Andrea Evans
Lauren Forbes
Jaimey Makie
Shu Zhao

CONCLUSION

In 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



Andrea Evans
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor