

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008*

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

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September 25, 2009

**AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008**

We have examined the financial records of the Department of Labor for the fiscal years ended June 30, 2007 and 2008. Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all State agencies. This examination has therefore been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Recommendations and Certification that follow.

**COMMENTS**

**FOREWORD:**

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

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

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

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

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. Patricia Mayfield was appointed Commissioner on June 1, 2006, and continues to serve in that capacity.

**Significant Legislation:**

Public Act 07-89      **An Act Concerning Penalties for Concealing Employment or Other Information Related to Workers' Compensation Premiums.**

The Act provides that an employer who misrepresents the number of employees or provides misleading information is subject to (1) a class D felony and (2) a civil penalty to the State Labor Department of \$300 per violation. An employer who fails to obtain insurance or self-insurance is also subject to these penalties. Any person who violates a stop work order shall be liable to the State Labor Department for a civil penalty of \$1,000. Each day shall constitute a separate offense. This Act is effective October 1, 2007.

**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, seven 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>2006</u>	<u>2007</u>	<u>2008</u>
Employer contributions	\$ 3,488	\$ 515	\$ 14
Federal contributions	27,047,791	26,639,920	26,153,231
Recoveries of expenditures	170,849	173,397	187,002
Fees and fines	116,144	118,696	109,050
Refunds of expenditures	77,706	177,684	334,822
Miscellaneous	5,186	2,785	7,009
Total General Fund Receipts	<u>\$27,421,164</u>	<u>\$27,112,997</u>	<u>\$26,791,128</u>

## ***Auditors of Public Accounts***

Total receipts decreased by \$308,167 and \$321,869 during the 2006-2007 and 2007-2008 fiscal years, respectively. The decreased receipts for both fiscal years can primarily be attributed to decreases in Federal contributions. Receipts for the Workforce Investment Act Program decreased \$360,747 and \$461,359 during the fiscal years ended June 30, 2007 and June 30, 2008, respectively. These decreases were partially offset by increases in refunds of expenditures of \$99,978 and \$157,138 in the respective fiscal years.

### **General Fund Expenditures:**

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Personal Services and Employee Benefits	\$15,847,078	\$17,100,869	\$17,626,878
Employee Expenses, Allowances, Fees	206,895	220,498	225,445
Purchased and Contractual Services	806,811	1,551,636	1,045,450
Motor Vehicle Costs	137,919	160,057	169,428
Premises and Property Expenses	1,232,165	1,398,126	1,373,312
Information Technology	548,415	727,695	709,113
Purchased Commodities	188,074	198,579	199,865
Other Charges	0	0	53
Grants and Aid	32,636,093	41,937,437	44,730,228
Capital Outlay - Equipment	<u>46,610</u>	<u>112,901</u>	<u>171,441</u>
Total Expenditures	<u>\$51,650,060</u>	<u>\$63,407,798</u>	<u>\$66,251,213</u>

Total expenditures increased \$11,757,738 and \$2,843,415 during the fiscal years ended June 30, 2007 and 2008, respectively. During the respective fiscal years expenditures for Grants and Aid increased by \$9,301,344 and \$2,792,791. During the fiscal year ended June 30, 2007, expenditures for Personal Services and Employee Benefits increased \$1,253,791.

### **Special Revenue Funds:**

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

#### **Employment Security Administration Fund:**

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

**Unemployment Compensation Advance Fund:**

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

**Employment Security Special Administration Fund:**

The Employment Security Special Administration Fund is authorized by Section 31-259, subsection (d), of the General Statutes to receive all penalty and interest on past due employers' contributions. Money in the Fund shall be used for the payment of administration costs, to reimburse the Employment Security Administration Fund when the appropriations made available to the Employment Security Administration Fund are insufficient to meet the expenses of that fund, and for any other purpose authorized by law. Subsection (d) also states that, on July 1st of any calendar year, the assets in the Employment Security Special Administration Fund, which exceed \$500,000, are to be appropriated to the Unemployment Compensation Fund. During the fiscal years ended June 30, 2007 and 2008, \$2,500,000 and \$2,400,000, respectively, were transferred to the Employment Security Administration Fund for the purpose of offsetting projected deficits of Federal administrative funds.

