

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF LABOR
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS
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Table of Contents

INTRODUCTION	1
COMMENTS	1
FOREWORD	1
Significant Legislation.....	2
Councils, Boards and Commissions	3
RÉSUMÉ OF OPERATIONS:	3
General Fund.....	4
General Fund - Receipts.....	4
General Fund - Expenditures	4
Special Revenue Funds	5
Employment Security Administration Fund	5
Unemployment Compensation Advance Fund	5
Employment Security Special Administration Fund	6
Fiduciary Funds	7
Unemployment Compensation Fund	8
Funds Awaiting Distribution.....	10
CONDITION OF RECORDS	11
Disaster Recovery for Information System.....	11
Access to Electronic Data Processing System	12
New Hire Reporting System	12
Petty Cash Fund	15
Collection and Reporting of Receivables	15
Required Regulations and Reporting	16
Equipment Inventory and Reporting.....	17
Annual Inventory of Real and Personal Property Report (CO-59).....	17
Detailed Equipment Inventory Records.....	19
RECOMMENDATIONS	21
CERTIFICATION	23
CONCLUSION	25

August 8, 2003

**AUDITORS' REPORT
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We have examined the financial records of the Department of Labor for the fiscal years ended June 30, 2001 and 2002. 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.

- Workforce Investment Act (WIA) – Replaced the Job Training Partnership Act effective July 1, 2000 and advocates One-Stop Career Centers to provide universal access to effective employment and training programs. The DOL has both a partnership and a broad administrative role in implementing this new service delivery system in Connecticut.
- Employment Service – Provides job placement and other employment services to unemployed individuals and provides employers with a source of qualified applicants.
- Jobs First Employment Service – Provides employment services to recipients determined to be eligible for assistance under the Temporary Assistance to Needy Families Program by the Department of Social Services.
- Community Employment Incentive Program – Provides employment placement projects for recipients of general assistance.

The Department of Labor is administered by a Commissioner who is appointed by the Governor under Sections 4-5 to 4-8 of the General Statutes. James P. Butler served as Commissioner until December 31, 2000. Shaun B. Cashman was appointed Commissioner effective January 16, 2001, and continues to serve in that capacity.

Significant Legislation:

Public Act 00-192 **Individual Development Account Program**

This Act establishes, effective January 1, 2001, a statewide Individual Development Account program called the Connecticut IDA Initiative to be run by the State Labor Department through eligible tax exempt nonprofit community based organizations. Under the Act, an IDA is a savings account in a State certified IDA program that contains an individual's funds which he may withdraw solely for one of several permissible purposes. The IDA program encourages low-income employed people and qualified disabled people to save for specified purposes by matching the money they deposit in the account.

Employment and Training Commission Transferred

The Act moves the Connecticut Employment and Training Council from the Department of Labor to the Office of Workforce Competitiveness effective July 1, 2000.

June Special Session

Public Act 01-2 **Opportunities and Industrialization Center grants, administrative responsibilities**

The Act transfers administration of Opportunities Industrialization Center grants and individual performance contracts from the Department of Social Services to the Department of Labor. The Act transfers administration of the Safety Net program's individual performance

contracts for families at risk of losing their Temporary Family Assistance from the Department of Social Services to the Department of Labor effective July 1, 2001.

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).

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:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Employer contributions	\$ 4,839	\$ 7,015	\$ 10,722
Federal contributions	9,117,347	22,100,412	28,955,861
Other grants – restricted	549,737	2,902,646	3,188,313
Recoveries of expenditures	350,326	323,744	383,464
Fees and fines	133,698	137,695	161,049
Refunds of expenditures	281,868	515,591	464,027
Miscellaneous	<u>17,065</u>	<u>8,840</u>	<u>6,545</u>
Total General Fund Receipts	<u>\$10,454,880</u>	<u>\$25,995,943</u>	<u>\$33,169,981</u>

Total receipts increased by \$15,541,063 and \$7,174,038 during the 2000-2001 and 2001-2002 fiscal years, respectively. The increased receipts for both fiscal years can primarily be attributed to an increase in Federal contributions. Federal receipts for the Welfare-to-Work Program decreased \$2,093,640 and \$4,029,766 for the fiscal years ended June 30, 2001 and 2002, respectively. However, these decreases were more than offset by increases in Federal receipts for the Workforce Investment Act Program which became effective July 1, 2000. Receipts to this program were \$14,627,902 and \$24,914,788 for the respective fiscal years.

General Fund Expenditures:

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Budgeted Accounts:			
Personal Services	\$13,097,259	\$15,734,147	\$16,302,818
Contractual Services	4,726,385	2,735,148	3,581,196
Commodities	207,954	228,790	240,384
Sundry Charges	33,340,743	34,274,642	39,240,014
Capital Outlay	<u>801,012</u>	<u>67,040</u>	<u>56,682</u>
Total Budgeted Accounts	<u>52,173,353</u>	<u>53,039,767</u>	<u>59,421,094</u>
Restricted Accounts	<u>372,642</u>	<u>2,821,203</u>	<u>3,431,111</u>
Total Expenditures	<u>\$52,545,995</u>	<u>\$55,860,970</u>	<u>\$62,852,205</u>

Net expenditures charged to General Fund accounts totaled \$55,860,970 and \$62,852,205 during the fiscal years ended June 30, 2001 and 2002, respectively, as compared to \$52,545,995 during the 1999-2000 fiscal year.

During the 2000-2001 fiscal year total budgeted expenditures increased \$866,414. Although expenditures for Personal Services and Sundry Charges increased by \$2,636,888 and \$933,899, respectively, expenditures for Contractual Services and Capital Outlay decreased \$1,991,237 and \$733,972, respectively. The increases in the Personal Services can primarily be attributed to the payment of salaries of 56 employees formerly charged to the Employment Security Administration Fund charged to the General Fund effective July 1, 2000, and the payment of retroactive collective bargaining awards. The decrease in expenditures for Contractual Services can primarily, be attributed to the decreases in expenditures for outside professional services and outside consulting services of \$660,897 and \$1,347,737, respectively.

The increase in Restricted Accounts expenditures during the 2000-2001 fiscal year can primarily be attributed to increased expenditures in "Training Costs – non employees" which increased \$2,448,561. This increase in expenditures was primarily for the implementation of the Workforce Investment Act program and was charged to the restricted account entitled "Workforce Training".

General Fund expenditures increased by \$6,991,236 in the 2001-2002 fiscal year from the 2000-2001 total of \$55,860,969. These increases mainly for sundry charges can be attributed to increased expenditures for the Workforce Investment Act program.

Special Revenue Funds:

The purpose of each 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 was sufficient to support benefit payouts.

Employment Security Special Administration Fund:

The Employment Security Special Administration Fund is authorized by Section 31-259, subsection (d), of the General Statutes to receive all penalty and interest on past due employers' contributions. Money in the fund shall be used for the payment of 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 2001 and 2002, \$4,000,000 and \$2,200,000, 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

Fiscal Year Ended June 30,

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Employment Security Administration Fund	\$98,884,617	\$76,917,859	\$70,450,340
Unemployment Compensation Advance Fund	146,378,442	146,479,958	2,766,544
Employment Security Special Administration Fund	3,866,780	3,974,503	2,349,633
Inter Agency/Intra Agency Grants	1,836,400	0	0
Workers' Compensation Fund	2,589	5,932	0
Individual Development Account Reserve Fund	<u>0</u>	<u>500,470</u>	<u>282,378</u>
Total	<u>\$250,968,828</u>	<u>\$227,878,722</u>	<u>\$75,848,895</u>

Total receipts decreased by \$23,090,106 in the 2000-2001 fiscal year from the 1999-2000 fiscal year total of \$250,968,828 to the 2000-2001 total of \$227,878,722. This decrease was primarily attributable to a decrease in the Employment Security Administration Fund receipts of \$21,966,758. Receipts for this Fund are used for the purpose of defraying the cost of administering the Department's Employment Security Division. In the 2001-2002 fiscal year, receipts decreased \$152,029,827. This decrease was primarily due to the decrease of \$143,713,414 in bond assessments to employers based on the anticipated amount of monies needed for bond repayment for that year. Anticipated amounts are determined by the State Treasurer's Office. In addition, a decrease of \$6,467,519 was noted in the Employment Security Administration Fund receipts for this fiscal year.

