

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FISCAL YEARS ENDED JUNE 30, 2017 AND 2018*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

## Table of Contents

---

<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>COMMENTS .....</b>	<b>2</b>
<b>FOREWORD .....</b>	<b>2</b>
Significant Legislation .....	3
Councils, Boards and Commissions.....	4
<b>RÉSUMÉ OF OPERATIONS .....</b>	<b>6</b>
General Fund .....	6
Special Revenue Funds.....	7
Fiduciary Funds.....	10
<b>STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....</b>	<b>13</b>
Payroll and Personnel: Lack of Performance Appraisals .....	13
SEBAC vs. Rowland Settlement Payments Improperly Charged .....	14
Inconsistent Recording of Leave Time.....	14
Failure to Execute Contracts in a Timely Manner.....	15
Write Off of Receivables.....	17
Inadequate Controls Over Cash Receipts .....	18
Inadequate Controls over Equipment Inventory.....	19
CO-59 Fixed Assets/Property Inventory Report Deficiencies .....	21
Lack of Proper Controls over Mileage Reimbursement.....	22
Utilization of State Fleet Vehicles.....	23
Lack of General Control Over Reporting Requirements.....	25
Ineffective Management of Employer Workplace Violation Case Files and Handling of Receipts .....	26
Lack of Administrative Oversight on Boards and Commissions .....	29
<b>RECOMMENDATIONS .....</b>	<b>32</b>
Status of Prior Audit Recommendations: .....	32
Current Audit Recommendations:.....	34
<b>ACKNOWLEDGMENTS .....</b>	<b>38</b>

**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) for the fiscal years ended June 30, 2017 and 2018. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies; and the need for changes in management practices that warrant the attention of management. The significant findings and recommendations are presented below:

<b>Page 12</b>	Our review of SEBAC vs. Rowland Settlement payments disclosed \$25,263 that was incorrectly charged to federal funds. The Department of Labor should ensure that payments made related to the SEBAC vs. Rowland Settlement are not charged to funds as stipulated in the Office of the State Comptroller’s Memorandum No. 2016-13. (Recommendation 2.)
<b>Page 14</b>	We continued to note internal control weaknesses in our review of the department’s contracts. The Department of Labor should strengthen internal controls to ensure that contracts are fully executed prior to their start date. If necessary, the department should delay the service period start date. (Recommendation 4.)
<b>Page 17</b>	The department does not have adequate operating procedures in place for handling cash receipts. The Department of Labor should strengthen internal control procedures to ensure that it accurately logs all receipts into a journal or equivalent tracking record. (Recommendation 6.)
<b>Page 19</b>	The department did not perform a complete and accurate physical inventory during the audited period. The Department of Labor should ensure that it appropriately designs and implements internal controls over the custody and reporting of assets. The department should take a complete and accurate physical inventory and update any changes in the Core-CT Asset Management module. (Recommendation 7.)
<b>Page 21</b>	The department does not have written policies or procedures to require the timely submission of employee mileage reimbursement requests for work-related travel. The Department of Labor should implement internal control procedures to ensure the timely submission of mileage reimbursement requests. (Recommendation 9.)
<b>Page 24</b>	The department does not have internal controls to track changes to legislative and public act reporting requirements or monitoring procedures to ensure that it prepares and submits mandated reports. The Department of Labor should institute procedures and establish effective internal controls to ensure that it submits all required reports. (Recommendation 11.)
<b>Page 25</b>	The department did not properly maintain case files for its review of wage and workplace standards complaints. The Department of Labor should strengthen employer labor violation internal controls to ensure consistent investigation and recordkeeping practices. (Recommendation 12.)

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

State Capitol  
210 Capitol Avenue  
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

CLARK J. CHAPIN

May 19, 2021

### **AUDITORS' REPORT DEPARTMENT OF LABOR FISCAL YEARS ENDED JUNE 30, 2017 AND 2018**

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, 2017 and 2018. 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. Our testing is not designed to project to a population unless specifically stated. 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 this performance audit in accordance with the generally accepted government auditing standards. 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 a reasonable basis for our findings based on our audit objectives.

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:

1. Identified deficiencies in internal controls;
2. Identified apparent noncompliance with laws, regulations, contracts and grant agreements, policies and procedures; and
3. Identified a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Department of Labor.

## COMMENTS

### FOREWORD

The Department of Labor (DOL) is authorized in Title 31 of the General Statutes within Chapters 556, 557, 558, 560, 561, 564, 567 and 571.

The major function of the department is to serve the unemployed by helping them find suitable employment and providing monetary benefits that are dependent upon the claimant's employment and wage history. The department also administers 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, the department carried out its field operations 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 a partnership and a broad administrative role in implementing this service delivery system.
- **Jobs First Employment Services (JFES)** – Provides employment services such as job search assistance and skills training to participants who receive Temporary Family

Assistance (TFA). The JFES program helps parents gain the skills needed to obtain meaningful employment and become independent of cash assistance. The Department of Labor administers the program in partnership with the Department of Social Services and five workforce development boards. Participants may also qualify for further on-the-job and occupational skills training, adult basic education, General Educational Development preparation, and English as a second language.

- **Office of Workforce Competitiveness (OWC)** – The department, with the assistance of its OWC, serves as the Governor’s principal workforce development policy advisor with the goal of ensuring that Connecticut has the essential talent to support growth. OWC collaborates with multiple partners to develop employment and training strategies and initiatives 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. 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 continues to serve in that capacity.

## **SIGNIFICANT LEGISLATION**

- **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 DOL 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 and generally gave the Department of Labor greater flexibility in processing unemployment claims and appeals. Among other things, it allows DOL to deliver certain unemployment notices and decisions by means other than mail, and it starts the appeal period when the decision is provided to the party, rather than when it is mailed. The act also allows DOL to prescribe ways, other than a hearing, for employers and claimants to present evidence and testimony in certain unemployment proceedings.
- **Public Act 17-207**, effective July 11, 2017, created a Workforce Training Authority and a related Workforce Training Authority Fund to develop and implement job training programs for businesses relocating to Connecticut, and train or retrain workers in Connecticut to achieve workforce development goals set by the Connecticut Employment and Training Commission. The act also codified in statute the Connecticut Preschool through Twenty and Workforce Information Network (CP20 WIN), and the Connecticut Early College Opportunity Program (CT-ECO). In addition, the act requires the Department of Labor to analyze job training program information and submit various reports to the governor and specified legislative committees and made other changes to workforce development laws.

## **COUNCILS, BOARDS AND COMMISSIONS**

The General Statutes related to the Department of Labor provide for the following councils, boards, and commissions to operate:

<b>Name</b>	<b>Responsibility</b>
State Apprenticeship Council	Advises and guides the commissioner in formulating work training standards and developing apprenticeship-training programs.
Connecticut Retirement Security Authority	The authority was under DOL for administrative purposes before it was established as a quasi-public agency. More recently, the agency was eliminated, and its functions were moved to the Office of the State Comptroller.
State Board of Mediation and Arbitration	Provides mediation and arbitration to employers and employee organizations.
State Board of Labor Relations	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 DOL 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.

Occupational Safety and Health Review Commission	Hears and rules on appeals from citations, notifications, and assessment of penalties under the Occupational Safety and Health Act in Chapter 571 of the General Statutes.
Employment Security Advisory Board	Advises the commissioner on matters concerning Employment Security Division policy and operations. No regulations concerning the division are adopted without consulting the advisory board.
Connecticut Employment and Training Commission (CETC)	The Connecticut State Workforce Development Board 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 staffing, leadership, support, and technical assistance to CETC.
Joint Enforcement Commission on Workforce Misclassification	Reviews employee misclassification, a technique employer use to avoid obligations under state and federal labor, employment, workers' compensation, and tax laws. It also coordinates the civil prosecution of violations of state and federal employee misclassification laws, and reports any suspected violations of state criminal statutes to the Chief State's Attorney.
Employee Misclassification Advisory 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, and two fiduciary funds, are discussed below.

### **General Fund**

#### **General Fund Receipts**

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Federal Contributions	\$32,578,095	\$35,847,019	\$37,285,780
Recoveries of Expenditures	135,186	96,980	198,647
Fees and Fines	578,893	677,343	669,090
Refunds of Expenditures	405,599	519,573	981,080
Miscellaneous	<u>2,205</u>	<u>856</u>	<u>1,613</u>
<b>Total Receipts</b>	<b><u>\$33,699,978</u></b>	<b><u>\$37,141,771</u></b>	<b><u>\$39,136,210</u></b>

Total receipts increased by \$3,441,793 and \$1,994,439 in fiscal years 2016-2017 and 2017-2018, respectively, primarily attributed to 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:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Personal Services and Employee Benefits	\$16,551,285	\$16,476,383	\$18,836,447
Employee Expenses, Allowances, Fees	1,616,812	157,011	96,183
Contractual Services	2,414,698	2,366,812	2,457,764
Commodities	67,879	63,717	174,059
Other	8,641	5,850	4,790
Grants	52,342,999	51,478,720	40,487,640
Capital Outlays	<u>2,892</u>	<u>7,343</u>	<u>9,149</u>
<b>Total Expenditures</b>	<b><u>\$73,055,206</u></b>	<b><u>\$70,555,836</u></b>	<b><u>\$62,066,032</u></b>

Total expenditures decreased by \$2,499,370 and \$8,489,804 in fiscal years 2016-2017 and 2017-2018, respectively, mainly attributed to reductions in grants to non-state agencies.

## **Special Revenue Funds**

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

- **Employment Security Administration Fund** – Operates under Section 31-259 (a) through (c) of the General Statutes and consists of monies appropriated by the state, monies 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** – Established under Section 31-264a(b) of the General Statutes. Fund receipts include employer special bond assessments for debt service. The Office of the State Treasurer issued up to \$1,000,000,000 in state revenue bonds 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** – 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 are used to pay administrative costs, 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 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, 2017 and 2018, DOL transferred \$4,100,000 and \$4,600,000 to the Employment Security Administration Fund, respectively, to offset projected deficits of federal administrative funds.
- **Grants and Restricted Accounts Fund** – Accounts for certain federal and other revenues that are restricted from general use.
- **Individual Development Account Reserved Fund** – 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 receipts and expenditures for the special revenue funds during the audited period, together with those of the preceding fiscal year, are presented below:

	<b><u>Schedule of Receipts</u></b>		
	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Employment Security Administration Fund	\$ 86,307,215	\$76,761,237	\$77,136,890
Grants and Restricted Accounts Fund	9,551,677	8,018,168	8,918,672
Employment Security Special Administration Fund	4,146,578	4,127,804	4,611,328
Special Assessment Unemployment Compensation Advance Fund	310,130	3,406	21,739
Banking Fund	1,774	17	3,993
Individual Development Account Reserve Fund	190,000	0	0
Workers' Compensation Fund	0	0	1,021
<b>Total Receipts</b>	<b><u>\$100,507,374</u></b>	<b><u>\$88,910,632</u></b>	<b><u>\$90,693,643</u></b>

Total receipts decreased by \$11,596,742 in fiscal year 2016-2017 and increased by \$1,783,011 in fiscal year 2017-2018. The decrease was primarily because of a reduction in Grants and Restricted Accounts Fund receipts, and the increase resulted from growth in the Employment Security and Administration Fund.

The department received \$74,397 and \$1,245,910 in special assessment receipts in the Grants and Restricted Accounts Fund during fiscal years 2016-2017 and 2017-2018, respectively, through an August 2011 special assessment levied on contributory employers. DOL levied the special assessment to repay the interest on federal loans beginning in October 2009, as a result of the insolvency of the Unemployment Compensation Fund. The employers repaid \$1,072,201 in interest during the 2016-2017 fiscal year. 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 to defray the administrative costs of the department's Employment Security Division and vary, depending on the number and amount of federal grants received during the year.

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

	<b>Schedule of Expenditures</b>		
	<b>Fiscal Year Ended June 30,</b>		
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Employment Security Administration Fund	\$ 88,783,115	\$79,153,225	\$73,413,051
Grants and Restricted Accounts Fund	4,780,922	6,567,227	6,889,429
Employment Security Special Administration Fund	4,150,000	4,100,000	4,600,000
Small Town Economic Assistance Program – Grants to Local Government	8,914,396	4,470,835	506,410
Banking Fund	1,615,000	1,615,000	1,425,000
Individual Development Account Reserve Fund	102,764	17,998	31,351
Workers’ Compensation Fund	661,693	662,911	658,368
Capital Equipment Purchase Fund	460,928	50,045	20,207
Housing Trust Fund	0	0	0
Economic Assistance Revolving Fund	0	0	0
<b>Total Expenditures</b>	<b><u>\$109,468,818</u></b>	<b><u>\$96,637,241</u></b>	<b><u>\$87,543,816</u></b>

Expenditures for the Small Town Economic Assistance Program – Grants to Local Government Fund decreased during the audited period, as the state no longer issues grants for specific projects due to budgetary constraints. In addition, decreases noted in the Employment Security Administration fund were due to a reduced workload.

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

	<b>Fiscal Year Ended June 30,</b>		
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Personal Services and Employee Benefits	\$ 81,246,146	\$72,970,456	\$63,155,265
Employee Expenses, Allowances, Fees	355,941	342,159	246,667
Contractual Services	10,311,147	8,273,920	11,034,498
Commodities	311,451	253,931	180,900
Grants	16,641,797	14,633,172	12,769,341
Capital Outlay	533,393	133,367	143,892
Other	68,943	30,236	13,253
<b>Total Expenditures</b>	<b><u>\$109,468,818</u></b>	<b><u>\$96,637,241</u></b>	<b><u>\$87,543,816</u></b>

Total expenditures decreased by \$12,831,577 and \$9,093,425 in fiscal years 2016-2017 and 2017-2018, respectively. The decreases in expenditures for personal services and employee benefits were primarily due to employee retirements. The fluctuation in contractual services was due to variations in consultant services. The decrease in grants was due primarily to a reduction in subsidized training and employment program expenditures.

**Fiduciary Funds**

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

**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 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:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Employer Tax Contributions	\$766,387,519	\$745,883,661	\$711,800,738
Reimbursement from the State, Municipalities and Nonprofits	46,321,810	50,636,512	46,596,635
Reimbursement from Other States	14,160,150	14,027,283	14,785,298
Reimbursements from the Federal Employee Compensation Account	6,127,000	4,851,500	4,083,792
Federal Contributions	3,518,433	3,047,128	12,501,408
Federal Loans	5,563,289	0	0
STC Grant Funds Distribution to Unemployment Trust Fund	1,260,659	0	0
Federal Trust Fund Interest Income	2,332,948	8,432,285	10,515,378
Income Derived from Claimant Fraud Penalty	1,798,090	1,335,330	1,189,229
<b>Total Receipts</b>	<b><u>\$847,469,898</u></b>	<b><u>\$828,213,699</u></b>	<b><u>\$801,472,478</u></b>

Total receipts decreased by \$19,256,199 and \$26,741,221 in fiscal years 2016-2017 and 2017-2018, respectively. Federal contributions decreased by \$471,305 and increased by \$9,454,280 in fiscal years 2016-2017 and 2017-2018, respectively. In fiscal year 2017-2018, the majority of federal contributions represents the Federal Trade Readjustment Allowance, which is a form of income support payments to individuals who have exhausted unemployment compensation.

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 increased by \$4,314,702 in fiscal year 2016-2017 and decreased by \$4,039,877 in fiscal year 2017-2018. These entities do not make employer tax contributions, but are billed when a former employee begins collecting unemployment compensation.

Total employer tax contributions decreased by \$20,503,858 and \$34,082,923 in fiscal years 2016-2017 and 2017-2018, respectively. The unemployment rate has steadily decreased, resulting in a drop in unemployment claims.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
2018	1.4%	3.6%	1.9% to 6.8%
2017	1.4%	3.9%	1.9% to 6.8%
2016	1.4%	4.3%	1.9% to 6.8%
2015	1.4%	4.9%	1.9% to 6.8%

The Unemployment Trust Fund balance at June 30, 2016, 2017, and 2018, was \$382,161,274, \$482,330,115, and \$576,873,522, respectively.

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

	<b>Fiscal Year Ended June 30,</b>		
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Benefits Paid with Employer Contributions, Federal Loans and Federal Reed Funds	\$617,578,902	\$655,394,176	\$628,813,284
Benefits Paid for the State, Municipalities and Nonprofits	47,035,029	51,500,089	45,611,977
Benefits Paid for Other States	14,036,300	14,111,825	14,725,729
Benefits Paid from Federal Employee Contribution Account	6,201,083	4,875,750	4,064,390
Benefits Paid with Federal Contributions	5,414,118	229,756	11,687,784
Reed Act Fund Transfer	12,848,553	5,000,000	3,903,872
Principal Payments on Trust Fund Advances	108,380,267	0	0
STC Grant Funding Transfer	565,719	192,815	242,490
Other	102,353	82,581	108,020
<b>Total Disbursements</b>	<b><u>\$812,162,324</u></b>	<b><u>\$731,386,992</u></b>	<b><u>\$709,157,546</u></b>

Total disbursements decreased by \$80,775,332 and \$22,229,446 in fiscal years 2016-2017 and 2017-2018, respectively, due to fewer Unemployment Insurance claims.

**Funds Awaiting Distribution Fund and Wage Restitution Account**

Fund collections totaled \$28,136,331 and disbursements and transfers totaled \$28,141,337, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled \$4,958,677, and disbursements and transfers totaled \$4,574,558.

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 an employee is unknown after the issue is resolved, the commissioner is empowered to hold the wages for 3 months and later pay the next of kin in accordance with statutory procedures. Any unclaimed wages held by the commissioner for 2 years 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 the Department of Labor disclosed the following 13 recommendations, of which 10 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 advocates that supervisors evaluate employee job performance in writing at least once each year. Generally, the objective 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
- Facilitate communication between employees and management

*Condition:* Our review of 15 performance appraisals revealed 4 instances in which DOL did not complete appraisals for management employees during the audited period.

*Effect:* The absence of written performance appraisals significantly diminishes management's ability to develop 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 3 audit reports covering the fiscal years ended 2011 through 2016.

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

*Agency Response:* "The department agrees with this finding. The agency has taken corrective action to ensure the issuance of annual performance appraisals. Human Resources staff proactively monitor and follow-up with managers on the filing of service ratings in a timely manner."



## **SEBAC vs. Rowland Settlement Payments Improperly Charged**

- Background:* The State Employee Bargaining Agent Coalition (SEBAC) vs. Rowland Settlement, resulted in the payment of damages to certain state employees due to the 2003 layoffs, demotions, or other economic losses. The settlement stipulated that employees who were employed by the state and members of a bargaining unit on November 17, 2002, were entitled to compensatory damages in the form of vacation and/or personal leave time.
- Criteria:* The Office of the State Comptroller’s May 9, 2016 Memorandum No. 2016-13 provided that the SEBAC vs. Rowland Settlement (Rowland Settlement) personal leave and vacation payments are considered unallowed costs and should not be charged directly to federal programs. In addition, based on federal guidelines, state agencies should not treat these settlement payments as indirect costs in state agency federal indirect cost proposals or cost allocation plans.
- Condition:* Our review of Rowland Settlement payments during the fiscal years ended June 30, 2016, 2017, and 2018, disclosed that \$25,263 was incorrectly charged to federal funds.
- Effect:* Federal funds were inappropriately used to pay for Rowland Settlement costs.
- Cause:* The erroneous charge of Rowland Settlement payments to federal funds was due to an administrative oversight.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* The Department of Labor should ensure that any payments made related to the SEBAC vs. Rowland Settlement are not charged to federal funds as stipulated in the Office of the State Comptroller’s Memorandum No. 2016-13. (See Recommendation 2.)
- Agency Response:* “As a result of this finding the agency implemented a policy whereas periodic queries are run in CORECT utilizing STARS and or EPM queries to capture inconsistencies in coding the Rowland/SEBAC account code. This policy is followed to make any adjusting entries necessary in order to charge time correctly to state funding and not to Federal Project.”

## **Inconsistent Recording of Leave Time**

- Criteria:* The Department of Labor March 2018 Weekly Payroll Time Reporting Procedural Manual requires all leave time to be recorded in 15-minute increments.

- Condition:* Our review of 15 employee attendance records during the audited period revealed 3 instances in which leave time was not recorded in 15-minute increments.
- The instructions in the August 2017 DOL Weekly Payroll Time Report Form only recommended recording time in at least 15-minute increments, which is inconsistent with its Weekly Payroll Time Reporting Procedural Manual, in which it is mandated.
- Effect:* The lack of a consistent leave time recording policy increases the risk of inaccurate accounting of leave time and inconsistent policy.
- Cause:* DOL did not provide its employees with a consistent policy to record leave time.
- Prior Audit Finding:* This finding has been previously reported in a prior audit report covering the fiscal years ended 2013 through 2014.
- Recommendation:* The Department of Labor should provide consistent guidance to its employees to ensure that leave time is recorded accurately. (See Recommendation 3.)
- Agency Response:* “The department agrees with this finding. The agency has taken corrective action for to ensure the leave time is recorded in 15-minute increments. Notification was provided to DOL staff and the Payroll Unit will implement periodic audits of timesheets to test for compliance.”

### **Failure to Execute Contracts in a Timely Manner**

- Background:* The Department of Labor 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 services.
- Condition:* We continue to note internal control weaknesses in our review of contracts during the audited period. The parties did not fully execute 12 of the 33 contracts reviewed until after the beginning of the contract period.
- Effect:* Expenditures could be made for unallowable activities.

*Cause:* It appears that the delays in the contract executions were due to a delay between the receipt of funds and Office of the Attorney General approvals.

DOL depends upon the U.S. DOL to fund these contracts, and there is always a delay. According to 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 immediately. 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 3 audit reports covering the fiscal years ended 2011 through 2016.

*Recommendation:* The Department of Labor should strengthen internal controls to ensure that contracts are fully executed prior to their start date. If necessary, the department should delay the service period start date on these contracts. (See Recommendation 4.)

*Agency Response:* “The department acknowledges that certain contracts were executed after the start of the contract period. Unfortunately, we are unable to change this for certain contracts 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.

Further, the State General Conditions, a component of all contracts, including those executed through the WIOA Administration unit, has been approved by the Office of the Attorney General, contemplate such a situation. Section 2 provides:

*EFFECTIVE DATE. This Contract shall become effective only as of the date of signature by the DOL’s authorized official(s) and, where applicable, the date of approval by the Attorney General. Upon such execution, this contract shall be deemed effective for the entire term specified on the contract face page.*

Expenses incurred prior to the effective date of the contract are not reimbursable and are not processed until after the contract effective date and execution.

The Executive Administration has notified units that certain contracts must be executed on or before the start date. However, as described above there are contracts for which we cannot follow this procedure.

It should also be noted that during the period subject to this audit, Connecticut did not have a budget in place from July 1 through October 31. This uncertainty added to the challenge around timely contracting of funds.”

### **Write Off of Receivables**

*Background:* Uncollectible amounts may be written off after reasonable collection efforts have been exhausted. Section 3-7 of the General Statutes authorizes the department to write off any uncollectible claims of \$1,000 or less with the department head’s authorization. For accounts receivable greater than \$1,000, the department submits a request to the Assistant Attorney General’s (AAG) office for abatement coding. Accounts identified to be uncollectible are referred to the Office of the Attorney General for approval. Upon Attorney General approval, the Delinquent Account Unit requests that the delinquent account be written off. The Information Technology (IT) Unit annually posts the write-offs.

*Criteria:* Section 31-266c(a) of the General Statutes provides that the administrator, upon the advice of the Attorney General, may abate any contributions due under this chapter that have been found by the administrator to be uncollectible.

Section 3-7(a) of the General Statutes states that any uncollectible claim for an amount of \$1,000 or less may be cancelled upon the books of any state department or agency upon the authorization of the head of such department or agency.

Sound business practice dictates that agencies should periodically review past due accounts receivables to determine their collectability. Receivables management deems uncollectible should be written off.

*Condition:* Aged receivables were not reviewed to assess their collectability. Receivables that would likely be deemed uncollectible were not written off for fiscal years 2016-2017 and 2017-2018.

*Effect:* The inclusion of uncollectible accounts in the accounts receivable records misrepresents the true level of accounts receivables and inhibits their efficient management.

*Cause:* Due to decreased staffing levels, the department focused its efforts on collecting outstanding debts rather than taking the time to write off amounts that should have been deemed uncollectible.

*Prior Audit Finding:* This finding has been previously reported in a prior audit report covering the fiscal years ended 2013 through 2014.

*Recommendation:* The Department of Labor should strengthen internal controls to ensure that it periodically reviews employer receivables and writes off aged receivables deemed uncollectible. (See Recommendation 5.)

*Agency Response:* “We disagree with this finding. CGS 31-266c indicates that the department may abate any contributions due which have been found to be uncollectible. As this practice is permissive and not required, we had our staff focus on collections to bring in money to the Agency, which is in desperate need of the funds. The Auditor and the Auditor’s supervisor explained that it is General Accounting Practice to write-off of uncollectable balances on an annual basis. The Department will reinforce its internal controls to ensure that employer receivables are periodically reviewed, and aged receivables deemed uncollectible are written-off.”

*Auditors’ Concluding Comment:*

Although the statute indicates that uncollectible receivables may be abated, the agency explained its related internal control procedures to the auditors stating that the Information Technology Unit annually processes requests to post write-offs once a year. Correspondence from agency staff to the auditors indicated that the department has not reviewed uncollectible receivables since fiscal year 2015-2016.

**Inadequate Controls Over Cash Receipts**

*Criteria:* The State Accounting Manual requires each agency to establish internal controls over cash receipts to minimize the risk of loss. An individual responsible for receiving cash should record the receipt date, remitter name, receipt amount, receipt type, and the 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 loss and deposited as soon as possible to decrease the chance of loss and to conform with the requirements of Section 4-32 of the General Statutes.

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

Section 4-33a of the General Statutes requires state agencies responsible for state property and funds to promptly notify the Auditors of Public Accounts and State Comptroller of any unauthorized, illegal, irregular, or unsafe handling of state funds.

*Condition:* Our review of 25 cash receipts revealed that DOL does not have adequate operating procedures for handling cash receipts. In 4 instances, the cash received did not agree with the amount deposited.

DOL did not promptly notify the Auditors of Public Accounts and State Comptroller of \$131 in unaccounted funds.

*Effect:* The risk of loss or theft significantly increases when cash receipts are not accurately documented or tracked.

*Cause:* Daily cash receipts were not accurately entered into and reconciled to the cash receipts log.

*Prior Audit Finding:* This finding has been previously reported in the last 3 audit reports covering the fiscal years ended 2011 through 2016.

*Recommendation:* The Department of Labor should strengthen internal control procedures to ensure that it accurately logs all receipts into a journal or equivalent tracking record.

The department should promptly notify the Auditors of Public Accounts and State Comptroller of any unauthorized, illegal, irregular, or unsafe handling of state funds. (See Recommendation 6.)

*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. We now have two people who receive cash deposits, along with additional safeguards and verification steps by both unit staff and Fund Accounting staff to align bank deposit slips and cash receipts. In addition, staff have been advised to report any discrepancies to BPC supervisors immediately. In the almost two years since the implementation of these new procedures near, there have been no reports of discrepancies between bank deposit slips and cash receipts.”

### **Inadequate Controls over Equipment Inventory**

*Criteria:* Section 4-36 of the General Statutes requires a property inventory to be kept in the form prescribed by the State Comptroller. The State Property Control Manual specifies requirements and standards for state agency property control systems, including maintaining a software inventory to track and control all agency software media, as well as tagging, recording, and maintaining capital assets and controllable property on the Core-CT Asset Management module.

- Condition:* DOL did not perform complete and accurate physical inventory during the audited period. This limited our ability to review physical assets. In addition, we noted that 3 of 7 assets that DOL disposed of during the audited period remained in service in Core-CT. Also, our review of 5 capital and controllable property acquisitions revealed that DOL did not accurately report 4 items, totaling \$31,497, in its inventory records and custody.
- Effect:* The department did not comply with the requirements of Section 4-36 of the General Statutes or the State 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 9 audit reports covering the fiscal years ended 1999 through 2016.
- Recommendation:* The Department of Labor should ensure that it appropriately designs and implements internal controls over the custody and reporting of its assets. The department should take a complete and accurate physical inventory and update any changes in the Core-CT Asset Management module. (See Recommendation 7.)
- Agency Response:* “We agree with the findings. The lack of accuracy was the result of the process being compromised due to a large number of office closings, 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 resulted in an accurate inventory being available by the close of FY 18/19. This corrective plan included:
- Upgrade of inventory scanning equipment
  - (Re)training of appropriate staff in inventory roles and responsibilities
  - Update of 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 ensuring 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 requires a property inventory to be kept in the form prescribed by the State Comptroller. The State Property Control Manual specifies requirements and standards for state agency property control systems, including maintaining a software inventory and tagging, recording, and maintaining capital assets and controllable property on the Core-CT Asset Management module. The agency is required to annually transmit a detailed inventory of all of its real or personal state property in its custody to the Comptroller using a CO-59 report.
- Condition:* The department acknowledged that its fiscal year 2016-2017 and 2017-2018 CO-59 reports were not accurate. Therefore, we could not adequately perform related audit testing. The department has not corrected conditions that we noted in the prior audit.
- Effect:* The department did not comply with the requirements of Section 4-36 of the General Statutes or the State Property Control Manual. Deficiencies in control over equipment inventory reduce assurance that assets are properly safeguarded and accurately reported.
- Cause:* Department staff advised us that there was not enough personnel to adequately perform a physical inventory and maintain its assets.
- Prior Audit Finding:* This finding has been reported in the last 9 audit reports covering the fiscal years ended 1999 through 2016.
- 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 8.)
- Agency Response:* “We agree with the findings. The lack of accuracy was the result of the process being compromised due to a large number of office closings, 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 resulted in an accurate inventory being available by the close of FY 18/19. This corrective plan included:
- Upgrade of inventory scanning equipment



- (Re)training of appropriate staff in inventory roles and responsibilities
- Update of 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 ensuring 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.”

### **Lack of Proper Controls over Mileage Reimbursement**

*Criteria:* The P-5 Administrative and Residual Collective Bargaining Agreement provides that mileage reimbursement for the use of personal vehicles on authorized state business be evaluated and paid monthly upon presentation of travel expenses for reimbursement.

Mileage reimbursement requests for union-funded travel to seminars, workshops, or conferences are processed through the Office of the State Comptroller and paid in accordance with collective bargaining agreements.

Good business practice and sound fiscal management dictate that reimbursement requests be promptly submitted and do not overlap fiscal periods.

*Condition:* The Department of Labor does not have written policies or procedures to require the timely submission of employee mileage reimbursement requests for work-related travel.

In January 2019, an employee submitted 10 months of mileage reimbursement requests, totaling \$1,160, for the use of a personal vehicle that spanned 2 fiscal periods. Since the department had already closed out fiscal year 2017-2018 accounts, it charged the expenditures to fiscal year 2018-2019, which overstated them by \$336.

*Effect:* Internal controls weaknesses increase the opportunity for improper activity and reduce the reliability of financial reporting.

*Cause:* There is a lack of established internal control procedures.

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

*Recommendation:* The Department of Labor should implement internal control procedures to ensure the timely submission of mileage reimbursement requests. (See Recommendation 9.)

*Agency Response:* “The department agrees that mileage reimbursement should be submitted timely and will issue periodic reminders to DOL employees to submit timely mileage reimbursement requests. It should be noted, however, the Department does not believe it has the authority to unilaterally create a policy that would deny employee mileage reimbursement requests that do not comply with a monthly submission policy.”

### **Utilization of State Fleet Vehicles**

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

- Agencies are responsible for ensuring that their state-owned vehicles are used in the most cost-effective and efficient manner possible.
- Agencies must return motor vehicles determined by the Director of DAS Fleet Operations and/or the agency to be in excess of the agency’s requirements 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.
- Agencies must obtain approval from the Director of DAS Fleet Operations to allow employees to garage a state-owned vehicle at their home on a continuous basis.
- Overnight parking of a state-owned vehicle at an employee’s home for more than one night per month may be classified as a fringe benefit taxable income pursuant to Federal Public Law 99-44.

The Office of the State Comptroller’s Memorandum No. 2017-03 requires state agencies to calculate and report taxable fringe benefits when a state employee commutes in or uses a state vehicle for personal use.

*Condition:* During our review of state vehicle usage, we noted the following:

- DOL does not allocate and utilize state-owned vehicles in the most cost-effective and efficient manner.

- DOL does not have internal controls in place to ensure the accuracy and validity of monthly motor vehicle usage reports.
- Between January and October 2018, DOL assigned 4 employees state-owned vehicles on a long-term basis but did not meet the applicable DAS standards for assignment.
- DOL did not obtain approval from the Director of DAS Fleet Operations for an employee to garage a state-owned vehicle at the employee's home.
- DOL does not have procedures to identify instances requiring the calculation and reporting of taxable fringe benefits.

*Effect:* There is reduced assurance that the department efficiently and effectively administers the use of state vehicles.

Taxable fringe benefits may not be reported to the Internal Revenue Service.

*Cause:* A lack of uniform policies, procedures, and administrative oversight contributed to this condition.

*Prior Audit Finding:* This finding has been previously reported in the last 2 audit reports covering the fiscal years ended 2013 through 2016.

*Recommendation:* The Department of Labor should formalize its policies for assigning and monitoring vehicles and reallocate underutilized vehicles for efficiency and cost savings. In addition, the department should develop procedures to accurately calculate and report the taxable fringe benefit for commuting or personal use of a state vehicle. (See Recommendation 10.)

*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 analysis for state vehicle assignments and retention in accordance with DAS policy.

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. However, we have, developed a process to allow all DOL staff access to vehicles which are designated as “division vehicles” when not in use by assigned division(s).”

## **Lack of General Control Over Reporting Requirements**

- Background:* The Department of Labor must submit approximately 20 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:* The department must comply with numerous reporting requirements set forth by the General Statutes and the Office of the State Comptroller.
- Sound internal control suggests that a centralized mechanism should be in place to monitor compliance with a department's various statutory and regulatory reporting requirements. Agencies should regularly evaluate their reporting requirements and propose legislation when they become obsolete or duplicative.
- Condition:* DOL does not have internal controls to track changes to legislative and public act reporting requirements or monitoring procedures to ensure that it prepares and submits mandated 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 4 audit reports covering the fiscal years ended 2009 through 2016.
- Recommendation:* The Department of Labor should institute procedures and establish effective internal controls to ensure that it submits all required reports. (See Recommendation 11.)
- Agency Response:* “The agency agrees with this finding. Changes have been implemented. Every director has been individually informed of his or her responsibility for the reporting requirements. Certain reports are duplicative and satisfied with federal reporting requirements. These reports are forwarded to the legislature with an indication of what statutory requirement the federal report fulfills. The legislative liaison put together a list of the required reports with the responsible party indicated. Further, in 2020, the attached charts and procedures were shared with the directors.”

## **Ineffective Management of Employer Workplace Violation Case Files and Handling of Receipts**

*Background:*

The Department of Labor assesses civil penalties on employers who violate prevailing and minimum wage standards. Although wage enforcement cases constitute a larger portion of the division's investigations, the department informed us that it does not assess civil penalties on employers who violate wage enforcement standards unless they are a repeat offender. This practice is based on the premise that, in many wage enforcement cases, the civil penalty is greater than the wages due, and imposing civil penalties would detract from the department's primary purpose of collecting unpaid wages.

*Criteria:*

Section 4-32 of the General Statutes requires state agencies to account for and deposit receipts within 24 hours if the total receipts are \$500 or more.

Section 31-69a of the General Statutes provides that any employer who violates any provisions of wage and hour laws must pay DOL a \$300 civil penalty for each violation.

Section 31-71h-2 of the Regulations of Connecticut State Agencies requires DOL to assess a civil penalty of \$300 upon the determination that an employer has violated a statutory provision of Chapter 557, Part III or Chapter 558. In determining the number of violations committed by an employer, DOL must assess a separate civil penalty for each individual employee adversely affected by the employer's violation.

Section 31-57f of the General Statutes requires state contractors to pay their employees at minimum rates determined by DOL. Any employer who violates these provisions must pay a civil penalty between \$2,500 and \$5,000 for each offense. The contracting state department that imposed such civil penalty must, within 2 days of taking such action, notify DOL in writing of the name of the employer or agency involved, the violations, and steps taken to collect the fine. Furthermore, DOL has the authority to review complaints for nonpayment of the standard wage rate.

Section 31-71h-6 of the General Statutes authorizes the DOL Commissioner or designee, at their sole discretion, to uphold or modify civil penalty assessments.

The State Accounting Manual requires that cash held in an office be properly safeguarded and controlled to avoid losses.

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 duties.

*Condition:* During the review of case files and the handling of deposits, we noted the following:

- DOL only maintains hard copy case files for its reviews of wage and workplace standards complaints. Fourteen out of 15 case files reviewed contained preliminary notes, progress notes, and/or final reports with handwritten documentation, which were often illegible.
- In 12 of 15 instances reviewed, field supervisors and agents/investigators made civil penalty modifications even though only the commissioner or designee have that authority and discretion.
- The department failed to adequately document information in case files. It did not document its justification for civil penalty modifications or the lack of civil penalties imposed in 12 of 15 case files reviewed.
- An employer with 74 violations for nonpayment of the standard wage rate only paid \$2,500 in civil penalties. However, based on the number of violations, the department should have imposed \$185,000 in penalties on this employer in accordance with Section 31-57f of the General Statutes.
- DOL has not developed standard policies and procedures for performing and documenting complaint investigations.
- DOL did not promptly account for and/or deposit 19 of 50 receipts reviewed in accordance with Section 4-32 of the General Statutes.
- DOL did not adequately safeguard checks held in the central office. In one division, we found that a safe remained unlocked throughout the day.

*Effect:* The following effects were noted:

- Paper case files are difficult to read and may not be properly updated or reviewed.
- Civil penalties may be modified or eliminated inappropriately, which may also deprive the agency of revenue.
- Without adequate documentation, the department may overlook labor regulation violations.

- Without imposing civil penalties, the department may enable the perpetuation of employer violations.
- The nature of the division’s operations and other contributing factors create a high inherent risk of fraud that it has not appropriately addressed through internal controls such as a policies and procedures manual.
- Untimely deposits deprive the state of revenue.
- When checks are not safeguarded, the opportunity exists for improper activity.

*Cause:* Internal controls are inadequate and lack uniformity within the department.

The division has not modernized its case management processing systems.

Although DOL is authorized to review complaints for nonpayment of the standard wage rate, the contracting state agency appears to have the authority to impose civil penalties under Section 31-57f of the General Statutes. DOL did not notify state contracting agencies of identified violations.

A lack of cooperation and failure to communicate exists within the Wage and Workplace Unit. Employer checks submitted to various locations are often not promptly processed and deposited.

*Prior Audit Finding:* This finding has been previously reported in 5 prior audit reports covering the fiscal years ended 2007 through 2016.

*Recommendation:* The Department of Labor should strengthen employer labor violation internal controls to ensure consistent investigation and recordkeeping practices. Additionally, the department should develop internal controls to comply with accounting and deposit requirements in Section 4-32 of the General Statutes and the Office of the State Comptroller’s directives.

The Department of Labor should assess civil penalties as prescribed by Section 31-69 of the General Statutes and seek legislative changes to Section 31-57f of the General Statutes to give it the authority to impose and collect civil penalties. (See Recommendation 12.)

*Agency Response:* “Process of written reports  
This process was substantially improved with the E-Wage case and document management system that was launched in May 2019. This new digital system now captures, manages, stores, reports, and centralizes

business information that keeps data current, accurate and quality controlled.

**Civil penalty modifications**

Pursuant to the revised policy, the Wage Director reviews all requests for civil penalty modifications and is the ultimate authority on the issue.

**Safe**

Until a final resolution is implemented, the division will ensure that the current safe is locked at all times.

**Assessment of civil penalties**

Our application and understanding of “offense” versus “violation” was reviewed with the DOL Legal Division which concurred with our interpretation. “Each offense” reflects the amount of statutes involved, while “each violation” indicates the amount of times a statute is violated. The imposition of civil penalties in the manner recommended would greatly hinder the enforcement of Conn. Gen. Stat. § 31-57f.

**Stat. § 31-57f(c)**

The express statutory language does not require the DOL to notify state contracting departments of any identified violations and/or penalties imposed, but rather the exact opposite, that is, that contracting departments electing to impose civil penalties are required to notify the DOL within two days of taking any such enforcement action.”

**Lack of Administrative Oversight on Boards and Commissions**

*Background:*

The General Statutes related to the Department of Labor provide for 5 boards, 3 commissions, and a council, which we collectively refer to as boards. These include the State Apprenticeship Council, State Board of Labor Relations, State Board of Mediation and Arbitration, Employment Security Board of Review, Occupational Safety and Health Review Commission, Connecticut Employment and Training Commission, Employment Security Advisory Board, Employee Misclassification Advisory Board, and Joint Enforcement Commission on Employee Misclassification.

*Criteria:*

Section 1-225 of the General Statutes requires public agencies to: (1) post meeting minutes to its website no later than 7 days after such meeting; (2) file a schedule of regular meetings for the ensuing year with the Secretary of the State no later than January 31<sup>st</sup> 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 no 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 State Apprenticeship Council, each of whom shall have some association with apprentice training.

Section 31-57h establishes the Joint Enforcement Commission on Employee Misclassification consisting of the commissioners of Labor, Revenue Services, Insurance, Consumer Protection, the chairperson of the Workers' Compensation Commission, the Attorney General, and the Chief State's Attorney, or their designees. The commission must meet at least 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 in the construction industry.

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.

*Condition:*

Our review of the boards for the fiscal years ended June 30, 2017 and 2018 revealed the following:

- The Board of Mediation and Arbitration and Joint Enforcement Commission on Employee Misclassification did not post a schedule of meetings, agendas, or meeting minutes to the department's website. The Board of Labor Relations could not provide documentation to substantiate that it filed schedules of meetings and agendas for calendar year 2017 with the Secretary of the State. Also, the Employment Security Advisory Board did not file a schedule of meetings for calendar year 2017 or agendas for calendar years 2017 and 2018 with the Secretary of the State.
- The Employee Misclassification Advisory Board and Joint Enforcement Commission on Employee Misclassification did not meet the required 4 times per year.
- The Joint Enforcement Commission on Employee Misclassification members have not been updated on the department's website to include the commissioners of Insurance and Consumer Protection.
- Two of the 5 mediator positions required by Section 31-96 were vacant during the audited period.
- The State Apprenticeship Council had only 11 of its required 12 members.

*Effect:* Boards did not provide public notice for their meetings, minutes, or agendas. They 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 effectively work with the boards and appointing authorities.

*Prior Audit Finding:* This finding has been reported in the last 4 audit reports covering the fiscal years ended 2009 through 2016.

*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 13.)

*Agency Response:* “The Department does not agree with this specific finding concerning the Employee Misclassification Advisory Board and Joint Enforcement Commission on Employee Misclassification. As stated in several previous audits, the agency is not responsible for and has no oversight over these 2 entities. When an agency has responsibility for a Board or Commission, the statute specifically mentions that agency. These statutes do not indicate that DOL is responsible for the Board or the Commission. Therefore, the finding concerning these entities should be removed from the audit.

Every Board has been made aware of the requirements for filing the meeting dates, agendas and minutes. Currently, each Board for which we are responsible has followed the proper protocol.”

*Auditors’ Concluding*

*Comment:* Although the statute may not designate the department as the administrative arm of the Employee Misclassification Advisory Board and Joint Enforcement Commission on Employee Misclassification, it previously took on these administrative responsibilities. The department’s response to the prior audit explained that, due to expanding responsibilities and fewer staff, it was unable to continue to administer these boards. DOL did not indicate which entity took over this administrative oversight. Based on further discussion with DOL, the department should collaborate with the boards to determine which entity should assume administrative oversight.

## RECOMMENDATIONS

### Status of Prior Audit Recommendations:

Our prior audit report on the Department of Labor contained 16 recommendations. Six have been implemented or otherwise resolved and 10 have been repeated or restated with modifications during the current audit.

- The Department of Labor should ensure that it completes annual performance appraisals for all of its employees. **This recommendation is being repeated. (See Recommendation 1.)**
- 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. **This recommendation is being repeated. (See Recommendation 4.)**
- 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. **This recommendation is being repeated. (See Recommendation 6.)**
- 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. **This recommendation is being repeated. (See Recommendation 7.)**
- 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. **This recommendation is being repeated. (See Recommendation 8.)**
- The Department of Labor should formalize its policies for assigning and monitoring state vehicles. The department also should determine whether it could improve its state vehicle allocation through a motor pool. **This recommendation is being repeated to reflect current conditions. (See Recommendation 10.)**
- The Department of Labor should develop and implement policies and procedures to ensure it holds staff accountable for their reported time. **This recommendation has been resolved.**
- The Department of Labor should institute procedures and establish effective internal controls to ensure that it submits all required reports. **This recommendation is being repeated. (See Recommendation 11.)**

- 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. **This recommendation is being repeated in part. (See Recommendation 12.)**
- 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. **This recommendation is being repeated. (See recommendation 12.)**
- 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. **This recommendation has been resolved.**
- 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. **This recommendation has been resolved.**
- 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. **This recommendation has been resolved.**
- 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, it should request a legislative change. **This recommendation is being repeated. (See Recommendation 13.)**
- 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. **This recommendation has been resolved.**
- 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. **This recommendation has been resolved.**

**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 4 of 15 employees reviewed.

- 2. The Department of Labor should ensure that any payments made related to the SEBAC vs. Rowland Settlement are not charged to federal funds as stipulated in the Office of the State Comptroller's Memorandum No. 2016-13.**

Comment:

Our review of the SEBAC vs. Rowland Settlement payments disclosed that \$25,263 was incorrectly charged to federal funds.

- 3. The Department of Labor should provide consistent guidance to its employees to ensure that leave time is recorded accurately.**

Comment:

Our review of 15 employees' attendance records revealed that 3 employees' leave times were not recorded in 15-minute increments.

Furthermore, the instructions in the August 2017 DOL Weekly Payroll Time Report Form only recommend recording time in at least 15-minute increments, which is inconsistent with its Weekly Payroll Time Reporting Procedural Manual, in which it is mandated.

- 4. The Department of Labor should strengthen its internal controls to ensure that contracts are fully executed prior to their start date. If necessary, the department should delay the service period start date on these contracts.**

Comment:

We continue to note internal control weaknesses in our review of contracts. The parties did not fully execute 12 of the 33 contracts reviewed until after the beginning of the contract period.

5. **The Department of Labor should strengthen internal controls to ensure that it periodically reviews employer receivables and writes off aged receivables deemed uncollectible.**

Comment:

Aged receivables were not reviewed to assess their collectability. Receivables that would likely be deemed uncollectible were not written off for fiscal years 2016-2017 and 2017-2018.

6. **The Department of Labor should strengthen internal control procedures to ensure that it accurately logs all receipts into a journal or equivalent tracking record.**

**The department should promptly notify the Auditors of Public Accounts and State Comptroller of any unauthorized, illegal, irregular, or unsafe handling of state funds.**

Comment:

DOL does not have adequate operating procedures for handling cash receipts. In 4 of 25 instances, the cash received did not agree with the amount deposited.

DOL did not report \$131 in unaccounted funds to the Auditors of Public Accounts and State Comptroller.

7. **The Department of Labor should ensure that it appropriately designs and implements internal controls over the custody and reporting of its assets. The department should take a complete and accurate physical inventory and update any changes in the Core-CT Asset Management module.**

Comment:

DOL did not perform complete and accurate physical inventory during the audited period. In addition, we noted that 3 of 7 assets DOL disposed of during the audited period remained in service in Core-CT. Also, our review of 5 capital and controllable property acquisitions revealed that DOL did not accurately report 4 items, totaling \$31,497, in its inventory records and custody.

8. **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:

The department acknowledged that its fiscal year 2016-2017 and 2017-2018 CO-59 reports were not accurate. Therefore, we could not adequately perform related audit testing. The department has not corrected conditions that we noted in the prior audit.

**9. The Department of Labor should implement internal control procedures to ensure the timely submission of mileage reimbursement requests.**

Comment:

DOL does not have policies or procedures to require the timely submission of employee mileage reimbursement requests for work-related travel.

In January 2019, an employee submitted 10 months of mileage reimbursement requests, totaling \$1,160, for the use of a personal vehicle that spanned 2 fiscal periods.

**10. The Department of Labor should formalize its policies for assigning and monitoring state vehicles and should reallocate underutilized vehicles for efficiency and cost savings. In addition, the department should develop procedures to accurately calculate and report the taxable fringe benefit for commuting or personal use of a state vehicle.**

Comment:

DOL does not allocate and utilize state-owned vehicles in the most cost-effective and efficient manner and does not have internal controls in place to ensure the accuracy and validity of monthly motor vehicle usage reports.

Between January and October 2018, DOL assigned 4 employees state-owned vehicles on a long-term basis but did not meet the applicable DAS standards for assignment. DOL did not obtain approval from the Director of DAS Fleet Operations for an employee to garage a state-owned vehicle at the employee's home, and did not have procedures to identify instances requiring the calculation and reporting of taxable fringe benefits.

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

Comment:

DOL does not have internal controls to track changes to legislative and public act reporting requirements or monitoring procedures to ensure that it prepares and submits mandated reports.

- 12. The Department of Labor should strengthen employer labor violation internal controls to ensure consistent investigation and recordkeeping practices. Additionally, the department should develop internal controls to comply with Section 4-32 of the General Statutes and the Office of the State Comptroller's directives.**

**The Department of Labor should assess civil penalties as prescribed by Section 31-69 of the General Statutes and seek legislative changes to Section 31-57f of the General Statutes to give it the authority to impose and collect civil penalties.**

Comment:

DOL's hard copy case files contained illegible handwritten documentation, and civil penalty modifications were made by unauthorized staff. In 12 of 15 instances reviewed, field supervisors and agents/investigators made civil penalty modifications even though only the commissioner or designee have that authority and discretion. The department did not adequately document its justifications for civil penalty modifications and/or lack of civil penalties.

DOL has not developed standard policies and procedures for performing and documenting complaint investigations. DOL did not promptly account for or deposit receipts and did not properly safeguard checks held in the central office. The department did not properly impose civil penalties for violations of nonpayment standard wage rate.

- 13. 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:

We noted instances in which boards did not properly post or file meeting minutes, agendas, or schedules for the ensuing year in accordance with Section 1-225 of the General Statutes. The Employee Misclassification Advisory Board and Joint Enforcement Commission on Employee Misclassification did not meet the required 4 times per year, and commission membership was not updated on the department's website. Two mediator positions, required by Section 31-96 of the General Statutes, were vacant during the audited period. The State Apprenticeship Council did not have its required 12 members.



**ACKNOWLEDGMENTS**

The Auditors of Public Accounts 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.

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

Andrea Evans  
Jaimey Makie  
Shu Zhao



Andrea Evans  
Principal Auditor

Approved:



John C. Geragosian  
State Auditor