**Grants and Restricted Accounts Fund:**

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

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

**Schedule of Receipts**

**Fiscal Year Ended June 30,**

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Employment Security			
Administration Fund	\$76,549,818	\$69,682,758	\$86,227,448
Prior Period Adjustment	<u>5,002,401</u>	<u>0</u>	<u>0</u>
Total Employment Security			
Administration Fund	81,552,219	69,682,758	86,227,448
Grants and Restricted Accounts Fund	2,924,917	1,408,982	1,723,603
Employment Security			
Special Administration Fund	3,214,223	3,056,142	2,948,127
Special Assessment Unemployment			
Compensation Advance Fund	168,881	137,527	68,973
Individual Development Account			
Reserve Fund	260,000	250,000	350,000
Workers' Compensation Fund	<u>28,000</u>	<u>672</u>	<u>40</u>
Total	<u>\$88,148,240</u>	<u>\$74,536,081</u>	<u>\$91,318,191</u>

The prior period adjustment represents the amount by which the fiscal year 2006 receipts were understated in the last report. Total receipts decreased \$13,612,159 during the fiscal year ended June 30, 2007, and increased 16,782,110 in the fiscal year ended June 30, 2008. These fluctuations were primarily attributable to changes in Employment Security Administration Fund receipts which decreased \$11,869,461 and then increased \$16,544,690 in the respective fiscal years. Receipts for this Fund are used for the purpose of defraying the cost of administrating the Department's Employment Security Division. Fluctuations were also noted in receipts for the Grants and Restricted Accounts Fund. Receipts for this Fund decreased \$1,515,935 during the fiscal year ended June 30, 2007, and then increased \$314,621 during the 2007-2008 fiscal year.

**Schedule of Expenditures**

**Fiscal Year Ended June 30,**

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Employment Security			
Administration Fund	\$78,671,086	\$78,595,592	\$82,444,090
Federal and Restricted Accounts Fund	2,752,241	1,525,352	1,548,621
Employment Security			
Special Administration Fund	2,800,000	2,500,000	2,400,000
Economic Assistance Bond Fund	0	0	42,727
Individual Development Account			
Reserve Fund	519,874	(34,117)	170,882
Workers Compensation Fund	671,470	671,470	665,399
Capital Equipment Purchase Fund	105,984	52,893	120,278
Economic Assistance Bond Fund	141,308	165,291	0
Housing Trust Fund	<u>0</u>	<u>0</u>	<u>300,000</u>
Total	<u>\$85,661,963</u>	<u>\$83,476,481</u>	<u>\$87,691,997</u>

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>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Personal Services and Employee Benefits	\$68,191,310	\$68,175,559	\$68,068,271
Employee Expenses, Allowances, Fees	581,677	470,375	513,835
Purchased and Contractual Services	4,008,277	3,099,596	6,616,662
Motor Vehicle Costs	61,172	47,291	50,675
Premises and Property Expenses	3,566,575	3,524,708	3,469,999
Information Technology	5,396,559	3,615,271	3,533,026
Purchased Commodities	496,789	445,592	545,806
Other Charges	150	280	8,839
Grants and Aid	2,901,340	3,801,388	3,608,399
Capital Outlay - Equipment	529,459	297,633	1,290,345
Prior Year Expenditure Adjustment	<u>(71,345)</u>	<u>(1,212)</u>	<u>(13,860)</u>
Total Expenditures	<u>\$85,661,963</u>	<u>\$83,476,481</u>	<u>\$87,691,997</u>

Total expenditures decreased \$2,185,482 from the 2005-2006 total of \$85,661,963 to the 2006-2007 fiscal year total of \$83,476,481. Decreases were noted in expenditures for purchased and contractual services, information technology and capital outlay – equipment. These decreases in expenditures were partially offset by an increase reflected in expenditures for grants and aid.

Total expenditures increased \$4,215,516 from the 2006-2007 total of \$83,476,481 to the 2007-2008 total of \$87,691,997. This increase in expenditures was primarily the result of increases of \$3,517,066 and \$992,712 in expenditures charged to purchased and contractual services and capital outlay- equipment, respectively.

**Fiduciary Funds:**

The Department operated two 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:

	<b><u>Schedule of Receipts</u></b>		
	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Unemployment Compensation Fund	638,634,989	594,768,124	612,834,996
Funds Awaiting Distribution Fund	<u>1,038,618</u>	<u>1,854,503</u>	<u>2,571,364</u>
Total	<u>\$639,673,607</u>	<u>\$596,622,627</u>	<u>\$615,406,360</u>

**Schedule of Disbursements**

**Fiscal Year Ended June 30,**

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Unemployment Compensation Fund	569,330,340	582,974,533	632,010,171
Funds Awaiting Distribution Fund	991,579	1,292,496	2,769,570
Total	<u>\$570,321,919</u>	<u>\$584,267,029</u>	<u>\$634,779,741</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 the collection of benefits paid for State and municipal government workers and for nonprofit organizations. Section 31-263 of the General Statutes authorizes the Unemployment Compensation Benefit Fund to be used for the payment of unemployment benefits.

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

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

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

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Employer tax contributions	\$557,703,931	\$515,225,830	\$528,129,508
Federal Reimbursable Advances	(102,000)	0	0
Federal contributions	11,512,230	11,158,833	14,868,808
Reimbursement from the State, municipalities and nonprofits	36,884,346	34,053,944	34,521,272
Reimbursement from other states	5,672,558	5,977,834	6,376,954
Federal Trust Fund interest income	26,963,924	28,351,683	28,938,454
Total	<u>\$638,634,989</u>	<u>\$594,768,124</u>	<u>\$612,834,996</u>

Total employer tax contributions decreased by \$42,478,101 and then increased \$12,903,678 during the fiscal years 2006-2007 and 2007-2008, respectively. During good economic conditions, unemployment is lower and thus less revenue is needed in the Unemployment Compensation Fund. As a result, there were fluctuations in rates effective January 1st of each calendar year that affect the amount paid for employer tax contributions. The Fund Solvency Rate is charged in addition to the basic charged rate and is based upon the solvency of the State's

Unemployment Compensation Fund. Charged rates are based upon the State's experience rating system. For the State's experience rating system, tax rates are based on the ratio of an employer's benefit charges over a three-year period to its payroll over the same period. The range of tax rates is shown below. The New Employer Rate is charged to newly liable employers who have not had unemployment benefits charged to their account for at least one full fiscal year ending the preceding June 30<sup>th</sup>.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
2006	.6 %	2.9 %	1.1 % to 6.0 %
2007	.7 %	3.1 %	1.2 % to 6.1 %
2008	.9 %	3.1 %	1.4 % to 6.3 %

The Trust Fund balance at June 30, 2006, 2007 and 2008, was \$632,318,030, \$642,780,433, and \$610,917,544, 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>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Benefits paid with employer contributions	\$519,381,289	\$531,630,738	\$574,791,398
Benefits paid with Federal contributions	11,287,745	10,940,665	14,843,455
Benefits paid for the State, municipalities and nonprofits	32,835,244	34,238,890	35,414,975
Benefits paid for other states	5,742,187	6,002,240	6,783,211
Miscellaneous	83,875	162,000	177,132
Total	<u>\$569,330,340</u>	<u>\$582,974,533</u>	<u>\$632,010,171</u>

Benefits paid with employer contributions increased by \$12,249,449 and \$43,160,660 during the 2006-2007 and 2007-2008 fiscal years, respectively. The benefits paid with employer contributions during the 2005-2006 fiscal year were \$519,381,289. Benefits paid with Federal contributions decreased \$347,080 during the 2006-2007 fiscal year and then increased \$3,902,790 during the fiscal year ended June 30, 2008.

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

Fund collections totaled \$4,425,867 and disbursements and transfers totaled \$4,062,067, respectively, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled \$2,723,082 and disbursements and transfers totaled \$2,347,481.

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

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

## CONDITION OF RECORDS

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

### Unemployment Compensation Benefits:

*Criteria:* Section 31-227 of the Connecticut General Statutes states that unemployment compensation benefits shall be payable only to individuals who are unemployed and are eligible for benefits.

*Condition:* Our review of ten individuals receiving unemployment compensation benefits disclosed that benefits were being paid to one individual who was working as a commission-based employee. This individual worked for two employers and was reported by both as a new hire and subsequently entered into the Department of Labor's new-hire database. Earnings were reported to the Agency by these employers and not by the individual collecting benefits. When this case went to the Benefit Payment Control Unit (BPCU) for review, the claims examiner erroneously deleted the file and benefits continued to be paid.

*Effect:* Unemployment compensation benefits were paid to an individual while he was earning commissions.

*Cause:* The BPCU claims examiner incorrectly deleted a file and the claimant continued to receive benefits while earning income. Deleted files are immediately transferred to the Department's Electronic Data Management System. The files in this system should be reviewed by the supervisor regularly as a safeguard to prevent this type of error. Since that supervisor left the Department in July 2008 and has not been replaced, deleted files have not been reviewed.

*Recommendation:* The Department should follow established procedures to ensure that unemployment compensation benefits are only paid to eligible individuals. (See Recommendation 1.)

*Agency Response:* "We agree with this finding. A Benefit Payment Control Unit claims examiner inadvertently deleted an active overpayment lead which is contrary to BPUC policy. To address this issue and to prevent future recurrences, an instructional session was held on Wednesday, May 27, 2009, to review all audit procedures including the *delete file*. The review session will be followed by monthly review meetings concerning recent overpayment cases. Additionally, the *delete file* is now reviewed by supervisory staff twice weekly to ensure that all audit procedures are strictly adhered."

**Inventory:**

*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:* Our review of the Department's CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2007 and 2008, disclosed the following exceptions:

- Review of equipment purchases for the fiscal years ended June 30, 2007 and 2008, revealed that of the 15 items tested:
  - One asset valued at \$1,159 did not appear on the Core-CT inventory listing and did not have an inventory tag.
  - One asset valued at \$4,052 was classified as a controllable asset even though its value was over the capitalization threshold of \$1,000.
  - One asset was understated by \$30 because shipping charges were not included as part of the asset's value.

These errors resulted in a total understatement of Capitalized Furnishings and Equipment of \$5,241.

- Review of equipment additions revealed that 11 and 14 assets in fiscal year 2007 and 2008, respectively, were incorrectly classified as capitalized equipment. These assets had a cumulative value of \$4,148 and \$6,419 in the respective fiscal years.

*Cause:* Equipment was received at a cost center without being added to the Agency's inventory and without receiving an inventory tag.

Equipment with a value over the capitalization threshold was misclassified as controllable and equipment with a value under the capitalization threshold was misclassified as capitalized equipment.

Ancillary costs (shipping) were not included as part of the asset's value.

*Effect:* The Department's equipment inventory was incorrect.

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

*Agency Response:* “The asset valued at \$1,159 is a fax machine in our Hamden location that was delivered and installed by a vendor. We overlooked the asset and never tagged or entered it into the system. The item will be tagged and will appear in the 2009 inventory report.

The asset valued at \$4,052 will be reclassified in Core-CT as capital equipment.

Shipping charges of \$30 will be added to the value of Tag #7803 to show the correct amount of the asset in Core-CT and on the CO-59.

The remaining items that were classified incorrectly as capital equipment will be reclassified as controllable equipment.”

**Compensatory Time:**

*Criteria:* The Department of Administrative Services Managers’ Guide and Management Personnel Policy 06-02 state that compensatory time may be granted to managers if the Agency head or her designee has given prior written authorization for the extra work and that the extra work is significant in terms of total hours and duration.

Engineering, Scientific, and Technical Bargaining Unit P-4 exempts from being paid for overtime all employees being paid above Salary Group 24.

*Condition:* Our review of 47 employees accruing compensatory time disclosed that two managers were credited with compensatory time without prior written authorization from the Agency head or her designee. In addition, compensatory time was granted for insignificant periods of time (two hours or less).

Our review also disclosed that one non-exempt P-4 bargaining unit employee received compensatory time rather than being paid for overtime.

*Effect:* Employees may have been inappropriately credited with compensatory time.

*Cause:* The Department was not in compliance with the policy regarding the issuance of compensatory time.

*Recommendation:* The Department should only grant compensatory time when properly authorized and pay overtime to those employees not authorized to receive compensatory time. (See Recommendation 3.)

*Agency Response:* “The lapse in following compensatory time procedures was an oversight on our part. From March 2006 through September 2007, the Director of Employment Services’ position was vacant. There was significant activity related to that position requiring the attention of the Employment

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Operations Program Manager. Beginning in January of 2009, Unemployment Insurance claims rose to its highest level in decades requiring the Hartford Job Center Director to spend extra hours serving the increase in job seeker traffic. Compensatory time policy will be reviewed with appropriate managers and we do not foresee this being an issue in the future.

The P-4 bargaining unit employee was inadvertently approved for compensatory time rather than being paid overtime. This was a one time occurrence involving one hour of work time. All future cases of overtime will be reviewed and Human Resources contacted to ascertain the proper compensation an employee should receive.”

**Receipt Dates:**

*Criteria:* The State Accounting Manual provides guidelines for establishing a receipt date for expenditures. The Manual states that the receipt date “refers to the date goods and services were received or, in certain instances the date payment is contractually due.”

*Condition:* Our review of 25 expenditure transactions disclosed that two expenditures totaling \$3,788 were posted in the incorrect fiscal year.

*Effect:* Expenditures totaling \$3,788 were recorded in the wrong fiscal year.

*Cause:* The Department posted incorrect receipt dates.

*Recommendation:* The Agency, when recording receipt dates for expenditures, should follow the guidelines as set forth in the State Accounting Manual. (See Recommendation 4.)

*Agency Response:* “We agree with this finding. Employees involved in the payment of vouchers have been informed and provided with copies of the pertinent section of the State Accounting Manual for future reference when making payments.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

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

- If a State contract is in place, the Department should issue purchase orders and pay invoices based upon these contracted amounts. In addition, personnel should not be allowed to circumvent these State contracting price schedules when placing an order against these State contracts. This recommendation has been resolved.
- The investigators of the Department's Wage and Workplace Standards Division should obtain from employers the full names and addresses of employees in order to ensure that these individuals receive monies owed to them. When the information is not available from the employers, the Department should obtain identifying information from their Employer Tax System. This recommendation has been resolved.
- The Department should establish procedures to prevent employees from receiving payment for vacation and/or sick leave while collecting unemployment compensation. The Department should collect the amount overpaid to one former employee. This recommendation has been resolved.
- The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. As insufficient action was taken on this recommendation, it is being repeated as Recommendation 2 of this report.

### *Current Audit Recommendations:*

- 1. The Department should follow established procedures to ensure that unemployment compensation benefits are only paid to eligible individuals.**

Comment:

Our review disclosed that unemployment compensation benefits were incorrectly paid to an individual while he was earning commissions. Although the Department had procedures in place to prevent this from happening, these procedures were circumvented.

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

Comment:

Our review disclosed exceptions in the Department's inventory records.

3. **The Department should only grant compensatory time when properly authorized and pay overtime to those employees not authorized to receive compensatory time.**

Comment:

Our review disclosed that employees may have been inappropriately credited with compensatory time.

4. **The Agency, when recording receipt dates for expenditures, should follow the guidelines as set forth in the State Accounting Manual.**

Comment:

Our review of 25 expenditure transactions disclosed that two expenditures totaling \$3,788 were recorded in the incorrect fiscal year.

## 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, 2007 and 2008. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2007 and 2008, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

In planning and performing our audit, we considered the DOL's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant* deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws,

regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements: Recommendation numbers 1 – Unemployment Compensation Benefits, 2 – Inventory, 3 – Compensatory Time and 4 - Receipt Dates,

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the DOL complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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*.

The Department of Labor's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of Agency management, 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