Schedule of Expenditures

Fiscal Year Ended June 30,

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Employment Security Administration Fund	\$105,477,133	\$78,736,736	\$77,870,852
Employment Security Special Administration Fund	4,000,000	4,000,000	2,200,000
Workers Compensation Fund	556,479	638,418	687,587
Inter Agency/Intra Agency Grants	1,427,718	819,170	733,845
Individual Development Account Reserve Fund	0	164,478	134,947
Capital Equipment Purchase Fund	142,365	81,587	40,890
Total	<u>\$111,603,695</u>	<u>\$84,440,389</u>	<u>\$81,668,121</u>

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

Fiscal Year Ended June 30,

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Personal services	\$47,050,178	\$44,156,522	\$43,562,091
Contractual services	11,613,412	9,394,246	10,190,497
Commodities	744,041	685,441	725,116
Revenue refunds	3,090,336	3,576,761	3,265,369
Sundry charges (Fringe benefits and grants)	47,570,035	25,990,785	23,466,546
Equipment	1,535,693	636,634	458,502
Total Expenditures	<u>\$111,603,695</u>	<u>\$84,440,389</u>	<u>\$81,668,121</u>

Total expenditures decreased \$27,163,306 from the 1999-2000 total of \$111,603,695 to the 2000-2001 fiscal year total of \$84,440,389. This decrease is mainly due to the elimination of the Job Training Partnership Act program and grants charged to that program. As previously mentioned this program was replaced by the Workforce Investment Act program and expenditures for that program are charged to the State General Fund. This includes the salaries and fringe benefits of 56 employees formerly charged to this Fund and charged to the General Fund effective July 1, 2000. In the 2001-2002 fiscal year, expenditures decreased by \$2,772,268. The primary reason for this decrease is the decrease of \$1,800,000 in the amount transferred to the Employment Security Fund for the purpose of offsetting projected deficits of Federal administrative funds.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Unemployment Compensation Fund	\$419,592,536	\$380,765,807	\$463,466,825
Fringe Benefit Recovery Fund	360,817	378,411	463,121
Funds Awaiting Distribution Fund	<u>1,055,131</u>	<u>923,353</u>	<u>1,112,859</u>
Total	<u>\$421,008,484</u>	<u>\$382,067,571</u>	<u>\$465,042,805</u>

Schedule of Disbursements

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Unemployment Compensation Fund	\$370,740,561	\$400,323,229	\$669,946,711
Funds Awaiting Distribution Fund	<u>751,101</u>	<u>1,187,153</u>	<u>971,571</u>
Total	<u>\$371,491,662</u>	<u>\$401,510,382</u>	<u>\$670,918,282</u>

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.

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:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Employer tax contributions	\$336,976,077	\$295,552,395	\$385,009,995
Federal contributions	6,230,069	8,943,464	8,517,921
Reimbursement from the State, municipalities and nonprofits	16,602,711	18,163,500	22,070,043
Reimbursement from other states	4,043,716	3,805,251	6,486,417
Federal Trust Fund interest income	<u>55,739,963</u>	<u>54,301,197</u>	<u>41,382,449</u>
Total	<u>\$419,592,536</u>	<u>\$380,765,807</u>	<u>\$463,466,825</u>

Total employer tax contributions decreased by \$41,423,682 and then increased by \$89,457,600 during fiscal years 2000-2001 and 2001-2002, respectively. During good economic conditions, unemployment is lower and thus less revenue is needed in the Unemployment Compensation Fund. As a result, there were fluctuations in rates effective January 1, of each calendar year that affect the amount paid for employer tax contributions. The Fund Solvency Rate is charged in addition to the basic charged rate and is based upon the solvency of the State's Unemployment Compensation Fund. Charged rates are based upon the State's experience rating system. For the State's experience rating system, tax rates are based on the ratio of an employer's benefit charges over a three-year period to its payroll over the same period. The range of tax rates is shown below. The New Employer Rate is charged to newly liable employers who have not had unemployment benefits charged to their account for at least one full fiscal year ending the preceding June 30th.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
2000	0.0 %	2.9 %	0.5 % to 5.4 %
2001	0.0 %	2.4 %	0.5 % to 5.4 %
2002	1.3 %	2.1 %	1.8 % to 6.7 %

Federal Trust Fund interest income decreased by \$1,438,766 and \$12,918,748 during fiscal years 2000-2001 and 2000-2002. The Trust Fund balance at July 1, 2000, was \$840,770,092 and has steadily decreased over the audited period. As a result, Trust Fund income has also decreased. As of June 30, 2002, the balance was \$675,426,132.

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; the outstanding bonds were paid off during the 2000-2001 fiscal year.

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

Auditors of Public Accounts

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Benefits paid with employer contributions	\$342,915,682	\$369,763,564	\$629,184,056
Benefits paid with Federal contributions	5,869,490	8,633,039	9,250,751
Benefits paid for the State, municipalities and nonprofits	17,714,726	17,426,438	24,589,565
Benefits paid for other states	3,820,300	4,252,188	6,828,839
Miscellaneous	<u>420,363</u>	<u>248,000</u>	<u>93,500</u>
Total	<u>\$370,740,561</u>	<u>\$400,323,229</u>	<u>\$669,946,711</u>

Benefits paid with employer contributions increased by \$26,847,882 and \$259,420,492 in the 2000-2001 and 2001-2002 fiscal years, respectively. The benefits paid with employer contributions during the 1999-2000 fiscal year was \$342,915,682. These increases were attributable to increases in the unemployment rate and initial claims.

Funds Awaiting Distribution 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 separate account of the Funds Waiting Distribution Fund. Collections and disbursements totaled \$2,036,212 and \$2,158,723, 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

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

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: We noted that the Department of Labor still does not have a comprehensive disaster recovery plan. This may prevent the printing of Unemployment Compensation checks in the event of a disaster.

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: "We agree with this finding. The Department is working with the Department of Information Technology to move the entire data center to the State Data Center at 101 East River Drive, East Hartford. Planning will include provisions for disaster recovery as part of the move.

Our interim approach is to deal with the issue of redundancy and recovery.

New systems that are being developed are purchasing extra sets of 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 are backed up each night. Once a week there is an extra backup performed that is sent to an off-site storage facility. All files on both mainframes are backed up daily and sent off-site once each week.

Central Office Agency servers are backed up to ArcServe tape Jukeboxes. CMIS backups are sent off-site once each week. Field Office servers are

Auditors of Public Accounts

backed up at their own sites, but will be cut over to the tape Jukeboxes within a year.

Our network is designed that if failure occurs traffic can be routed to a different route if there is outage in one switch or hub.”

Access to Electronic Data Processing Systems:

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

Criteria: Good internal controls require termination policies for employees upon their separation from State service, 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: Our review of ten former employees disclosed that the Department did not revoke nine of the employees’ IBM System passwords immediately upon separation from State service.

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 IBM System.

Recommendation: The Department should follow established procedures to ensure that IBM System passwords are revoked promptly upon employees’ separation from State service. (See Recommendation 2.)

Agency Response: “We agree in part with this finding. Effective February 2002, all IBM users have had their access to the system revoked (user password removed from the system) on the day of separation. Additionally, as of February 2002, all user access that is revoked due to separation is being documented. We consider this finding to be resolved.”

New Hire Reporting System:

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

Criteria: Section 31-254(b) of the General Statutes requires the Labor Department to administer a State directory of new hires. An employer must report new employees to the Department. The Department must enter the new hire information into the State directory within five business days.

Section 31-254(d) of the General Statutes requires that the State directory of new hires be matched to child support and public assistance records provided by the Department of Social Services.

The Labor Department performs a cross match between the State directory of new hires and individuals collecting unemployment compensation benefits to determine if they are receiving benefits to which they are not entitled.

Condition: Our review of the Department's Connecticut New Hires Reporting System Management Report disclosed that there were approximately 32,700 batches of new hire information received through its Optical Character Recognition (OCR) system that were not entered into the State directory of new hires during the fiscal years ended June 30, 2001 and 2002. These batches were transferred to a CD from the OCR system in April 2002. No action was taken by the Department to enter these batches into the State directory of new hires.

Our review of 20 batches of new hire information received by mail or fax during the fiscal years ended June 30, 2001 and 2002, disclosed that all batches were not entered into the State directory of new hires within five business days. The number of days late ranged from 29 to 32 days.

Effect: The State directory of new hires is incomplete. There is potential for individuals who are delinquent in their child support payments not to be identified as employed, resulting in the inability to collect payments due by the Department of Social Services (DSS). In addition, employed individuals receiving public assistance through the DSS may not be identified which may have resulted in their ineligibility to receive public assistance. The potential also exists for individuals to receive unemployment compensation benefits after they become employed.

Cause: The Department's OCR system was ineffective due to the difficulty it had scanning Form CT-W4 since its inception in 1999. As a result, new hire information received through the OCR system was not entered into the State directory within the required five business days.

New hire information received by fax and mail is entered into the directory by a vendor. The vendor receives new hire information twice a week. In addition, new hire information may inadvertently be faxed to fax machines other than the one designated by the Department for new hire reporting.

Recommendation: The Department should strengthen control procedures to ensure compliance with Section 31-254 of the General Statutes. This Section requires the Department to administer a State directory of new hires which is to be matched with child support and public assistance records provided by the Department of Social Services. (See Recommendation 3.)

Auditors of Public Accounts

Agency Response: “During the audit period ending June 2002, we implemented the actions we had outlined in our May 2002 response to the previous audit of the New Hire Reporting System. ...

Unfortunately, the OCR system improvements still were not enough to allow us to consistently meet the five-business day processing requirement. ...

In July 2002, we implemented [new procedures] and are now meeting the five-business day requirement for getting new hire information into the State directory. ...”

Petty Cash Fund:

Our review of travel advances paid from the Petty Cash Fund revealed an area requiring improvement.

Criteria: Chapter 12, Section 2.10 of the State Accounting Manual requires that an employee receiving a travel advance must sign a statement acknowledging the amount of cash advanced and, within 5 working days after returning, submit a completed “Employee Payroll Reimbursement” form CO-17XP-PR with the necessary documentation to the Department’s business office.

Condition: Our review of 15 petty cash travel advances made with petty cash funds disclosed the following:

- Nine of the 15 “Employee Payroll Reimbursement” forms were returned from one to 35 days late.
- Two of the 15 “Employee Payroll Reimbursement” forms had not been returned, as of March 4, 2003, for travel ending on January 14, 2003 and February 15, 2003 and were 44 and 12 days late, respectively.

Effect: If travel reimbursements of travel advances are not made in a timely manner, then employees may be receiving the equivalent of an interest free loan.

Cause: Procedures for the submissions of required paperwork for reimbursements of travel advances are not being enforced.

Recommendation: The Department should follow procedures for reimbursements of travel advances paid from the Petty Cash Fund as required by the State Comptroller. (See Recommendation 4.)

Agency Response: “We agree in part with this finding. Our review of the nine travel reimbursements revealed that only one employee had received a greater advance than the cost of the trip (\$34.50). The other eight employees did not owe any money to the Agency but in fact had in total received \$729.45

less than the cost of the travel. The two employees that had not submitted reimbursements as of March 4, 2003, submitted them on March 5, 2003.

Section 5-141c of the General Statutes states in part “... *the Commissioner of Administrative Services, with the approval of the Secretary of the Office of Policy and Management, shall establish and implement regulations for the reimbursement of state employees for expenses incurred in the performance of their duties...*”

Regulations issued by the Department of Administrative Services in Section 5-141-11 “*Advances of Funds for Travel Expenses*” paragraph (b) states in part “*If the cash advance was less than the total expenditure, the State shall reimburse the employee within a reasonable time after receiving the proper documentation...*” Paragraph (c) states “*If the cash advance was more than the total expenditure. The employee shall return the excess amount to the Agency within five business days following return from travel.*”

The Department will adhere to these regulations and tighten its procedures to insure 100 percent compliance with all pertinent statutes.”

Auditors’ Concluding Comment:

We are not questioning the payment for the travel but the return of the advance from the Petty Cash Fund.

Collection and Reporting of Receivables:

Background:

The Department uses various resources to collect on overpayments made to claimants for unemployment benefits. These include reimbursements directly from the claimant, wage executions collected by sheriffs, and tax intercepts of the claimant’s tax refund. When more than one of these methods is used, the Department occasionally collects more from the claimant than what is owed.

If the claimant’s account receivable balance is zero, the overpayment and refund is not recorded at all. If there is an outstanding receivable balance, the Department records the amount received from the claimant and if required, the subsequent amount refunded.

Criteria:

The State Accounting Manual states that receivables should be accurate, complete and maintained in a manner to indicate the length of time the debt has been outstanding.

Good internal controls require that all collections received on accounts receivable should be applied to the appropriate receivable account.

Condition:

We reviewed 25 off-line checks and noted that 20 were refunds of overpayments of unemployment benefits. Of these 20 refunds we found

Auditors of Public Accounts

that ten were not recorded at all and that six appeared to be reimbursed at an amount different from the recorded amount. We did find that in some cases where the amount was not recorded that a notation was on the message screen for that claimant; however, this was not consistently applied.

Effect: The Department's receivables are not accurately reflected and complete. This may result in the Department refunding more money than what is actually owed.

Cause: If the claimant has a zero balance on the IBM system under the Benefit Payment Control Accounts Receivable Collection module, the Department personnel have stated that the system cannot record the reimbursement from the claimant; and the only place the Department records the refund is on the claimant's message screen.

There is a lack of a proper audit trail that would indicate when overpayments are received, the source of these overpayments and the need for a refund to be made.

Recommendation: The Department should maintain an accurate receivable record for the amounts due from a claimant and amounts received against the claimant's account. (See Recommendation 5.)

Agency Response: "We agree in part with this finding. The cases cited in the recommendation represent a small percentage of the amount collected, reprogramming of the current system would entail a major undertaking by the IT staff. This is neither practical nor cost effective.

The Department is taking steps to remedy this situation by improving the message system allowing for better tracking of cases. Beginning March 3, 2003, employees working with these cases have been instructed to put a detailed message on the MD03 screen to better facilitate review from either within the Agency or outside reviewing departments."

Required Regulations and Reporting:

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

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

Condition: We selected 16 statutory references for our current audit review; and followed up on four statutory references from our prior audit review for the adoption of regulations and/or reports to be submitted. Out of the 20

reviewed, we found that nine regulations, as mandated by statute, had not been adopted.

We also found that seven of the nine statutory references requiring the reporting of certain items were not submitted. One report was not submitted for both fiscal years under review. The additional six reports not submitted were reports statutorily required to be submitted to the Governor and filed with the Commissioner of Administrative Services for inclusion in the 2001-2002 Digest of Administrative Reports to the Governor (Digest).

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

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

One of the reports not submitted had not been submitted for a number of years. We were informed that the information for this report is contained and reported elsewhere thus causing the reported information to be redundant. The Department also stated that the repeal of the governing statute could be accomplished but is time consuming and has not been a priority.

The six reports were not submitted for inclusion in the Digest because the Department was under the assumption that they no longer were required to submit these reports.

Recommendation: The Department should comply with the various statutory requirements which mandate the adoption of regulations and/or the submission of various reports. If the Department feels that the governing statute is outdated or no longer needed, it should seek the introduction of legislation to repeal that particular statute. (See Recommendation 6.)

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

Equipment Inventory and Reporting:

Annual Inventory of Real and Personal Property Report (CO-59):

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.

Auditors of Public Accounts

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, 2001 and 2002. We found that the balances for the respective fiscal years were understated by \$55,799 and overstated by \$1,258,076.

Our testing of equipment purchases for the fiscal years ended June 30, 2001 and 2002 revealed numerous instances where equipment purchases were either not added or added to the inventory listing incorrectly. In addition, we noted that detailed inventory records did not agree with reported balances on the CO-59 report.

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

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

Recommendation: The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. (See Recommendation 7.)

Agency Response: "The current AMS system has experienced problems in tracking and calculating inventory values. Various attempts to correct the problems in the system have been unsuccessful. As a result, we are switching our inventory tracking to a system called Royal Blue. We are in the process of completing a conversion from the current AMS asset management system to Royal Blue.

Currently 95 percent of the assets from the AMS system have been converted to Royal Blue. The remaining 5 percent that were entered into AMS in March 2003 will be transferred during the months of April and May.

The following tasks need to be completed before we are totally on the new Royal Blue asset management system:

- Scanning inventory in April and May for this fiscal year
- Transferring the remaining data to Royal Blue
- Producing data for this year's CO-59 report
- Training on Royal Blue

We expect to have all of these tasks completed by August 2003."

Detailed Equipment Inventory Records:

Our review of detailed equipment inventory records revealed the following:

- Criteria:* Section 4-36 of the Connecticut General Statutes requires that each State agency establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth.
- Condition:* A comparison of the Department's detailed inventory listings of equipment as of June 30, 2001 and 2002, disclosed that the 2001 inventory report included 64 items totaling approximately \$211,000 that were not included on the 2002 listing. Upon further review, it was disclosed that although not on the detailed listing, they were, in fact, found to still be active in the system. Therefore, these particular items were dropped from the detailed listing for no apparent reason.
- Cause:* The Department had indicated that there is a programming problem in the Asset Management System.
- Effect:* The Department does not have an accurate listing of its equipment inventory.
- Recommendation:* The Department should establish an inventory recording system that accounts for all items of equipment inventory. (See Recommendation 8.)
- Agency Response:* "See response to recommendation #7."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Eleven recommendations were presented in our prior report. The Department fully complied with four of the recommendations. As insufficient action was taken on the seven other recommendations they are therefore repeated or restated in this report.

- A comprehensive disaster recovery plan should be developed. This recommendation is repeated as Recommendation 1.
- Internal controls over the reporting and record keeping of equipment need to be significantly improved. This recommendation is repeated as Recommendation 7.
- 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. This recommendation is being repeated in essence as Recommendation 8.
- Statutory requirements for personal service agreements should be followed. This recommendation has been implemented.
- 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. This recommendation 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. As insufficient action has been taken on this recommendation, it is, in essence, being repeated as Recommendation 3 of this report.
- Regulations required by the Connecticut General Statutes should either be adopted or the Department should seek legislation to repeal the governing statute. This recommendation is being repeated in essence as Recommendation 6.
- The Department should make employees aware of the requirement that computer equipment at home is for State business only and that no authorized 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. This Recommendation has been resolved.
- 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. This recommendation is restated as Recommendation 2 of this report.

- 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. This recommendation has been resolved.
- The Department should record receivables at the proper amount and all collections on a receivable should be recorded to that receivable. As this recommendation has not been fully complied with, it is therefore, being restated as Recommendation 5 of this report.

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. The Department should follow established procedures to ensure that IBM System passwords are revoked promptly upon employees' separation from State service.

Comment:

Our review found that the passwords for nine of ten employees separated from State service were not removed from the IBM System in a timely manner.

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

Comment:

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

- 4. The Department should follow procedures for reimbursements of the travel advances paid from the Petty Cash Fund as required by the State Comptroller.**

Comment:

Our review of travel advances made from the Petty Cash Fund disclosed that the reimbursements of the advances were not always being made in a timely manner.

- 5. The Department should maintain an accurate receivable record for the amounts due from a claimant and amounts received against the claimant's account.**

Comment:

We found that the Department's receivables were not always accurately reported and recorded.

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

Comment:

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

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

Comment:

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

- 8. The Department should establish an inventory recording system that accounts for all items of equipment inventory.**

Comment:

A comparison of detailed inventory records as of June 30, 2001 and 2002, disclosed that many items on the June 30, 2001, listing were not on the June 30, 2002, listing. Our review of detailed inventory records disclosed that many items not on the June 30, 2002, listing were still, however, found to be active in the system and on hand.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Labor (DOL) for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the DOL for the fiscal years ended June 30, 2001 and 2002, 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 DOL complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control structure to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the Department of Labor is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In

Auditors of Public Accounts

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 DOL's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal 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, computer access, inadequate controls to ensure compliance with Section 31-254 of the General Statutes which requires the Department to administer a State directory of new hires, and the failure to record all receivables and the collection of the receivables, and the timely reimbursement of travel advances.

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.

Edward C. Wilmot
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts