

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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March 5, 2002

AUDITORS' REPORT  
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We have examined the financial records of the Department of Labor for the fiscal years ended June 30, 1999 and 2000. Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all State agencies. This examination has therefore been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Recommendations and Certification that follow.

COMMENTS

**FOREWORD:**

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

The major function of the Department is to serve the unemployed, primarily by finding suitable employment for those unemployed and by providing to the unemployed, monetary benefits which are dependent upon the claimant's employment and wage history. Included among the other functions of the Department are administration of certain State and Federal training and skill development programs, regulation and enforcement of working conditions, enforcement of minimum and other wage standards, enforcement of labor relations acts, mediation and arbitration service and maintenance of labor statistics. Field operations of the Department were carried out from 18 Job Centers throughout the State. The Department was responsible for the following programs:

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

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- Job Training Partnership Act – Provides job training to those economically disadvantaged individuals and other individuals who face serious barriers to employment and who are in special need of such training to obtain productive employment.
- Employment Service – Provides job placement and other employment services to unemployed individuals and provides employers with a source of qualified applicants.
- Jobs First Employment Service (also known as TANF – Temporary Assistance to Needy Families) – Provides employment services to recipients determined to be eligible for TANF by the Department of Social Services.
- Community Employment Incentive Program – Provides employment placement projects for recipients of general assistance.

The Department of Labor is administered by a Commissioner who is appointed by the Governor under Sections 4-5 to 4-8 of the General Statutes. For the period audited James P. Butler served as Commissioner.

The Department of Labor administers the following Councils, Boards and Commissions.

### Connecticut State Apprenticeship Council:

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

### Connecticut Board of Mediation and Arbitration:

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

### Connecticut State Board of Labor Relations:

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

### Employment Security Board of Review:

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

### Connecticut Occupational Safety and Health Review Commission:

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

Connecticut Employment and Training Commission:

The Commission carries out the duties of a State job training coordinating council pursuant to the Federal Job Training Partnership Act. It is responsible for reviewing all employment and training programs in the State to determine their success. The Commission is required also to develop a plan to coordinate employment and training programs and to recommend improvements. Effective June 23, 1999, with the passage of Public Act 99-195, "An Act Concerning Education, Employment and Job Training Programs", the Commission also became responsible for implementing the Federal Workforce Investment Act of 1998.

Advisory Council on Displaced Homemakers:

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

Employment Security Division Advisory Board:

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

**RÉSUMÉ OF OPERATIONS:**

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

**General Fund:**

**General Fund Receipts:**

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
	\$	\$	\$
Employer contributions	16,141	49,269	4,839
Federal contributions	1,042,135	6,786,176	9,117,347
Other grants – restricted	256,512	406,888	549,737
Recoveries of expenditures	341,013	266,772	350,326
Fees and fines	178,355	142,838	133,698
Refunds of expenditures	670,475	788,097	281,868
Miscellaneous	<u>93,344</u>	<u>37,690</u>	<u>17,065</u>
Total General Fund Receipts	<b><u>\$2,597,975</u></b>	<b><u>\$8,477,730</u></b>	<b><u>\$10,454,879</u></b>

Total receipts increased by \$5,879,755 during the 1998-1999 fiscal year and increased by \$1,977,149 during the 1999-2000 fiscal year. The increased receipts for both fiscal years can

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mainly be attributed to an increase in Federal contributions. The Department began administering a new Federal program called Welfare-to-Work effective July 1, 1998.

**General Fund Expenditures:**

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
	\$	\$	\$
Budgeted Accounts:			
Personal services	7,903,805	12,109,539	13,097,259
Contractual services	946,415	4,181,637	4,726,385
Commodities	155,569	235,873	207,954
Sundry charges	7,996,818	25,421,305	33,340,743
Capital outlay	<u>57,829</u>	<u>103,242</u>	<u>801,012</u>
Total Budgeted Accounts	<u>17,060,436</u>	<u>42,051,596</u>	<u>52,173,353</u>
Restricted Accounts	<u>1,005,728</u>	<u>296,454</u>	<u>372,642</u>
Total Expenditures	<b><u>\$18,066,164</u></b>	<b><u>\$42,348,050</u></b>	<b><u>\$52,545,995</u></b>

General Fund expenditures increased by \$24,281,886 in 1998-1999 from the 1997-1998 total of \$18,066,164. Personal services increased due to an increase in the number of employees charged to the General Fund for the Jobs First Employment Service program or Temporary Assistance to Needy Families (TANF). In accordance with Section 2 subsection (b) of Public Act 98-169 "An Act Establishing a Self-Sufficiency Measurement and Expanding Job Training Opportunities" that became effective July 1, 1998, the Department became responsible for the administration of employment services to recipients determined to be eligible for TANF by the Department of Social Services (DSS). Contractual services increased since the Department hired several consultants to aid in the Year 2000 conversion of their computer systems. Sundry charges increased as a result of expenditures for the Jobs First Employment Service program and the Federal Welfare-to-Work program. Restricted accounts decreased in the 1998-1999 fiscal year because of transfers back to the DSS for the Stipend program.

General Fund expenditures increased by \$10,197,945 in the 1999-2000 fiscal year from the 1998-1999 total. These increases mainly for sundry charges can be attributed to increased expenditures for the Jobs First Employment Service program and Federal expenditures for the new Welfare-to-Work program.

**Special Revenue Funds:**

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

**Employment Security Administration Fund:**

The Employment Security Administration Fund operates under Section 31-259, subsections (a) through (c), of the General Statutes and the Fund consists of monies appropriated by this

State, monies received from the United States of America, or any agency thereof, and monies received from any other source, for the purpose of defraying the cost of administering the Employment Security Division. According to Section 31-237, subsection (a), of the General Statutes, the “Employment Security Division shall be responsible for matters relating to unemployment compensation and the Connecticut State Employment Service, and shall establish and maintain free public employment bureaus.”

**Unemployment Compensation Advance Fund:**

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

**Employment Security Special Administration Fund:**

The Employment Security Special Administration Fund is authorized by Section 31-259, subsection (d), of the General Statutes to receive all penalty and interest on past due employers’ contributions. Money in the fund shall be used for the payment of costs of administration, 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 1 of any calendar year, the assets in the Employment Security Special Administration Fund, which exceed \$500,000, are to be appropriated to the Unemployment Compensation Fund. In June 1999 and 2000, \$3,800,000 and \$4,000,000, respectively, were transferred to the Employment Security Administration Fund for the purpose of offsetting projected deficits of Federal administrative funds.

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

**Schedule of Receipts**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
	\$	\$	\$
Employment Security Administration Fund	98,144,094	98,712,138	98,884,617
Unemployment Compensation Advance Fund	134,604,140	146,128,881	146,378,442
Employment Security Special Administration Fund	3,522,402	3,797,010	3,866,780
Inter Agency/Intra Agency Grants	13,164	0	1,836,400
Workers’ Compensation Fund	0	5,377	2,589
Total	<b><u>\$236,283,800</u></b>	<b><u>\$248,643,406</u></b>	<b><u>\$250,968,828</u></b>

Total receipts increased by \$12,359,606 in the 1998-1999 fiscal year from the previous fiscal year total of \$236,283,800. This increase was mostly attributable to an increased bond assessment to employers based on the anticipated amount of monies needed for bond repayment for that fiscal year. Anticipated amounts are determined by the State Treasurer's Office. In 1999-2000, receipts increased by \$2,325,422. This increase was mainly due to transfers from the Department of Economic and Community Development for Customized Job Training contracts or other types of job training contracts.

**Schedule of Expenditures**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
	\$	\$	\$
Employment Security Administration Fund	101,085,081	98,192,712	105,477,133
Employment Security Special Administration Fund	3,300,000	3,800,000	4,000,000
Workers Compensation Fund	621,877	606,532	556,479
Inter Agency/Intra Agency Grants	283,813	469,520	1,427,718
Capital Equipment Purchase Fund	1,083,696	497,134	142,365
Total	<b><u>\$106,374,467</u></b>	<b><u>\$103,565,898</u></b>	<b><u>\$111,603,695</u></b>

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
	\$	\$	\$
Personal services	44,244,527	43,652,151	47,050,178
Contractual services	10,975,735	8,252,340	11,613,412
Commodities	1,860,739	1,428,687	744,041
Revenue refunds	825,362	1,333,004	3,090,336
Sundry charges (Fringe benefits and grants)	45,522,771	46,278,568	47,570,035
Equipment	2,945,100	2,621,148	1,535,693
Buildings and improvement	233	0	0
Total Expenditures	<b><u>\$106,374,467</u></b>	<b><u>\$103,565,898</u></b>	<b><u>\$111,603,695</u></b>

Total expenditures decreased by \$2,808,569 during the 1998-1999 fiscal year from the previous fiscal year total of \$106,374,467. This decrease is mainly due to a decrease in the use of outside consulting services. In the 1999-2000 fiscal year, expenditures increased by \$8,037,797. Personal services increased since this fiscal year had 27 pay periods instead of the usual 26 pay periods. Outside consulting services costs increased as a result of the Department contracting with a vendor to design, implement and maintain a Case Management Information System for the temporary family assistance program in accordance with the provisions of Public Act 97-2, section 119 of the June 18 Special Session. Other projects involving consultants included work associated with becoming Year 2000 compliant and the continuing effort to migrate all computer applications on the UNISYS mainframe to the IBM mainframe.

Contractual services also increased due a final settlement of \$1,200,000 involving the GUIDE (General Unemployment Insurance Development Effort) project undertaken several years ago.

**Fiduciary Funds:**

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

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

**Schedule of Receipts**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
Unemployment Compensation Fund	\$ 655,805,374	\$ 538,214,068	\$ 419,592,536
Fringe Benefit Recovery Fund	386,673	319,504	360,817
Pending Receipts Fund	4,144	1,113,235	1,055,131
Total	<b><u>\$656,196,191</u></b>	<b><u>\$539,646,807</u></b>	<b><u>\$421,008,484</u></b>

**Schedule of Disbursements**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
Unemployment Compensation Fund	\$ 362,074,068	\$ 376,551,762	\$ 370,740,561
Pending Receipts Fund	4,144	689,063	751,101
Total	<b><u>\$362,078,212</u></b>	<b><u>\$ 377,240,825</u></b>	<b><u>\$371,491,662</u></b>

**Unemployment Compensation Fund:**

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

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

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The majority of the receipts consist of employer tax contributions. The majority of the disbursements consist of unemployment compensation benefit payments and repayments of bonds that were issued by the State to repay Federal loans.

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
	\$	\$	\$
Employer tax contributions	590,594,109	459,003,234	336,976,077
Federal contributions	5,672,134	5,190,004	6,230,069
Reimbursement from the State, municipalities and nonprofits	18,174,369	16,006,823	16,602,711
Reimbursement from other states	4,219,212	4,154,911	4,043,716
Federal Trust Fund interest income	37,145,531	53,859,096	55,739,963
Miscellaneous	19	0	0
Total	<b><u>\$655,805,374</u></b>	<b><u>\$538,214,068</u></b>	<b><u>\$419,592,536</u></b>

Total employer tax contributions decreased by \$131,590,875 and \$122,027,157 during fiscal years 1998-1999 and 1999-2000, respectively. During good economic conditions, unemployment is lower and thus less revenue is needed in the Unemployment Compensation Fund. As a result, there were decreases in rates effective January 1, of each calendar year that affect the amount paid for employer tax contributions. The Fund Solvency Rate is charged in addition to the charged rate and is based upon the solvency of the State's Unemployment Compensation Fund. Charged rates are based upon the State's experience rating system. For the State's experience rating system, tax rates are based on the ratio of an employer's benefit charges over a three-year period to its payroll over the same period. The range of tax rates is shown below. The New Employer Rate is charged to newly liable employers who have not had unemployment benefits charged to their account for at least one full fiscal year ending the preceding June 30<sup>th</sup>.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
1998	1.5 %	4.2 %	2.0 % to 6.9 %
1999	0.1 %	3.5 %	0.6 % to 5.5 %
2000	0.0 %	2.9 %	0.5 % to 5.4 %

Federal Trust Fund interest income increased by \$16,713,565 and \$1,880,867 during fiscal years 1998-1999 and 1999-2000. At the beginning of the fiscal year ended June 30, 1999, the Trust Fund balance was \$739,735,009. This balance has increased steadily over the audited period. As a result, Trust Fund income has also increased. As of June 30, 2000, the balance was \$840,770,092.

Revenue bonds were authorized by Public Act 93-243, codified as Section 31-264b of the General Statutes, to repay benefit funds borrowed from the Federal government by September 30, 1993, and to provide advances for benefit payments. Bonds outstanding at one time are

limited to \$1,000,000,000 plus amounts needed for debt service reserves. Bonds were issued during fiscal year 1993-1994 in the amount of \$1,020,700,000; of this amount \$544,755,000 and \$368,985,000 remained outstanding at June 30, 1999 and 2000, respectively.

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
	\$	\$	\$
Benefits paid with employer contributions	334,399,091	350,440,709	342,915,682
Benefits paid with Federal contributions	5,573,913	5,103,895	5,869,490
Benefits paid for the State, municipalities and nonprofits	17,381,541	16,412,166	17,714,726
Benefits paid for other states	4,241,523	4,166,687	3,820,300
Miscellaneous	478,000	428,306	420,363
Total	<b><u>\$362,074,068</u></b>	<b><u>\$376,551,763</u></b>	<b><u>\$370,740,561</u></b>

Benefits paid with employer contributions increased by \$16,041,618 in the 1998-1999 fiscal year from the previous fiscal year total of \$334,399,091. This increase was attributable to increases in the unemployment rate and initial claims. Benefits paid with employer contributions decreased by \$7,525,027 in the subsequent fiscal year due to decreases in the unemployment compensation rate and initial claims.

**Pending Receipts Fund and Wage Restitution Account:**

Section 31-68 of the General Statutes authorizes the Commissioner to take assignment of wage claims in trust for workers who are paid less than the minimum fair wage or overtime wage by employers. Wages collected by the Commissioner are paid to the claimants. Activity of the wage restitution account was accounted for in a bank account until February 1999. Beginning February 1999, the activity in this account was accounted for in a separate account of the Pending Receipts Fund. As a result, collections and disbursements in the Pending Receipts Fund increased in the 1998-1999 fiscal year from the 1997-1998 fiscal year. Collections and disbursements totaled \$2,753,305 and \$2,201,950, respectively, during the audited period.

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

## CONDITION OF RECORDS

### Disaster Recovery for Information Systems:

Our review of computer system security revealed the Department still does not have a comprehensive disaster recovery plan.

*Criteria:* Data processing security should include a comprehensive disaster recovery plan.

*Condition:* The Department has stated that the disaster recovery plan currently in place is limited to the Department's ability to print Unemployment Compensation checks on the Department of Social Services' (DSS) or the State Comptroller's computer mainframe. However, the Department has not established a Memorandum of Understanding with the DSS or State Comptroller to ensure that the Department can use either of the mainframes in the event of a disaster. Also, there are no written procedures for Department personnel to follow if they could process the checks at the above-mentioned Departments.

*Cause:* The Department has stated that it currently is not pursuing disaster recovery on its own. Instead, it is relying on the Department of Information Technology to address disaster recovery in its effort to consolidate the State's technology workforce and systems.

*Effect:* In the event of a disaster, the Department may not be able to recover in a timely manner to perform its mission of protecting and promoting the interests of workers in this State.

*Recommendation:* A comprehensive disaster recovery plan should be developed. (See Recommendation 1.)

*Agency Response:* "The Department of Labor is working with the Department of Information Technology to move the entire data center to 101 East River Drive, East Hartford, with an estimated completion date of February 2002. Planning will include provisions for disaster recovery as part of the move.

Our interim approach to disaster recovery is to deal with the issues of redundancy and recovery. As new systems are being developed, we are purchasing servers that are set up as fall back servers. These databases and application servers will take over the application if the main production servers develop problems.

All agency databases and mainframe files are backed up daily/nightly. Once per week, there is an extra backup performed that is sent to an off-site facility. Central Office agency servers are backed up to ArcServe tape Jukeboxes. Field Offices' servers are backed up at their own sites presently, but will be cut over to the tape Jukeboxes within the next year. In addition, our network is designed so that traffic can be routed to a different route if there is an outage in one switch or hub."

### **Equipment Inventory and Reporting:**

Our review of equipment inventory records disclosed that the valuation of equipment on the Annual Inventory of Real and Personal Property Report (CO-59) was not accurate, and all equipment was not reported.

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

*Condition:* The annual CO-59 Fixed Assets/Property Inventory Report was incorrect for the fiscal years ended June 30, 1999 and 2000. We found that the balances for the fiscal year ended June 30, 1999 and 2000 were understated by \$1,181,949 and \$989,846, respectively.

The Department uses a computer-generated report to obtain the beginning balance of inventory, additions, deletions and ending inventory totals for the CO-59 report. Although the Department was able to provide us with a detail of additions and deletions for only the fiscal year ended June 30, 2000, this detail report did not agree with the total report. When we compared the total and detail reports, we found that additions differed by \$161,566 and deletions differed by \$108,826.

Our review of equipment additions revealed that since Property Personnel were not reconciling purchases of equipment to additions made to the property control records, equipment was either not recorded or recorded incorrectly. For the 1998-1999 fiscal year, our testing sample revealed that \$474,657 in equipment was not added to the inventory. For the 1999-2000 fiscal year we randomly selected 53 equipment purchases. Our testing revealed that 28 or 53 percent had not been entered or had been entered incorrectly. Three items totaling \$44,385 had not been entered, 17 items totaling \$18,879 were overstated, and eight items totaling \$1,232 were understated.

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

The Department enters equipment items based upon the purchase order. The actual invoice from which the Department pays the vendor usually differs from the purchase order.

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

*Recommendation:* Internal controls over the reporting and record keeping of equipment need to be significantly improved. (See Recommendation 2.)

*Agency Response:* “The Department will review and improve the procedures for recording of inventory purchases/deletions and subsequent annual reporting of inventory balances. The current Asset Management System has been experiencing periodic software problems and attempts to correct the problem have limited success. Until the implementation of the CoreCT statewide financial system expected within three years, which includes a property management system, we have developed an interim approach to alleviating our equipment inventory problems. Following the completion of a full physical inventory (currently in progress), we are planning to utilize the Royal Blue Help Desk/Inventory Tracking System that is currently used by our Information Technology Unit. We will be migrating all inventory that does not already exist on the “Royal Blue” system and operate the system jointly with IT staff. All new purchases of equipment, deletions and additions will be entered by the facility staff. Any IT equipment that is moved to a new location will be entered into the system by Information Technology staff. The utilization of a common inventory system will eliminate most of the current problems we have been experiencing in tracking the location of equipment.”

### **Equipment Inventory Losses:**

Our review of equipment inventory revealed that the Department was not reporting losses of equipment and investigating those losses in a timely manner.

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

The State of Connecticut’s Property Control Manual requires that all losses of State property should be reported upon discovery.

*Condition:* The Department completed a physical inventory of equipment in July 2000. In February 2001, the Department provided us with a list of items not found that totaled approximately \$764,000. We requested that the Department determine the status of these equipment items. In June 2001, we were informed of the following:

\$107,636	Reported as a loss to the State Comptroller and State Auditors in June 2001 (approximately 11 months after discovery)
94,195	As of June 13, 2001, the Department has still not located these items and still has not filed a loss report.
148,426	Transferred or scrapped in previous fiscal years but not removed from the official inventory records
3,397	Scrapped prior to February 2001
35,549	Scrapped after February 2001
375,061	Physically located per the Department after February 2001

*Cause:* The Department has equipment located in various locations throughout the State. Property control staff responsible for inventory believed that some of this equipment could have been transferred to other locations and that they were not notified of such transfers. Therefore, they did not want to file a loss report unless they were sure that the items could not be found.

The Department failed to remove transferred and scrapped items from previous fiscal years even though our previous audit noted this condition.

*Effect:* The actual cause for the loss of the items cannot be determined if losses are not investigated in a timely manner.

Inventory is overstated when items that are transferred and scrapped are not removed.

*Recommendation:* Internal controls over the safekeeping of equipment need to be significantly improved. Losses should be investigated in a timely manner and such losses should be reported in accordance with Section 4-33a of the General Statutes. Items not in the Department's possession should be removed from the inventory records in a timely manner. (See Recommendation 3.)

*Agency Response:* "Many of the problems cited in this finding occurred as a result of the Asset Management System problems discussed in the previous finding and with the operation of separate inventory tracking systems used by the Facility Property Unit and Information Technology. The use of a common inventory tracking system by

the Facilities and IT Units will speed up the determination as to the status of missing equipment. Once a determination is made that equipment is missing, we will comply with the State Property Control Manual and report all losses in a timely manner.

As to the remaining amount (\$94,195) that has not been resolved, we expect to make a final determination at the conclusion of the physical inventory currently being performed. Any items we are unable to find will be reported as a loss as soon as the loss is ascertained.”

**Personal Service Agreements:**

Our review of personal service agreements disclosed that contractors were beginning work prior to contract execution.

*Criteria:* Section 4-98 of the General Statutes states that no budgeted agency may incur any obligation except by the issue of a purchase order and commitment transmitted to the Comptroller.

The State Accounting Manual states that a personal service agreement is a commitment document that is used to contract for personal services.

*Condition:* We reviewed six personal service agreements and their amendments. Our review revealed that five or 84 percent of the contractors started work on their agreements prior to the commitment of funds. The dollar value of the work performed was \$30,788. One of these five contractors completed all the work, valued at \$6,861, prior to the contractor signing the agreement.

*Cause:* Although the Department has a relevant manual “Procedures for Developing and Managing Personal Service Agreements,” agency personnel did not follow it.

*Effect:* Budgetary controls are compromised when expenditures are not committed in advance.

*Recommendation:* Statutory requirements for personal service agreements should be followed. (See Recommendation 4.)

*Agency Response:* “The Department will more closely monitor the timeliness and execution of personal service agreements to comply with statutory requirements.”

**Telephone Charges:**

Our review of telephone charges revealed that there is inadequate monitoring of telephone use at the career centers. Also, the Department was not able to identify the type of use on one of its modem lines.

*Criteria:* Section 3-117 of the General Statutes allows the Commissioner of Administrative Services to charge the agency's appropriation for telecommunication services prior to the agency certifying this charge. This statute also states that each State agency has 30 days after it is notified of its telecommunication charges to review the charges and certify that the services were provided to the agency. Prior to paying any bill, the agency is responsible for reviewing the charges for appropriateness and accuracy.

*Condition:* As noted in our previous audit, international calls are still being made at the career centers. We selected the month of May 2000 for testing. We found instances of international calls in this month and have been informed by Department personnel that these types of calls are still currently occurring. The Director of Field Operations sent a request to the Facilities Management Unit of the Department in July 1999, to place an international block on phones in the career centers. However, it does not appear that the blocks were placed on these lines. The Department was unable to produce documentation that a block was actually placed on these phones.

Our testing of the months of April and May 2000 also revealed that significant out of state calls were made from a modem line in the Department's Information Technology Unit. Our review of the activity for this line showed an incoming call followed by an outgoing call to Massachusetts. A significant amount of the activity on this modem line was made after midnight and the duration of the use of this line was sometimes as long as 9 hours. Total usage of this line to the number in Massachusetts (which is unlisted) for these months amounted to 43 hours. Some of these calls occurred during working hours and also when no one was working in the building. The Department is unable to sufficiently explain how this occurred.

*Cause:* There is inadequate monitoring of calls made from career centers.

The Department appears to not have anyone monitoring the use of modem lines.

*Effect:* Federal and State resources may have been used inappropriately.

*Recommendation:* Procedures should be developed to assure the Agency that telephone bills are sufficiently reviewed at the career centers and that calls made were appropriate. The Agency should seek blocks

for all international calls or closely monitor the use of these phones. All activity on modem lines should be reviewed on a monthly basis to ensure that their use is for legitimate business activity. (See Recommendation 5.)

*Agency Response:*

“On June 20, 2001, a second request was faxed to the Department of Information Technology to verify that international call blocking has been placed on specific lines at the Department of Labor’s field offices. Additionally, we completed form DAS-44 Work Order Request on July 19, 2001 and forwarded it to the Department of Information Technology requesting that international call blocking be placed on an attached list of agency telephone numbers. Following a reasonable period of time, we will follow up on these requests.

The modem line located in our Information Technology Unit has been disconnected.”

**New Hires Program:**

Our review of new hires revealed the Department is still not entering all information into the State directory of new hires within five business days.

*Criteria:*

Section 31-254 of the General Statutes requires the following:

Subsection (b) requires the Department to administer a State directory of new hires. An employer must report new employees not later than 20 days after the date of employment to the Department. The Department must enter the new hire information into the State directory within five business days. The new hire data in the directory is matched to child support and public assistance records at the Department of Social Services. The State also transmits new hire information to the National Directory of New Hires.

*Condition:*

New hires information received from employers by fax, mail, and electronically are not always entered into the State directory promptly. We obtained the Department’s new hire batch log for faxes and mail for a six month period. We selected 35 of the 634 batches in that period. Our review shows a turnaround time of seven to 39 business days. Our entire sample was not entered within the five day required period.

We obtained a sample copy of electronically submitted CT-W4 forms, Employee’s Withholding or Exemption Certificate, for the period March 1, 2001 to March 7, 2001. As of April 11, 2001, the electronic transmission of all 951 new hires for the sampled period, had not been entered into the State directory.

*Effect:* The Department may not be able to cross match claimants who are currently receiving unemployment compensation benefits with the State directory of new hires on a timely basis. If the employment information is not entered timely, claimants who become employed and whose employment information is not entered into the directory of new hires, could continue to receive benefits that they are not entitled to receive.

*Cause:* New hire information may be faxed to more than one fax machine in the Department. The Research Unit may not receive the information in a timely manner from other Department units that received the faxes.

New hire information that is received by fax and mail is entered into the directory by a vendor. The vendor receives the new hire information either once or twice a week.

The Department is experiencing difficulties with W4 information sent electronically because of the change of the Form CT-W4 by the Department of Revenue Services (DRS). The DRS changed the form and sent it to employers before the Department could get a vendor to program the form in such a way that the Department's scanning system could read this information.

*Recommendation:* The Department should develop and implement control procedures to ensure compliance with the requirements of Section 31-254 of the General Statutes. (See Recommendation 6.)

*Agency Response:* "New hire data comes to the Department by several means and the efficiency with which the data is processed varies accordingly. Three primary means of collecting New Hires data are documents received by mail, IBM tapes and cartridges, and documents sent through the New Hires fax line which directly feed the OCR [Optical Character Recognition] system. The last process is where we fail to meet the five day requirement.

In order to reduce employer burden, current legislation makes the CT-W4 the primary data collection document. Since this is a Department of Revenue Services form, we need to work within the confines of that form which also reduces our ability to make best use of OCR technology. Continuous reproduction of the form by employers reduces the ability of the OCR to read the form correctly causing further delays and errors. Because Federal legislation allows employers to submit New Hire data in any format, the majority of these documents are rejected by the OCR and must be printed, manually screened and sent to a vendor for data entry.

The July 2000 revision of the CT-W4 caused the new form to be rejected by the OCR since we did not have sufficient time to input the new form specification into the system. Additionally, various problems with the OCR vendor support contributed to our inability to resolve these problems in a more timely manner.

In recognition of the need to improve our process and meet the five day requirement, the Office of Research has begun the process of choosing a vendor to develop an Internet reporting application allowing employers to report their New Hires via the Internet. Although our initial estimates are that about 10 % of New Hires will be reached by this means, with aggressive employer outreach, we hope to significantly increase the number of employers that report in this manner. Internet reporting will ease our workload and assure that data will be entered into the New Hire Directory on the day it is received. Once Internet reporting is operational and employers are using this option, we will assess whether the workload is reduced to a level where we can meet the five day requirement for all acceptable and complete New Hire documents.”

*Auditors’ Concluding Comments:*

The Department has indicated that the only time that they have failed to meet the five day requirement is when documents were sent by a fax line that directly feeds into the OCR system. The Department is also not in compliance with the five day requirement when the New Hire data is received by mail and fax and must be data entered by an outside vendor.

**Regulations:**

Our review of regulations applicable to the Department revealed the Department either has yet to adopt certain required regulations or repeal the requirement.

*Criteria:*

Section 31-3n, subsection (a) of the General Statutes states that the Commissioner, in consultation with the Connecticut Employment and Training Commission, “...shall adopt regulations in accordance with chapter 54 to carry out the provisions of sections 31-3j to 3r, inclusive. The regulations shall establish criteria for the organization and operation of the board and for ensuring that the membership of each board satisfies the requirement of section 31-3l.”

Section 31-3z of the General Statutes states that “the administrator shall adopt regulations, in accordance with the provisions of chapter 54, for the administration of the self-employment assistance program established pursuant to section 31-3y. The regulations shall prescribe procedures for assuring that the

limitations on the total number of participants specified in subsection (c) of said section are met.”

Section 31-268 of the General Statutes states that “on or before October 1, 1977, the administrator shall adopt regulations in accordance with the provisions of chapter 54 providing that if, through error and without fraudulent intent, more or less than the correct amount of contributions has been paid with respect to employment during any period, adjustments may be made without interest in computing contributions due and payable with respect to employment during subsequent contribution periods, or otherwise, within such time limits and subject to such conditions as the administrator prescribes.”

Section 31-374, subsection (c)(3) states that the “commissioner shall issue regulations requiring employers to maintain accurate records of employee exposures to potentially toxic materials or harmful physical agents which are required to be monitored or measured under any occupational safety and health standard adopted under this chapter.”

*Condition:* We selected six statutory references from applicable Department of Labor statutes requiring regulations. We found that regulations were not adopted for four of the selected statutory references.

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

*Cause:* The Department has stated that regulations were not adopted for various reasons. The regulations required by Section 31-3n, subsection (a) of the General Statutes were written but never adopted because of unresolved questions with Federal law with regard to the Regional Workforce Development Boards. The regulations required by Section 31-z of the General Statutes were not adopted because the Federal law authorizing states to operate such programs on a pilot basis expired in 1999. The regulations required by Section 31-268 of the General Statutes are no longer needed since the General Assembly repealed language in the Statutes that would have made the regulations necessary. The regulations required by Section 31-374, subsection (c)(3) were not adopted because the Department has stated that they have adopted every Federal standard required by the regulations and to adapt regulations would have been duplicative.

*Recommendation:* Regulations required by the Connecticut General Statutes should either be adopted or the Department should seek legislation to repeal the governing statute. (See Recommendation 7).

*Agency Response:* “The Department will consider this recommendation and take the appropriate action to either adopt the pertinent regulations or repeal the governing statute.”

**Computer Equipment and Unauthorized Software:**

Our review of equipment on loan revealed that a computer at the home of an employee was not being used for State purposes and personal software was installed on this computer.

*Criteria:* The State of Connecticut’s Property Control Manual states “equipment owned by the State may be removed from its assigned location only with prior written permission from the appropriate agency head. State equipment is not intended to be used for personal reasons.” This Manual also states that the individual who signs for the equipment is responsible for the due care of the equipment.

The State of Connecticut’s Software Management Policy Manual prohibits the use of personal software on any computer owned or leased by the State.

*Condition:* Our review of equipment on loan found that an employee in the Mediation and Arbitration Unit had a State computer at home since April 2000. The computer was previously on loan to the employee’s father, who was the head of the Information Technology Unit at the Department until April 2000. The father was transitioning to employment with the State Department of Information Technology (DOIT) at the time the employee took possession of the computer. Someone other than the employee completed an “Equipment on loan” form but the form was signed by the employee and approved by the supervisor. The reason stated on the form for the computer to be used at home was to perform data entry in the evenings. The Department’s Personnel Office informed us that no employee was authorized to work at home. The Department performed an investigation. The employee later stated that no Department work was done on this computer. The employee’s father stated he still needed to use the computer for Department of Labor business, but since he was no longer an employee of the Department, he needed an employee of the Department to sign out the computer for him so that it would look proper. The employee’s supervisor was aware of this arrangement and knew that the computer would not be used for the purpose listed on the form.

The employee returned the computer on May 2, 2001. We found that a significant amount of unauthorized software had been installed on the computer. We found various children’s software such as Math and Reading Blaster Jr., Tonka Construction and Fisher Price Discovery Farm. Other software found included IBM

PC Camera, Internet postage and Ultimate Scrapbook. We also found that various Internet Service Providers that the State does not use, such as American Online and CompuServe, were installed on the computer.

*Effect:* There appears to be misuse of State resources.

The State could be potentially liable if unauthorized licensed software is installed on the State computer.

*Cause:* The employee's father stated that he would still need to work on Department projects although he would physically be located at DOIT. However, effective July 1, 2000, the employee's father became an employee of DOIT and the computer was still not returned to the Department. No explanation was given for the unauthorized software that was on the computer.

*Recommendation:* The Department should make employees aware of the requirement that computer equipment at home is for State business only and that no unauthorized software may be installed on a State computer. The Department should review "Equipment on Loan" forms periodically to determine if there still is a need for the equipment to be on loan. (See Recommendation 8.)

*Agency Response:* "The events surrounding the transfer of the computer from the former IT Director to an employee of the Mediation and Arbitration Unit were highly unusual and not in conformity with agency policy and practices. The Department has strict guidelines in place regarding the loan of equipment to agency employees and takes all reasonable action to adhere to them. Before equipment is loaned to an employee, an agency form has to be completed detailing the equipment that is to be loaned, the reason for the loan and approval from the manager along with the signature of the employee who will take possession of the equipment. The Facilities Unit performs a yearly physical inventory of all agency equipment, including equipment on loan. Employees are required to physically bring the piece of equipment into work so that the property tag can be scanned into our inventory system. We will adopt the auditor's suggestion for a periodic review to determine if a need for the equipment to be on loan still exists."

### **Access to Electronic Data Processing Systems:**

Our review of employees' access to computer systems revealed that employees' access to computer systems might not always be terminated upon separation from the Department.

*Criteria:* Good internal controls require termination policies for employees upon their separation from State services, especially in the area of computer access controls. Such internal controls are enhanced if

employee user names and passwords are deleted on their separation date at the latest.

*Condition:* We tested seven former employees of the Department to determine whether their access to the computer mainframes was revoked or deleted immediately upon separation from employment. We found that the Department did not promptly revoke or delete the separated employees' access to the mainframes immediately upon separation from employment for five of the employees. The separated employees remained on the list of active users and maintained access to the mainframe for four to 11 days after separation.

*Effect:* Internal controls are weakened when separated employees have access to the system.

*Cause:* The Department's Personnel Division and/or the employees' supervisors were not promptly notifying the Internal Security Unit to promptly remove the employees' access to the mainframes.

*Recommendation:* The Department's Internal Security Unit should promptly receive notification of separating employees in order to revoke the employees' access to the mainframes immediately or upon separation. (See Recommendation 9).

*Agency Response:* "The Department created a cross match between the FARS [Federal Accounting Reporting System] employee database and IBM user database. Whenever an employee becomes separated, an entry would be made in the FARS employee database making the employee inactive; the cross match program would in turn revoke the employee's access to the IBM database. When it was determined that the above approach was not always immediate, a more stringent procedure was implemented.

Currently, the Human Resource Unit provides (via e-mail), the name, employee number and termination date of the separating employee. Internal Security immediately revokes access for that employee to the IBM database. Internal Security is in the process of reviewing this approach with the Human Resources Unit to ascertain the effectiveness of the procedure."

**Wage Restitution:**

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

*Criteria:* Connecticut State Regulation 31-250-2(w) (G)(2)(B) states that the following data may be maintained as records for the Regulation of

Wages: names, addresses, and social security numbers of employees.

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

*Condition:*

Our review of the records relating to Wage Restitution activity revealed that some of the monies collected by the Wage and Workplace Standards Division are turned over to the State Treasurer's Unclaimed Property Unit because the Department was unable to locate the person. Amounts turned over to the Unclaimed Property Unit from the 1997 and 1998 years totaled \$67,152 and \$117,708, respectively. This consisted of 307 and 381 individuals for the 1997 and 1998 reports, respectively. Upon inspection of the report, we found that for the 1997 report, 227 or 74 percent of the individuals listed had no social security number and/or address listed. For the 1998 report, 232 or 61 percent of the individuals listed had no social security number and/or address listed.

*Effect:*

Employees who are due money from their employer may not receive the money due to them because the Department does not know where to send the monies collected. The Unclaimed Property Unit may not be able to return the monies because individuals are not properly identified by address and/or social security number.

*Cause:*

The investigators of the Wage and Workplace Standards Division do not always obtain the address and social security numbers of the employees during the course of their investigation.

*Recommendation:*

In order to facilitate the process of paying employees' monies due to them from their employers, the investigators of the Wage and Workplace Standards Division should obtain addresses and social security numbers of the employees from the employers when performing investigations. If the information is not available from the employer, the Department should obtain the social security number of employees from the Department's Employer Tax System. (See Recommendation 10.)

*Agency Response:*

"On February 26, 2001, a memorandum was issued to all Wage and Hour Investigators, Wage Enforcement Agents and Prevailing Rate Agents advising them of the need to "exhaust all means" in obtaining employee social security numbers and addresses.

Additionally, Agents and Investigators were reminded of Statutory and Administrative regulations pertaining to retention of addresses and social security numbers by employers. Although there are no

requirements in the General Statutes, Administrative Regulations or the Wage Orders requiring maintenance of social security numbers, the issue of addresses is covered by Section 31-66 and Administrative Regulations 31-60-12. Agents were made aware of their authority to issue corrective action sheet citations to employers for failure to maintain employee addresses.”

**Collection and Reporting of Receivables:**

*Criteria:* The State Accounting Manual (SAM) states that receivables should be accurate and complete. All collections pertaining to the receivable should be credited to that receivable.

*Condition:* We found that the Department does not record wage execution fees of \$10 to receivables for overpayments of unemployment benefits due from claimants nor does the Department record the fee to the receivable when it is collected. We found that the Department should have added approximately 1300 wage executions fees to its receivables for calendar year 1999 and applied payments to 882 receivables during the same year.

If a claimant has a zero balance in their receivable account and additional collections are received from the claimant, the Department does not record these collections in the claimant’s receivable account.

*Effect:* Receivables are not accurately reported and recorded.

*Cause:* The Department was not aware that it should add the wage execution fee and any payments of the fee to the receivable.

The Department uses various resources to collect on overpayments made to claimants. These include payments made by the claimant, wage executions collected by sheriffs, and tax intercept. When more than one of these methods is used, the Department occasionally collects more from the claimant than is owed by the claimant. Department personnel have stated that the current receivable system on the UNISYS mainframe cannot accept collections to the system if the balance is zero. However, we noted that the receivable system could accept collections if there is a balance in the receivable and the amount collected is greater than the amount owed. The overpayment made by the claimant in this situation is recorded in the receivable records and the monies are then returned to the claimant.

*Recommendation:* The Department should record receivables at the proper amount and all collections on a receivable should be recorded to that receivable. (See Recommendation 11).

*Agency Response:*

“Procedures will be developed to record the wage execution filing fees as part of the claimant’s overpayment receivable. Upon collection of the receivable, we will record the collection of the filing fee. Any collections received after the claimant’s account reaches a zero balance will be recorded as having been received.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

Ten recommendations were presented in our prior report. The Department fully complied with five of the recommendations. Four recommendations were partially resolved and one of the recommendations has not been resolved and are therefore repeated or restated in this report.

- A comprehensive disaster recovery plan should be developed. This recommendation is repeated as Recommendation 1.
- Financial reports should be prepared accurately and in compliance with the State Comptroller's requirements. This recommendation has been implemented.
- Unemployment compensation benefit overpayments should be recovered to the full extent authorized by statutory provisions. This recommendation has been implemented. Our review of this area found that the Department has increased the use of other methods besides offsets to benefit payments in order to collect overpayments. These methods include State Income Tax refund intercept, wage garnishment and setting up repayment schedules. The Department can also offset future benefit payments.
- The Department should complete reconciliations of the Unemployment Compensation Fund Benefit bank account in a timely manner. Action should be taken on reconciling items as soon as possible. The bank reconciliation process should be documented to assure that there is adequate segregation of duties. This recommendation has been implemented.
- Internal controls over the reporting, record keeping, and tagging of equipment inventory needs to be significantly improved. Documentation to support balances should be retained for audit. Agency personnel need to attend training on the preparation of the CO-59 report. Equipment should be tagged immediately upon receipt and entered into the computerized inventory system. This recommendation has been partially implemented. The Department appears to be now tagging equipment as soon as it is received and has attended training on the preparation of the CO-59 report. However, the Department still has significant errors and inadequate documentation to support amounts in the CO-59 report. This finding is restated as Recommendation 2.
- Sufficient planning should be done so that equipment is not purchased in excess of current requirements. This recommendation has been implemented.
- Statutory requirements for personal service agreements should be followed. This recommendation has been partially implemented. The Department is now submitting written evaluations of consultants to the Office of Policy and Management. However, we still found instances where the contractors began work on their agreements prior to the commitment of funds. This recommendation is restated as Recommendation 4.

- Procedures should be developed to assure the agency that telephone bills are sufficiently reviewed and calls made are appropriate, especially at career centers where risk is high. The Agency should seek blocks for all out of the country calls. This recommendation has been partially resolved in that the Agency is reviewing a greater portion of the telephone bill. However, we found that international calls were still being made at career centers and the Agency has not made any significant effort to resolve this problem. This recommendation is restated as Recommendation 5.
- The Department should follow the funding technique specified in the CMIA agreement to minimize interest loss for the State. This finding has been implemented.
- The Department should develop and implement control procedures to ensure compliance with the requirements of Section 31-254 of the General Statutes. This recommendation has been partially implemented. The Department is now receiving from the Department of Social Services and promptly matching to the State directory of new hires, IV-D support cases and individuals receiving public assistance.

*Current Audit Recommendations:*

**1. A comprehensive disaster recovery plan should be developed.**

Comment:

The Department does not have a formal disaster recovery plan for printing Unemployment Compensation checks in the event of a disaster.

**2. Internal controls over the reporting and record keeping of equipment need to be significantly improved.**

Comment:

Our review found errors in each annual CO-59 Fixed Assets/Property Inventory Report during our audit period. We also found instances where equipment was not recorded or recorded incorrectly to the Department's Asset Management System.

**3. Internal controls over the safekeeping of equipment need to be significantly improved. Losses should be investigated in a timely manner and such losses should be reported in accordance with Section 4-33a of the General Statutes. Items not in the Department's possession should be removed from the inventory in a timely manner.**

Comment:

The Department could not locate \$764,000 in equipment when an inventory was conducted in July 2000. It took the Department an extended period of time to determine what was the status of this equipment. It was not until June 2001, that

the Department reported a loss of \$107,636 and still has not reported a loss on \$94,195 in equipment it could not locate.

**4. Statutory requirements for personal service agreements should be followed.**

Comment:

Our review of six personal service agreements found that five of the contractors began work on their agreements prior to the commitment of funds.

**5. Procedures should be developed to assure the Agency that telephone bills are sufficiently reviewed at the career centers and that calls made were appropriate. The Agency should seek blocks for all international calls or closely monitor the use of these phones. All activity on modem lines should be reviewed on a monthly basis to ensure that their use is for legitimate business activity.**

Comment:

As noted in the previous audit, we found that international calls are still being made at the career centers. The Agency was also unable to explain significant activity that occurred on a modem line.

**6. The Department should develop and implement control procedures to ensure compliance with the requirements of Section 31-254 of the General Statutes.**

Comment:

We found that new hire information that was received from employers by fax, mail, and electronically was not always entered promptly into the State directory of new hires.

**7. Regulations required by the Connecticut General Statutes should either be adopted or the Department should seek legislation to repeal the governing statute.**

Comment:

We found regulations were not adopted for four selected statutory references.

**8. The Department should make employees aware of the requirement that computer equipment at home is for State business only and that no unauthorized software may be installed on a State computer. The Department should review "Equipment on Loan" forms periodically to determine if there is a need for the equipment to be on loan.**

Comment:

We found that an employee who had a State computer at home solely used the computer for personal use. Also, this same employee installed unauthorized software on the State computer.

- 9. The Department's Internal Security Unit should promptly receive notification of separating employees in order to revoke the employees' access to the mainframes immediately or upon separation.**

Comment:

We found that the Department did not promptly revoke or delete five separated employees' access to the mainframes immediately upon separation from employment. These separated employees remained on as active users for four to 11 days after separation.

- 10. In order to facilitate the process of paying employees' monies due to them from their employers, the investigators of the Wage and Workplace Standards Division should obtain addresses and social security numbers of the employees from the employers when performing investigations. If the information is not available from the employers, the Department should obtain the social security number of employees from the Department's Employer Tax System.**

Comment:

Our review of the records relating to Wage Restitution activity revealed that monies are turned over to the State Treasurer's Unclaimed Property Unit because the Department is unable to locate the person. We found that of the amounts turned over for 1997 and 1998, 74 and 61 percent of the individuals respectively, had no social security number and/or address.

- 11. The Department should record receivables at the proper amount and all collections on a receivable should be recorded to that receivable.**

Comment:

We found that wage execution fees of \$10 are not recorded to claimants' receivables when the fee becomes due or is collected. We also found that when a claimant has a zero balance for a receivable and additional collections are received from that claimant, the collections are not reflected on the claimants' account.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Labor for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Labor for the fiscal years ended June 30, 1999 and 2000, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

### **Compliance:**

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the Department of Labor is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material

or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Labor's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: lack of a comprehensive disaster recovery plan for the Department's computer system, deficiencies in equipment inventory and reporting, inadequate controls over personal service agreements, inadequate reviewing of telecommunication bills at career centers and for modem use, inadequate controls to ensure compliance with Section 31-254 of the General Statutes, improper computer usage and access, deficiencies in procedures for the documenting of employee information for wage restitution activity, and the failure to record all receivables and the collection of the receivables.

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

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

**CONCLUSION**

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

JoAnne Sibiga  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts