

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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September 27, 2011

**AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010**

We have examined the financial records of the Department of Labor (Department) for the fiscal years ended June 30, 2009 and 2010. 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 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 helping them find suitable employment and by providing monetary benefits which are dependent upon the claimant's employment and wage history. Included among the other functions of the Department are the administration of certain state and federal training and skill development programs, regulation and enforcement of working conditions, enforcement of minimum and other wage standards, enforcement of labor relations acts, mediation and arbitration service, and maintenance of labor statistics. During the audited period, field operations of the Department were carried out from fourteen job centers and two call centers throughout the state. The Department is 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 contributions collected by the Department.

- Workforce Investment Act (WIA) –Advocates One-Stop Career Centers to provide universal access to effective employment and training programs. The Department has both a partnership and a broad administrative role in implementing this service delivery system in Connecticut.
- Employment 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 for 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 served through January 25, 2010. Linda Agnew served as acting commissioner through January 28, 2011. Dennis Murphy served as acting commissioner from January 28, 2011 through February 28, 2011 and currently serves as deputy commissioner. Glenn Marshall was appointed commissioner on March 1, 2011 and continues to serve in that capacity.

**Significant Legislation:**

Public Act 08-40      **An Act Concerning Making Permanent the Unemployment Benefits for Military Spouses**

The act makes permanent a military spouse’s eligibility for unemployment compensation if he or she voluntarily leaves a job to accompany a spouse required to relocate for active-duty service in the U.S. Armed Forces. Under existing law, an employer’s unemployment taxes are not directly affected by an employee who files claims under the act. This act went into effect on July 1, 2008.

Public Act 08-60      **An Act Concerning Electronic Unemployment Compensation Tax Payments**

This act requires employers with 250 or more employees that pay unemployment compensation taxes or make payments in lieu of such taxes to pay electronically starting with the first calendar quarter of 2009. This act went into effect on October 1, 2008.

Public Act 08-176      **An Act Concerning Responsible Lending and Economic Security**

Section 13 of the act establishes a mortgage crisis job training program. Section 14 of the act appropriates \$2.5 million to the Department of Labor from the state Banking Fund for the fiscal year ended June 30, 2009 for this program. This act went into effect on July 1, 2008.

Public Act 09-3

**An Act Concerning Certain State Programs and the American Recovery and Reinvestment Act of 2009**

Section 3 of this act expands the conditions under which an employee may quit a job and remain qualified for unemployment compensation. First, the act includes an employee who quits a job to accompany a spouse to a new place because the spouse's job relocated. It also specifies that the employer's account must not be charged with respect to the employee voluntarily quitting. Current law provides that an employee may quit to protect himself or herself, or the employee's child if the child lives with the employee, from becoming or remaining a victim of domestic violence. The act removes the requirement that the child be living with the employee and expands those who the employee may move to protect to include the employee's spouse or parent. Under current law, an employee may quit to care for a seriously ill spouse, child, or parent who lives with the employee. The act removes the requirement that the person live with the employee. It removes the term "seriously ill" and replaces it with an "illness or disability" that necessitates care for the ill or disabled person for a period of time longer than the employer is willing to grant leave, paid or otherwise. It broadens the group of health care providers who can document the illness or disability beyond a licensed physician. This act went into effect on April 15, 2009.

Public Act 09-101

**An Act Concerning Penalties for Violations of Certain Personnel Files Statutes and Equal Pay for Equal Work**

This act makes several changes to the labor law banning employers from discriminating based on gender in the compensation to employees. This act also subjects any employer, officer, agent, or other person who violates the provisions of the Personnel Files Act to a \$300 civil penalty for each violation. This act went into effect on October 1, 2009.

Public Act 10-46

**An Act Concerning Unemployment Compensation Extended Benefits**

This act conforms state unemployment compensation law with federal law regarding extended benefits paid by employers that are allowed to reimburse the unemployment compensation fund rather than pay unemployment taxes. Under federal and state law, the state, municipalities and Native American tribes are allowed to reimburse the fund for unemployment benefits paid to their former employees. The act codifies the federal requirement that these employers pay 100 percent of the cost of any extended benefits. This act went into effect on May 18, 2010.

**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 unfair labor practices, by employers, 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).

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 6.) 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, several special revenue funds, two fiduciary funds, and a wage restitution account, are discussed below.

**General Fund:**

**General Fund Receipts:**

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Federal contributions	\$26,153,231	\$31,421,551	\$40,932,256
Recoveries of expenditures	187,002	202,159	140,935
Fees and fines	109,525	107,555	229,061
Refunds of expenditures	334,822	203,584	260,609
Miscellaneous	<u>6,533</u>	<u>2,586</u>	<u>2,861</u>
Total General Fund Receipts	<u>\$26,791,113</u>	<u>\$31,937,435</u>	<u>\$41,565,722</u>

Total receipts increased by \$5,146,322 and \$9,628,287 during the fiscal years ended June 30, 2009 and 2010, respectively. The increased receipts for both fiscal years can primarily be attributed to increases in federal contributions. The Department received funds under the American Recovery and Reinvestment Act (ARRA) of \$3,259,102 and \$16,577,534 during the fiscal years ended June 30, 2009 and June 30, 2010, respectively. The increase in ARRA funds during the fiscal year ended June 30, 2010 was partially offset by a decrease in receipts for the Workforce Investment Act program.

**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>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Personal services and employee benefits	\$17,626,878	\$16,777,601	\$13,205,637
Employee expenses, allowances, fees	225,445	165,509	163,065
Contractual services	3,291,628	2,946,439	1,857,126
Commodities	205,540	157,062	78,487
Other	53	7,210	5,049
Grants	44,730,228	49,873,076	54,442,988
Capital outlay	<u>171,441</u>	<u>62,420</u>	<u>133,057</u>
Total Expenditures	<u>\$66,251,213</u>	<u>\$69,989,317</u>	<u>\$69,885,409</u>

Personal services and employee benefits decreased by \$3,571,964 during the 2009-2010 fiscal year primarily due to a decrease in the number of employees due to retirements in June and July 2009 because of the retirement incentive program. Contractual services decreased by \$345,189 and \$1,089,313 during the fiscal years ended June 30, 2009 and 2010, respectively, primarily due to rescissions. Grant expenditures increased by \$5,142,848 during the fiscal year ended June 30, 2009 primarily due to an increase in Workforce Investment Program expenditures and the first year of American Recovery and Reinvestment Act expenditures. Grant expenditures increased by \$4,569,912 during the fiscal years ended June 30, 2010 primarily due to an increase in ARRA expenditures, which was partially offset by a decrease in state grant expenditures.

**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 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 administrative costs of 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. The issuance of up to \$1,000,000,000 in state revenue bonds was authorized to repay benefit funds borrowed from the federal government. This action avoided federal interest charges and provided advances for benefit payments until revenue from employer taxes was sufficient to support benefit payouts.

**Employment Security Special Administration Fund:**

The Employment Security Special Administration Fund is authorized by Section 31-259, subsection (d), of the General Statutes to receive all penalty and interest on past due employer contributions. Money in the fund shall be used for the payment of administrative costs, to reimburse the Employment Security Administration Fund when the appropriations made available to the Employment Security Administration Fund are insufficient to meet the expenses of that fund, and for any other purpose authorized by law. Subsection (d) also states that, on July 1st of any calendar year, the assets in the Employment Security Special Administration Fund which exceed \$500,000 are to be appropriated to the Unemployment Compensation Fund. During the fiscal years ended June 30, 2009 and 2010, \$2,250,000 and \$2,300,000, 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:**

The purpose of the Grants and Restricted Accounts Fund is to account for certain federal and other revenues that are restricted from general use.

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>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Employment Security Administration Fund	\$86,793,407	\$96,748,178	\$95,327,221
Grants and Restricted Accounts Fund	1,723,603	1,801,354	982,014
Employment Security Special Administration Fund	2,554,941	2,199,678	2,314,954
Special Assessment Unemployment Compensation Advance Fund	68,973	53,594	16,882
Banking Fund	0	0	81,793
Individual Development Account Reserve Fund	350,000	570,000	95,000
Workers' Compensation Fund	40	24,378	13,578
Total	<u>\$91,490,964</u>	<u>\$101,397,182</u>	<u>\$98,831,442</u>

Total receipts increased \$9,906,218 during the fiscal year ended June 30, 2009, and decreased \$2,565,740 in the fiscal year ended June 30, 2010. These fluctuations were primarily attributable to changes in Employment Security Administration Fund receipts, which increased \$9,954,771 and then decreased \$1,420,957 in the respective fiscal years. Receipts for this fund are used for the purpose of defraying the administrative costs of the Department's Employment Security Division. Receipts for the Grants and Restricted Accounts Fund decreased \$819,340 during the fiscal year ended June 30, 2010 due to a decrease in grant transfers.

**Schedule of Expenditures**

**Fiscal Year Ended June 30,**

	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Employment Security Administration Fund	\$82,444,090	\$88,518,875	\$96,957,192
Federal and Restricted Accounts Fund	1,548,621	1,589,969	1,184,676
Employment Security Special Administration Fund	2,400,000	2,250,000	2,300,000
Banking Fund	0	1,868,310	473,519
Individual Development Account Reserve Fund	170,882	299,540	153,084
Workers Compensation Fund	665,399	640,773	599,304
Capital Equipment Purchase Fund	120,278	23,567	19,358
Economic Assistance Bond Fund	42,727	17,504	0
Housing Trust Fund	300,000	0	0
Total	<u>\$87,691,997</u>	<u>\$95,208,538</u>	<u>\$101,687,133</u>

Expenditures for the Banking Fund increased during the fiscal year ended June 30, 2009, due to the establishment of a mortgage crisis job training program in accordance with Public Act 08-176.

Special revenue expenditures for the past three fiscal years are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Personal Services and Employee Benefits	\$68,068,271	72,422,117	72,830,381
Employee Expenses, Allowances, Fees	513,835	407,320	419,347
Contractual Services	13,670,362	15,439,741	20,218,498
Commodities	545,805	661,596	685,450
Grants	3,608,399	5,907,996	5,911,894
Capital Outlays	1,290,345	351,560	1,630,022
Other	<u>(5,021)</u>	<u>18,208</u>	<u>(8,460)</u>
Total Expenditures	<u>\$87,691,996</u>	<u>\$95,208,538</u>	<u>\$101,687,132</u>

Total expenditures increased by \$7,516,542 and \$6,478,594 during the fiscal years ended June 30, 2009 and 2010, respectively. Personal services increased by \$4,353,846 during the fiscal year ended June 30, 2009 due to collective bargaining unit increases. Contractual services increased by \$1,769,379 and \$4,778,757 during the fiscal year ended June 30, 2009 and 2010, respectively, due to increased costs for administering the unemployment insurance program due to the increase in the number of unemployment claims processed.

**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:

**Schedule of Receipts**

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Unemployment Compensation Fund	\$612,834,996	\$1,159,331,480	\$2,780,304,256
Funds Awaiting Distribution Fund	<u>2,571,364</u>	<u>7,380,920</u>	<u>8,509,449</u>
Total	<u>\$615,406,360</u>	<u>\$1,166,712,400</u>	<u>\$2,788,813,705</u>

**Schedule of Disbursements**

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Unemployment Compensation Fund	\$632,010,171	\$1,631,167,168	\$2,700,918,427
Funds Awaiting Distribution Fund	<u>2,769,570</u>	<u>7,409,994</u>	<u>8,759,539</u>
Total	<u>\$634,779,741</u>	<u>\$1,638,577,162</u>	<u>\$2,709,677,966</u>

**Unemployment Compensation Fund:**

Section 31-261 of the General Statutes authorized the Unemployment Compensation Fund to be used for the receipt of employer 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.

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Employer Tax Contributions	\$528,129,508	\$556,659,914	\$602,653,386
Reimbursement from the State,			
Municipalities and Nonprofits	34,521,272	48,399,266	76,331,101
Reimbursement from Other States	6,376,954	10,203,184	16,862,036
Reimbursements from the Federal			
Employee Compensation Account	8,373,000	8,083,000	11,974,000
Federal Contributions	6,495,808	516,349,000	1,572,048,205
Federal Loans	0	0	498,452,705
Federal Trust Fund Interest Income	<u>28,938,454</u>	<u>19,637,117</u>	<u>1,982,823</u>
Total	<u>\$612,834,996</u>	<u>\$1,159,331,481</u>	<u>\$2,780,304,256</u>

Total receipts increased by \$546,496,485 and \$1,620,972,775 during the 2008-2009 and 2009-2010 fiscal years, respectively. Federal contributions increased by \$509,853,192 and \$1,055,699,205 during the 2008-2009 and 2009-2010 fiscal years, respectively. The majority of federal contributions were for the Emergency Unemployment Compensation program, which is a federally-funded program which provides extended unemployment insurance benefits to unemployed individuals who have already collected all regular state benefits or have expired benefit claims and meet the federal eligibility guidelines. Federal Extended Benefits were also a significant portion of federal contributions beginning in April 2009, by virtue of the total unemployment rate averaging for three consecutive months, 6.5 percent or greater. In addition, the federal share of extended benefits increased from 50 percent to 100 percent throughout the audit period. Reimbursements from the Federal Employee Compensation Account (FECA) represent receipts for ex-federal employees and ex-military.

Reimbursements from the state, municipalities and non-profits increased by \$13,877,994 and \$27,931,835 during the 2008-2009 and 2009-2010 fiscal years, respectively. These entities do

not pay employer tax contributions. Instead, they are billed when a former employee begins collecting unemployment compensation. With the increase in the unemployment rate during the audit period, reimbursements have increased.

In October 2009, the Department began receiving loans from the federal government because the Unemployment Compensation Fund became insolvent. These loans are interest-free through December 31, 2010. Interest income decreased during the 2009-2010 fiscal year because, in accordance with federal regulations, any interest earnings are reduced by any loans made to the state.

Total employer tax contributions increased by \$28,530,406 and \$45,993,472 during the fiscal years 2008-2009 and 2009-2010, respectively. During poor economic conditions, unemployment is higher and thus more 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
2008	.9 %	3.1 %	1.4 % to 6.3 %
2009	1.4 %	3.0 %	1.9 % to 6.8 %
2010	1.4 %	2.9 %	1.9 % to 6.8 %

The Trust Fund balance at June 30, 2008, 2009 and 2010, was \$610,917,544, \$243,628,581, and \$204,189,623, 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>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Benefits Paid with Employer Contributions			
Federal Loans and Federal Reed Funds	\$574,791,398	\$1,035,960,855	\$1,128,861,694
Benefits Paid for the State, Municipalities and Nonprofits	35,414,975	57,407,897	76,512,725
Benefits Paid for Other States	6,783,210	13,179,365	15,826,323
Benefits Paid from Federal Employee Contribution Account	8,442,638	8,160,387	11,987,076
Benefits Paid with Federal Contributions	<u>6,577,950</u>	<u>516,458,665</u>	<u>1,467,730,608</u>
Total	<u>\$632,010,171</u>	<u>\$1,631,167,169</u>	<u>\$2,700,918,426</u>

Total disbursements increased by \$999,156,998 and \$1,069,751,257 during the 2008-2009 and 2009-2010 fiscal years, respectively. There was a significant increase in the number of unemployment claims during the 2008-2009 and 2009-2010 fiscal years due to the recessionary impacts on the economy in Connecticut. Federal legislation significantly increased the duration that claimants were eligible for federal benefits.

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

Fund collections totaled \$15,890,369 and disbursements and transfers totaled \$16,169,533, respectively, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled \$2,719,265 and disbursements and transfers totaled \$2,996,920.

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 examination of the records of the Department of Labor identified several areas requiring improvement or further attention as discussed below:

### **Unemployment Compensation Fund Benefit Account – Lack of Reconciliations:**

*Background:* The Department maintains an Unemployment Compensation Fund benefit account that is used for issuing Unemployment Insurance benefit payments to eligible unemployed workers. During the fiscal years ended June 30, 2009 and June 30, 2010, total benefit payments disbursed through the checking account were \$1,630,896,942 and \$2,700,930,007, respectively.

*Criteria:* Proper internal controls dictate that bank reconciliations should be performed in a timely manner.

*Condition:* Our review of the Department's Unemployment Compensation Fund benefit bank account disclosed that the Department has not performed monthly bank reconciliations since February 2009.

*Effect:* Internal controls are weakened when appropriate reconciliations are not performed in a timely manner.

*Cause:* We were informed that necessary programming changes have not been made to the automated reports needed to perform such reconciliations.

*Recommendation:* The Department of Labor should institute procedures to ensure that bank reconciliations of the Unemployment Compensation Fund benefit bank account are performed in a timely manner. (See Recommendation 1.)

*Agency Response:* "We agree with this finding. The inability of the Department to perform monthly bank reconciliations stems from the fact that our automated systems cannot produce accurate financial data to our Fund Accounting Control Unit staff. Information Technology resources have not been allocated to correct this problem due to competing Agency priorities. Current high priority projects include the upcoming Special Assessment project, the Federal Treasury Offset project and the Call Center virtualization project.

IT resources will be allocated to correct the deficiencies in our data systems as soon as the above mentioned projects are completed. Once the programming changes are made, our Fund Accounting Control Unit staff will be able to perform the required bank account reconciliations. We anticipate to properly reconcile our bank accounts starting in the 1<sup>st</sup> quarter of calendar year 2012."

**Records Retention – Internet Filings of Unemployment Compensation Taxes:**

*Criteria:* Section 31-254 of the Connecticut General Statutes states that records which have been required by the administrator and which have been used in computing benefit rights of claimants, or in the determination of the amounts and rates of contributions, shall be preserved by the administrator for a period of at least four years.

*Condition:* Our comparison of postings of tax receipts to employer accounts to documentation of taxes received disclosed that unemployment contribution returns filed via the internet are retained by the Department’s system for only the current quarter.

*Effect:* There is non-compliance with state record retention requirements.

*Cause:* The Department does not require the vendor, who maintains the internet filing database, to retain this information beyond the last quarter.

*Recommendation:* The Department of Labor should institute procedures to ensure that all unemployment contribution return records are retained in accordance with the General Statutes. (See Recommendation 2.)

*Agency Response:* “We agree with this finding. The deficiency in our electronic record retention stems from the fact that our internet tax filing systems are not capable of storing data beyond the current calendar quarter. Due to contractual problems, we no longer have the vendor that developed our internet tax filing systems available to support those systems and as such have not been able to make the necessary changes to comply with state and federal record retention requirements. We recently secured the services of another vendor to provide support for our internet systems. This new vendor is in the process of being trained on our various internet tax filing systems. Once fully trained, the vendor will be required to maintain and fix a variety of errors in these systems, including the record retention deficiencies. Programming needed to comply with state and federal record retention requirements is scheduled to begin in the 2<sup>nd</sup> quarter of calendar year 2012.”

**Interest on Unpaid Employer Contributions:**

*Criteria:* Section 31-265 of the General Statutes requires the Department to determine the interest rate to charge on unpaid employer contributions. The interest rate shall be determined on the last banking day in October of each calendar year, for use in the succeeding calendar year, and shall be two percent per annum plus a simple average of the prime lending rates on such date at the three largest commercial banks in the state in terms of total assets, except that in no event shall the interest on unpaid contributions be less than twelve percent per annum.

- Condition:* For the fiscal years ended June 30, 2009 and 2010, the Department charged one percent per month (12 percent per annum) in interest on unpaid employer contributions without performing and documenting the interest rate calculation.
- Effect:* Although it appears the proper interest rate was charged, without a procedure in place for calculating the interest rate, the Department cannot be assured that the proper rate will be charged should prime lending rates rise.
- Cause:* The Department uses the minimum interest rate without performing the required annual calculation. The Department does not have procedures in place explaining how to gather the necessary information to compute the required calculation.
- Recommendation:* The Department of Labor should perform and document the required interest rate calculation each year to ensure compliance with Section 31-265 of the General Statutes. (See Recommendation 3.)
- Agency Response:* “We agree with this finding. As the interest rate for unpaid contributions, if computed, has been well below the minimum interest rate required in Section 31-265 of the General Statutes in recent years, no formal procedure was followed. Working with the Office of Research and Information, the Tax Division will institute a formal procedure to perform and document the required interest rate calculation each year to ensure compliance with Section 31-265 of the General Statutes. The required procedures to comply with the requirements of Section 31-265 of the General Statutes will be in place by September 30, 2011 such that the interest rate for 2012 will be properly computed.”

**Records Retention – Benefit Payment Control Unit Receipts:**

- Criteria:* The state agencies’ Records Retention/Disposition Schedule issued by the Connecticut State Library’s Office of the Public Records Administrator requires state agencies, at a minimum, to retain fiscal records for three years, or until audited, whichever is later, and to destroy fiscal records after receipt of a signed Form RC-108 Records Disposition Authorization.
- Condition:* Our review of claimant receivable records maintained by the Benefit Payment Control Unit (BPCU) for the fiscal years ended June 30, 2009 and 2010, disclosed that cash receipt records were unavailable for most of the audit period because the BPCU does not maintain cash receipt records for more than one year. We also noted that the Department disposed of such records without a signed RC-108.
- Effect:* There is non-compliance with the State Library’s State Agency Records Retention/Disposition Schedule.

*Cause:* It appears the employee responsible for maintaining the cash receipt records was unaware of the state record retention requirements.

*Recommendation:* The Department of Labor should comply with the records retention/disposition schedule issued by the Connecticut State Library. (See Recommendation 4.)

*Agency Response:* “We agree with this finding. Based on the State Auditor recommendation the Department has instituted the following procedures: “date stamp” the payment voucher as a record of receipt; retain payment voucher for three years or until audited, whichever is later, and then destroy payment vouchers after receipt of a signed form RC-108. This practice has now been in place for the past two months.”

**Late Deposits:**

*Criteria:* Section 4-32 of the General Statutes requires that an agency shall account for receipts within 24 hours and if the total receipts are five hundred dollars or more, deposit the same within twenty-four hours of receipt. Total daily receipts of less than \$500 may be held until the receipts total \$500, but not for a period of more than seven calendar days. The Comptroller’s State Accounting Manual requires agencies to keep a receipts journal that indicates the date of receipt.

*Condition:* Our review of forty-five receipts totaling \$100,597 disclosed that seven receipts totaling \$10,076 were deposited between one and seven days late and six receipts totaling \$6,400 were posted to the Department’s accounting records one to two days late. Our review also disclosed that for twenty-three receipts totaling \$77,173, we were unable to determine the initial receipt date of the receipts, as three of the Department’s units did not maintain a cash receipts journal that indicated the date of receipt and the supporting documentation was not date stamped or was not on hand.

*Effect:* Untimely deposits deprive the state of the use of revenue and complainants access to wage restitution. Without a cash receipts log, it is unknown whether Department receipts were deposited in a timely manner as required by Section 4-32 of the General Statutes and incomplete receipts records are in violation of State Comptroller requirements.

*Cause:* Although the Department was aware of the requirements of Section 4-32 of the General Statutes, three of four units within the Department were not aware of the State Accounting Manual’s requirements to maintain a receipts journal.

We were informed by the Wage and Workplace Standards Division that, on occasion, there are situations that cause the division to hold a wage restitution receipt until a supervisor researches and clarifies a discrepancy.

*Recommendation:* The Department should institute procedures to comply with the Comptroller's State Accounting Manual and to ensure that receipts are deposited and accounted for in a timely manner or should request a waiver from the State Treasurer. (See Recommendation 5.)

*Agency Response:* "We agree with this finding. BPCU [Benefit Payment Control Unit], DAU [Delinquent Accounts Unit] and Benefit Billing have instituted procedures to comply with the audit findings. BPCU and DAU will be date stamping every deposit as soon as it is received in the unit so as to indicate the date of receipt. Benefit Billing has created a spreadsheet journal and is logging in the date of receipt of all their deposits. In the case of wage restitution deposits, the Department intends to request a waiver of the one day requirement due to the fact that wage restitution amounts can be in dispute and must be verified before the check can be accepted. Deposit of the check can be implied by the employer as acceptance of payment in full. Agents are assigned to specific cases to recover wages and supervisors review these determinations. Agents rotate in the office on specific days so they may not be available the first day that recovered wages are received. The Department intends to ask for a three day grace period to deposit these funds."

**Wage Restitution Account:**

*Criteria:* Section 31-69a of the General Statutes provides that any employer who violates any provisions of Chapter 563a, 557, 558 or Section 31-288(g) is liable to the Labor Department for a civil penalty of three hundred dollars for each violation of said Chapters and Section 31-288(g). Civil penalty amounts recovered are deposited into the General Fund.

Section 31-71h-2 of the State Regulations requires that the Labor Commissioner shall assess a civil penalty of \$300 upon the following determination: (1) an employer has violated a statutory provision of part III of Chapter 557; or (2) an employer has violated a statutory provision of Chapter 558. In determining the number of violations committed by an employer, the commissioner shall assess a separate civil penalty for each individual employee adversely affected by the employer's violation.

Section 31-57f of the General Statutes requires certain employers with state contracts to pay their employees at rates not less than standard rates determined by the Labor Commissioner. Any employer who violates the provisions of Section 31-57f, shall pay a civil penalty of not less than \$2,500, but not more than \$5,000, for each offense. The contracting department of the state that has imposed such civil penalty on the employer shall, within two days after taking such action, notify the Labor Commissioner, in writing, of the name of the employer or agency involved, the violations involved and steps taken to collect the fine. Section 31-57f(k) gives the Department of Labor the authority to review complaints for nonpayment of the standard rate of wages.

*Condition:* For the fiscal years ended June 30, 2009 and 2010, our review of fifteen employers that violated labor regulations disclosed the Department did not assess civil penalties to eight employers totaling \$33,900 and there was no documentation in the case files to support why the Department did not assess the civil penalty. For one employer, we noted that the Department imposed a civil penalty only for the violation identified in the original claimant's case and did not impose civil penalties for the additional 73 violations identified during the Department's review of the employer.

Our review also disclosed that the Department cited an employer for violations of Section 31-57f of the General Statutes. The Department of Labor did not impose civil penalties because the Department was not the state contracting department and the Department did not notify the state contracting department of the violations. A civil penalty of at least \$17,500 should have been levied against the employer.

*Effect:* Without imposing civil penalties, the Department may enable employer violations to perpetuate.

*Cause:* As a general practice, the Department assesses civil penalties on employers who violate prevailing wage and minimum wage standards. Although the wage enforcement cases constitute a greater portion of the division's investigations, we were informed that the Department's practice is that it does not assess civil penalties on employers who violate wage enforcement standards unless the employer is a repeat offender. This practice is based on the premise that, for many wage enforcement cases, the civil penalty is greater than the wages due and that imposing civil penalties for such cases would detract from the Department's primary purpose of collecting wages due.

Although Section 31-57f of the General Statutes gives the Department of Labor the authority to review complaints on the non-payment of standard rates, the statute appears to give the state contracting department the authority to impose civil penalties. The Department of Labor did not notify state contracting departments of identified violations because state contracting departments do not have civil penalty procedures or appeals processes to impose and collect civil penalties for wage rate violations.

*Recommendation:* The Department should assess civil penalties as prescribed by Section 31-69a of the General Statutes. If the Department determines that such statute is impractical, the Department should consider requesting a legislative change. The Department should seek legislative changes to Section 31-57f of the General Statutes to give the Department of Labor the authority to impose and collect such civil penalties. (See Recommendation 6.)

*Agency Response:* "We agree with this finding. The Agency will commence to notify contracting agencies that a contractor has been found in violation of

Section 31-57f and explore the possibility of changing the statute to allow the Labor Department to assess civil penalties for violations of 31-57f. Staff will also be instructed to assess penalties in accordance with Section 31-69a and a training session on this issue will be conducted.”

**Ethics Compliance:**

*Criteria:* In accordance with Executive Order No. 1, through a memo issued by the Special Counsel for Ethics Compliance, Governor Rell directed that, before any person leaves state service, an exit interview should be conducted by the agency’s Ethics Liaison Officer to remind the individual of potential issues relating to future employment opportunities. A written summary of the post-state employment rules should be provided at that time.

*Condition:* Our review disclosed that the Ethics Liaison Officer did not conduct exit interviews and the Department did not provide a written summary of the post-state employment rules to persons leaving state service.

*Effect:* There is non-compliance with the Governor’s directive. When persons leaving state service are not made aware of the post-state employment rules, the risk of non-compliance increases.

*Cause:* The Department does not have formalized procedures in place for conducting exit interviews with persons leaving state service. We were informed that the Department was unaware of the exit interview requirement.

*Recommendation:* The Department of Labor should establish procedures to ensure that persons leaving state service receive an exit interview and a written summary of the post-state employment rules. (See Recommendation 7.)

*Agency Response:* “We agree with this finding. The Department has developed a procedure whereby all employees leaving state service are notified by Human Resources that they must contact the Agency’s Ethics Liaison for an exit interview. An individual who is notified of this requirement then contacts the Ethics Liaison, who explains the individual’s continuing ethics obligations upon leaving state service. The Ethics Liaison also provides the individual a written summary of the post-state employment ethics rules to take with them. In the instances where an individual’s employment has been terminated immediately, the Ethics Liaison provides a letter and summary of the post-state employment ethics rules to the separated employee by mail.”

**Overtime:**

*Criteria:* Collective bargaining contracts P-2 (Article 18, Section 3) and P-4 (Article 17, Section 3) require that specified classes of employees are exempt from the payment of overtime. Instead, those employees are eligible to receive compensatory time for overtime hours worked. When the appointing authority determines that the granting of compensatory time off would create a hardship on the agency, payment of straight time may be granted with the approval of the Secretary of Office of Policy and Management (OPM).

*Condition:* Our review of employee payroll expenditures disclosed that compensation did not conform to established collective bargaining contracts P-2 and P-4 as follows.

For the fiscal year ended June 30, 2009, and the period July 1, 2009 through September 30, 2009, the Department did not obtain OPM approval to pay \$661,962 and \$449,019, respectively, to P-2 and P-4 exempt employees for overtime payments in lieu of compensatory time.

We also noted that the Department paid overtime at the rate of time and a half rather than straight time, resulting in overpayments of \$199,435 and \$169,786, for the fiscal year ended June 30, 2009 and the period July 1, 2009 through December 17, 2009, respectively. All payments were made with federal funds from the Unemployment Insurance Program.

*Effect:* The Department was not in compliance with collective bargaining contracts P-2 and P-4.

*Cause:* We were informed that the Department proceeded with its overtime plans in order to ensure the timely payment of Unemployment Insurance benefits and overtime was paid at the rate of time and a half due to a limitation in the Department's payroll system.

*Conclusion:* The Department obtained multiple approvals from OPM to pay overtime in lieu of compensatory time from October 1, 2009 through June 30, 2010. Effective October 9, 2009 and December 18, 2009, the Department ceased paying overtime at the rate of time and a half to exempt P-2 and P-4 employees, respectively. At the time of our review, a grievance was pending on this matter. The Department has made the necessary programming changes to its payroll system to ensure that P-2 and P-4 employees are paid at straight-time.

**Compensatory Time:**

*Criteria:* The Department of Administrative Services (DAS) Management Personnel Policy 06-02 states that managers must receive written authorization in advance to work extra time by the agency head or

designee in order to record the extra hours as compensatory time. The written authorization must outline the reasons for compensatory time and proof of advance authorization must be retained in the employee's personnel file for audit purposes. The amount of extra time worked must be significant, which does not include the extra hour or two a manager might work to complete normal work assignments in a normally scheduled workday.

The collective bargaining contract for the Engineering, Scientific and Technical (P-4) employees exempts employees who are paid above salary group 24 from being paid overtime, and instead authorizes them to receive compensatory time off.

*Condition:* Our review of the annual attendance records of five managers who earned compensatory time disclosed that two managers did not receive written authorization to accrue compensatory time in seven instances totaling over eight hours. Three of the five managers had seventy-seven instances of earning compensatory time in increments that were not considered significant extra time totaling over one hundred sixteen hours.

Our review of the annual attendance records of ten employees disclosed that one employee, who was not above salary group 24 and not eligible to earn compensatory time, earned sixty-four hours of compensatory time.

*Effect:* Without proper oversight and documentation, the Department has less assurance that the services it has compensated its employees for have actually been received. Employees are receiving compensatory time accruals for insignificant amounts of time and employees who are not eligible for compensatory time are allowed to earn compensatory time.

*Cause:* The Department did not have adequate procedures in place to ensure that compensatory time policies were followed.

*Recommendation:* The Department of Labor should strengthen internal controls over compensatory time to ensure compliance with DAS Management Personnel Policy #06-02 and to ensure that only eligible employees are permitted to earn compensatory time. (See Recommendation 8.)

*Agency Response:* "We agree with this finding. On March 24, 2011 an email was sent to department heads outlining the compensatory time approval process for managers in accordance with DAS Personnel Policy #06-02. Compensatory time for bargaining unit staff will be monitored for compliance with appropriate contractual language. The payroll unit will maintain final approvals for audit purposes."

**Petty Cash:**

*Criteria:* The State Accounting Manual states that a petty cash fund is a segregated advance of money that must be accounted for at all times. The Department's authorized petty cash balance as of June 30, 2010 was \$35,000 for the Employment Security Fund.

The State Accounting Manual requires that the authorized petty cash fund should be kept to the lowest amount possible, but yet sufficient to adequately meet the needs of the agency. If at any time it is determined that the amount in the petty cash fund is excessive, a re-deposit of the excess must be made.

The State Accounting Manual requires that only where time constraints exist should payment of conference fees be prepaid through petty cash funds. For all other instances, conference fees must be prepaid through expenditures or on a state purchasing card, if available.

The Department's written petty cash procedures requires that all requests for petty cash reimbursement should be accompanied by a memo or form DOL-5 from the cost center manager authorizing the purchase.

*Condition:* Our review of petty cash for the fiscal years ended June 30, 2009 and 2010, disclosed that the Department's petty cash fund was over the authorized balance by \$2,838. We also noted that the Department's monthly petty cash expenditures were significantly less than the authorized amount of \$35,000. Monthly petty cash expenditures averaged \$1,664 with maximum monthly expenditures reaching \$4,339 during the audit period.

Our review of forty petty cash expenditures disclosed seven instances in which the reimbursement was not approved by the cost center manager. We also noted three instances in which conference registration fees were processed through petty cash that could have been processed using a state purchasing card.

*Effect:* There is non-compliance with the Department's procedures and the State Accounting Manual. Excess funds being held in petty cash by the Department prevents the state from use of those funds.

*Cause:* We were informed that the petty cash balance was over the authorized amount due to a payroll credit outstanding from prior years. It appears it is the Department's practice to process most conference fees through petty cash.

*Recommendation:* The Department of Labor should strengthen controls over petty cash and should deposit the amount over the authorized balance into the Employment Security Fund. The Department should also consider

reducing its authorized petty cash to an amount that is sufficient to adequately meet the Department's needs. (See Recommendation 9.)

*Agency Response:* "We agree with this finding. The Department has taken all necessary actions to strengthen petty cash controls since conditions were presented. The \$2,838 amount over the authorized balance has been deposited into the Employment Security Fund. Our Department's petty cash balance has been reduced from \$35,000 to \$25,000. The Department now requires all petty cash expenditures to be approved by cost center managers prior to payment being processed."

**Receipt Dates:**

*Criteria:* The State Accounting Manual provides guidelines for establishing a receipt date for expenditures. For expenditures that are a reimbursement of grantee expenses, the receipt date should be the end of the billing period.

The State Accounting Manual requires that agencies are responsible to ensure that accounts payable procedures are supported by proper internal controls.

*Condition:* Our review of sixty-two grant payments disclosed that receipt dates for fifty-four grant payments were recorded incorrectly.

*Effect:* The incorrect recording of receipt dates could result in the improper reporting of year-end vendor payables and a lack of compliance with Generally Accepted Accounting Principles.

*Cause:* The Department's grantee reimbursement request form does not include a field for the date of the end of the billing period. During the fiscal year ended June 30 2009, the Department was not consistent with the date used as the receipt date. During the fiscal year ended June 30, 2010, the Department used the date that the Accounts Payable Unit processed the grant payment as the receipt date.

*Recommendation:* The Department of Labor should strengthen internal controls and follow the guidelines provided in the State Accounting Manual when posting receipt dates for grant payments. (See Recommendation 10.)

*Agency Response:* "We agree with this finding. The Department has recently received clarification on the proper recording of the receipt date on grant payments which is normally the end of the billing cycle if available or the date the grantee certified the request for payment form. The Department will continue to follow the guidelines provided in the State Accounting Manual."

**Grants Monitoring:**

*Criteria:*

Section 4-231 of the General Statutes provides that each non-state entity which expends a total amount of state financial resources equal to or in excess of three hundred thousand dollars in any fiscal year shall have a single audit or a program-specific audit made for such fiscal year. Section 4-232(b)(1) of the General Statutes requires that each non-state entity required to be audited shall file a copy of the audit report with the cognizant agency and state grantor agencies no later than six months after the end of the audit period.

Section 4-233(d) of the General Statutes provides that, if an independent public audit of the non-state entity finds any material or reportable noncompliance to applicable laws, regulations and grant or contract provisions, or finds any significant deficiency or material weakness with respect to internal controls, the non-state entity shall submit to appropriate state officials a corrective action plan to eliminate such material or reportable noncompliance, significant deficiency or material weakness.

The Office of Policy and Management (OPM) issues a standardized form, “*Grantor Agency Desk Review Checklist*”, for state agencies to perform a desk review of a non-state entity’s audited financial reports issued by its independent public auditors.

Individual Development Account grant agreements require that the grantee provide the Department with a statement of the Local Reserve Fund establishment, in letter format, on letterhead from the partnering financial institution that is to be signed by the officials of the partnering financial institution and is to include account numbers and an attachment of original account statements.

Occupational Health Clinic grant agreements require the submission of an annual program report with specific required data that is due to the Department on or before August first for grant monitoring purposes.

*Condition:*

Our review of twenty-five grants for fiscal years ended June 30, 2009 and 2010, disclosed the following:

- The Department did not perform a desk review of six grantee single audit reports and did not follow up with one grantee that did not submit a single audit report.
- The Department did not complete the desk review check list properly for five grantee single audit reports by not identifying significant deficiencies and/or material weaknesses and the Department’s programs that were reported as major state programs. As a result, the Department did not follow up with two grantees who did not submit a corrective action plan.

- The Department did not monitor the required submission of annual program reports for three Occupational Health Clinic grants.
- The Department issued grant payments for two Individual Development Accounts (IDA) totaling \$158,823 without obtaining signed documentation from the grantee's partnering financial institution as required by the grant agreement.

*Effect:* Failure to perform timely monitoring of grantees weakens control over grant programs. The Department has less assurance that expenditures made by grantees were used for allowable activities.

*Cause:* Grantee monitoring is not being enforced.

*Recommendation:* The Department should strengthen internal controls over the monitoring of grants. (See Recommendation 11.)

*Agency Response:* "We agree with this finding. The Department will review our grantee monitoring procedures in accordance with the OPM "Grantor Agency Desk Review Checklist" and assign appropriate staff to ensure proper grant monitoring is being enforced.

The financial statement requirement in the IDA grant agreements will be revised. In addition, a letter detailing the annual reporting requirements will be sent to each recipient of Occupational Health Clinic Grants one month prior to the end of the fiscal year. Contact will be made with grant participants who have not submitted an annual report within 30 days after the annual reporting deadline of August 1st. If there is no response within 15 days, CONN-OSHA management will notify the grantee that failure to provide annual reports will jeopardize future grants."

### **Property Inventory and Reporting:**

*Criteria:* Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the Comptroller. The State Property Control Manual specifies requirements and standards that state agency property control systems must comply with, including maintaining a software inventory to track and control all agency software media, licenses or end user license agreements, certificates of authenticity, documentation and related items and tagging, recording and maintaining capital assets and controllable property on the Core-CT Asset Management Module. The Property Control Manual requires that assets with a cost of \$1,000 or more be capitalized and, when applicable, property with a unit cost of less than \$1,000 be recorded as controllable.

The agency is required to transmit annually to the Comptroller a detailed inventory of all property, real or personal, owned by the state and in custody of such agency. Effective for fiscal year 2010, the detailed inventory report must include licensed software.

*Condition:* Our review of the CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2009 and 2010, disclosed the following:

- Equipment additions were understated by \$41,356 and \$52,954, for each fiscal year, respectively.
- The Department erroneously categorized 953 inventory items, totaling \$530,891, as capitalized and four inventory items, totaling \$57,367, as controllable for both fiscal years.
- The ending balance for licensed software was incomplete for the fiscal year ended June 30, 2010.

Our review of seventy-five inventory items disclosed that two items, totaling \$42,515, were not recorded in the Core-CT Asset Management Module and two items, totaling \$3,597, were disposed without removal from the Core-CT Asset Management Module.

*Effect:* Deficiencies in the control over equipment inventory provide a decreased ability to properly safeguard state assets and accurately report the Department's inventory. The Department is not in compliance with the requirements of the State Property Control Manual.

*Cause:* Internal controls over fixed assets and personal property were inadequate.

*Recommendation:* The Department should improve its internal controls over the custody and reporting of its property inventory. (See Recommendation 12.)

*Agency Response:* "We agree with this finding. The Department will review the internal controls for inventory reporting to ensure correct reporting of property inventory. We have also reviewed each individual entry cited and have reconciled and adjusted our property inventory records accordingly."

**Reports Required by Statute:**

*Background:* The Department of Labor is mandated to submit fourteen different reports under various sections of the General Statutes. The information provided is necessary to facilitate executive and legislative oversight of the assistance programs administered by the Department.

*Criteria:* Section 31-2(a) of the General Statutes requires the Department to include in the Annual Report to the Governor statistical details on population and employment data to project who is working, who is not working and who will be entering the job market and provide an analysis of the data concerning present job requirements and potential needs of new industry.

Section 31-3a(b) of the General Statutes requires the Department to report annually by January 30<sup>th</sup> to the Governor manpower development and

planning requirements, resources, use and training, and related economic developments and trends of the state.

Section 31-3n(d) of the General Statutes requires the Department to submit an annual plan by January 31<sup>st</sup> containing each regional workforce development board's priorities and goals for regional employment and training programs to the Governor for final approval.

Section 31-3u(c) of the General Statutes requires the Department to submit an annual report to the joint standing committees of the General Assembly outlining assistance provided to employers for job training or retraining of current or prospective employees in newly created jobs and meeting certain quality standards.

Section 31-22 of the General Statutes requires the Department to include in the Annual Report to the Governor the number of complaints and prosecutions instituted concerning violations of employment of minors and observance of regulations in Parts I and II of Chapter 557 and Part II of Chapter 558 of the General Statutes.

Section 31-51ccc of the General Statutes requires the Department to annually submit a comprehensive report of the Connecticut Individual Development Account Initiative by February 1<sup>st</sup> to the Speaker of the House and President Pro Tempore of the Senate.

Section 31-57a of the General Statutes requires the Department to distribute annually by June 30<sup>th</sup> to all state departments a list of names of persons or firms found in violation of the National Labor Relations Act by the National Labor Relations Board.

Section 31-273(a) of the General Statutes requires the Department to annually report to the joint standing committee of the General Assembly the aggregate number and value of uncollectible benefit overpayments cancelled during the previous calendar year.

Section 11-4a of the General Statutes requires the Department to file a copy of reports submitted to the General Assembly or any committee of the General Assembly with the State Librarian and the Office of Legislative Research.

An adequate system of internal controls should include a method for management to monitor the submission of all mandated reports.

*Condition:*

Our review for the fiscal years ended June 30, 2009 and 2010, disclosed that eight and seven mandated reports, respectively, were not submitted by the Department.

- Effect:* Executive and legislative oversight of the Department is diminished and there is non-compliance with the General Statutes.
- Cause:* Management lacks oversight over the submission of mandated reports.
- Recommendation:* The Department of Labor should institute procedures to ensure that all reports required by statute are submitted as required or should seek legislation to have the General Statutes amended. (See Recommendation 13.)
- Agency Response:* “We agree with this finding. The Department recognizes that various statutes mandate that the Agency file reports with the Governor’s Office and other state and legislative entities. An internal Agency survey reveals that only a portion of the required reports are being filed at present. The Department intends to institute an internal process by which management responsible for filing mandated reports submits such reports to a centralized entity for monitoring and compliance purposes.”

**Board and Commissions:**

*Background:* The General Statutes relating to the Department of Labor provide for six boards, two commissions, and two councils, which will be collectively referred to as “boards” and include the Apprenticeship Council, Board of Labor Relations, Board of Mediation and Arbitration, Board of Review, Occupational Safety & Health Review Commission, Advisory Council on Displaced Homemakers, Wage Board, Employment Security Division Advisory Board, Employee Misclassification Advisory Board, and Joint Enforcement Commission on Employee Misclassification. The Joint Enforcement Commission on Employee Misclassification incorporates five agencies and consists of the Labor Commissioner, Commissioner of Revenue Services, Chairperson of the Workers’ Compensation Commission, Attorney General, and Chief State’s Attorney, or their designees.

*Criteria:* Section 1-225 of the General Statutes requires public agencies to perform the following: (1) post meeting minutes to the public agency’s internet website not later than seven days after such meeting; (2) file not later than January 31<sup>st</sup> of each year with the Secretary of the State a schedule of regular meetings for the ensuing year and to post such schedule on the public agency’s website; (3) file not less than 24 hours before a meeting the agenda of such meeting with the Secretary of the State and to post such agenda on the public agency’s internet website; (4) file not less than 24 hours before a special meeting a notice of such special meeting with the Secretary of the State and to post the special meeting notice on the public agency’s internet website.

Section 31-3g(d) of the General Statutes requires the Labor Commissioner to establish an Advisory Council on Displaced Homemakers. The advisory

council consults with and advises the Labor Commissioner and the state-wide coordinator of services for displaced homemakers.

Section 31-61 of the General Statutes provides for the Labor Commissioner to appoint members to a wage board for the establishment of a minimum fair wage for persons in a specified occupation.

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

Section 31-91 of the General Statutes provides for the Board of Mediation and Arbitration, consisting of two panels of three members each. The Governor appoints, on or before July fifteenth in odd-numbered years, two members of said board to succeed the members whose terms expire. Section 31-98(b) of the General Statutes provides that upon the conclusion of proceedings, each member of the panel of the Board of Mediation and Arbitration receives compensation for specified services, including one hundred fifty dollars for each additional day beyond the first day, provided that no proceeding may be extended beyond two days without the prior approval of the Labor Commissioner for each such additional day.

Section 31-96 of the General Statutes requires the Labor Commissioner, with the advice and approval of the Board of Mediation and Arbitration, to appoint at least five mediators to act for it in making investigations and adjusting labor disputes.

Section 31-250a of the General Statutes provides for the Employment Security Division Advisory Board, which consists of eight members who are appointed by specified state elected officials for a specified initial term and, if applicable, reappointed to a four year term. The Advisory Board includes, in part, one member representing employers appointed by the majority leader of the House of Representatives and one member representing labor organizations appointed by the president pro tempore of the Senate for an initial term of two years, one member representing employers appointed by the majority leader of the Senate for an initial term of three years, and one member representing employers appointed by the minority leader of the Senate for an initial term of four years.

Section 31-102 of the General Statutes provides for the Governor to appoint on or before June first in the odd-numbered years, as the term of each member of the Board of Labor Relations expires, a successor to serve for a term of six years. Whenever conditions warrant, the Labor Commissioner or the chairman of the board shall request the Governor to

appoint alternate members to the board in such numbers and for such periods of time as determined to be necessary but not longer than one year.

*Condition:*

Our review of the boards for fiscal years ended June 30, 2009 and 2010, revealed the following:

- Three boards did not post meeting minutes to the Department's website, four boards did not file a schedule of regular meetings for the ensuing year with the Secretary of the State and six boards did not post such schedule on the Department's website. Four boards did not file the agenda of regular meeting with the Secretary of the State and three boards did not post such agendas to the Department's website. One board did not post six notices of special meetings and four notices of changes to regular meetings on the Department's website and did not file two notices of changes to regular meetings with the Secretary of the State.
- The Department did not request a repeal of legislation for two defunct boards: the Advisory Council on Displaced Homemakers and the Wage Board.
- We noted that one member of the Employee Misclassification Advisory Board did not attend any of the meetings during the audit period. We also noted that at one meeting there was no member representing labor present.
- Three of the five mediator positions required by Section 31-96 were vacant during the audit period.
- Two members of the Board of Mediation and Arbitration were not appointed during odd-numbered years. As a result, all six board members' terms are due to expire simultaneously. We also noted that the Department paid members of the Board of Mediation and Arbitration for hearings that continued beyond two days without obtaining the Labor' Commissioner's prior approval as required by statute.
- We noted that there has been one vacancy on the Employment Security Division Board since June 2003. We were informed the Department has not notified the appointing authority of the vacancy. We also noted that one member was appointed to an initial term of four years, but should have been appointed to an initial term of two years and for two members, the Department did not have appointment letters on file and we were unable to verify whether the members' terms were in compliance with the statutes.
- For the Board of Labor Relations, we noted that two members were appointed to terms in excess of the six-year term required by statute and one member's term should have expired in March 2006, but continued to serve without a reappointment letter. We also noted that one alternate continued to serve beyond the maximum one year term for alternates when his term expired in December 2008.

- Effect:* Public notice was not provided for board meetings, minutes and agendas. The boards were not operating in compliance with the General Statutes with regard to appointments and full membership.
- Cause:* A lack of administrative oversight contributed to this condition. The Department did not effectively work with the boards and appointing authorities. We were informed that the mediator positions required by Section 31-96 were vacant as there was not a need for five positions.
- Recommendation:* The Department should work with the boards to ensure compliance with Freedom of Information requirements and the General Statutes relating to the boards. The Department should notify appointing authorities of existing vacancies to ensure adequate representation at all board meetings. If the Department determines that any statutes are impractical or outdated, then the Department should consider requesting a legislative change to the respective statute. (See Recommendation 14.)
- Agency Response:* “We agree with this finding. The Department acknowledges the need to comply with Freedom of Information Act (“FOIA”) requirements regarding the scheduling of meetings and the filing of agendas and minutes. The Agency has taken measures to remind the Boards and Commissions of the FOIA requirements by circulating the audit findings to the respective Boards and Commissions. Additionally, Boards and Commissions have undertaken the task of filling vacancies by seeking appointments to each respective Board and Commission to ensure adequate representation at all meetings. Furthermore, the full complement of statutorily required mediator positions has not been filled due to a present lack of need and funding. Finally, the Department has notified its legislative liaisons of the possible need to repeal legislation which created the Advisory Council on Displaced Homemakers and the Wage Board, both of which are no longer in existence.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- The Department should follow established procedures to ensure that unemployment compensation benefits are only paid to eligible individuals. This recommendation has been resolved.
- The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. This recommendation is being repeated. (See Recommendation 12.)
- The Department should only grant compensatory time when properly authorized and pay overtime to those employees not authorized to receive compensatory time. This recommendation is being repeated. (See Recommendation 8.)
- The Agency, when recording receipt dates for expenditures, should follow the guidelines as set forth in the State Accounting Manual. This recommendation is being repeated. (See Recommendation 10.)

### *Current Audit Recommendations:*

- 1. The Department of Labor should institute procedures to ensure that bank reconciliations of the Unemployment Compensation Fund benefit bank account are performed in a timely manner.**

Comment:

Our review of the Department's Unemployment Compensation Fund benefit bank account disclosed that the Department has not performed monthly bank reconciliations since February 2009.

- 2. The Department of Labor should institute procedures to ensure that all unemployment contribution return records are retained in accordance with the General Statutes.**

Comment:

Our comparison of postings of tax receipts to employer accounts to documentation of taxes received disclosed that unemployment contribution returns filed via the internet are retained by the Department's system for only the current quarter.

- 3. The Department of Labor should perform and document the required interest rate calculation each year to ensure compliance with Section 31-265 of the General Statutes.**

Comment:

For the fiscal years ended June 30, 2009 and 2010, the Department charged one percent per month in interest on unpaid employer contributions without performing and documenting the interest rate calculation.

- 4. The Department of Labor should comply with the records retention/disposition schedule issued by the Connecticut State Library.**

Comment:

Our review of claimant receivable records maintained by the Benefit Payment Control Unit (BPCU) for the fiscal years ended June 30, 2009 and 2010, disclosed that cash receipt records were unavailable for most of the audit period because the BPCU does not maintain cash receipt records for more than one year. We also noted that the Department disposed of such records without a signed RC-108.

- 5. The Department should institute procedures to comply with the Comptroller's State Accounting Manual and to ensure that receipts are deposited and accounted for in a timely manner or should request a waiver from the State Treasurer.**

Comment:

Our review of forty-five receipts totaling \$100,597 disclosed that seven receipts totaling \$10,076 were deposited between one and seven days late and six receipts totaling \$6,400 were posted to the Department's accounting records one to two days late. Our review also disclosed that, for twenty-three receipts totaling \$77,173, we were unable to determine the initial receipt date of the receipts, as three of the Department's units did not maintain a cash receipts journal that indicated the date of receipt and the supporting documentation was not date stamped or was not on hand.

- 6. The Department should assess civil penalties as prescribed by Section 31-69a of the General Statutes. If the Department determines that such statute is impractical, the Department should consider requesting a legislative change. The Department should seek legislative changes to Section 31-57f of the General Statutes to give the Department of Labor the authority to impose and collect such civil penalties.**

Comment:

Our review of employers that violated labor regulations disclosed instances in which the Department did not assess civil penalties and there was no documentation in the case files to support why the Department did not assess the civil penalties.

- 7. The Department of Labor should establish procedures to ensure that persons leaving state service receive an exit interview and a written summary of the post-state employment rules.**

Comment:

Our review disclosed that the Ethics Liaison Officer did not conduct exit interviews and the Department did not provide a written summary of the post-state employment rules to persons leaving state service.

- 8. The Department of Labor should strengthen internal controls over compensatory time to ensure compliance with DAS Management Personnel Policy #06-02 and to ensure that only eligible employees are permitted to earn compensatory time.**

Comment:

Our review of the annual attendance records of five managers who earned compensatory time disclosed that two managers did not receive written authorization to accrue compensatory time in seven instances totaling over eight hours. Three of the five managers had seventy-seven instances of earning compensatory time in increments that were not considered significant extra time totaling over one hundred sixteen hours. Our review of the annual attendance records of ten employees disclosed that one employee, who was below salary group 25 and not eligible to earn compensatory time, earned sixty-four hours of compensatory time.

- 9. The Department of Labor should strengthen controls over petty cash and should deposit the amount over the authorized balance into the Employment Security Fund. The Department should also consider reducing its authorized petty cash to an amount that is sufficient to adequately meet the Department's needs.**

Comment:

Our review of petty cash disclosed that the Department's petty cash fund was over the authorized balance by \$2,838 and the Department's monthly petty cash expenditures were significantly less than the authorized amount of \$35,000. Our review of forty petty cash expenditures disclosed seven instances in which the reimbursement was not approved by the cost center manager. We also noted three instances in which conference registration fees were processed through petty cash that could have been processed using a state purchasing card.

- 10. The Department of Labor should strengthen internal controls and follow the guidelines provided in the State Accounting Manual when posting receipt dates for grant payments.**

Comment:

Our review of sixty-two grant payments disclosed that receipt dates for fifty-four grant payments were recorded incorrectly.

**11. The Department should strengthen internal controls over the monitoring of grants.**

Comment:

Our review of twenty-five grants disclosed that the Department did not perform a desk review of six grantee single audit reports, did not follow up with one grantee that did not submit a single audit report, did not complete the desk review check list properly for five grantee single audit reports, and did not monitor the required submission of annual program reports for three Occupational Health Clinic grants. The Department also issued two grant payments without obtaining signed documentation from the grantee's partnering financial institution as required by the grant agreement.

**12. The Department should improve its internal controls over the custody and reporting of its property inventory.**

Comment:

Our review disclosed errors in the preparation of the CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2009 and 2010. Our review of seventy-five inventory items disclosed that two items, totaling \$42,515, were not recorded in the Core-CT Asset Management Module and two items, totaling \$3,597, were disposed without removal from the Core-CT Asset Management Module.

**13. The Department of Labor should institute procedures to ensure that all reports required by statute are submitted or should seek legislation to have the General Statutes amended.**

Comment:

Our review for the fiscal years ended June 30, 2009 and 2010 disclosed that eight and seven mandated reports, respectively, were not submitted by the Department.

**14. The Department should work with the boards to ensure compliance with Freedom of Information requirements and the General Statutes relating to the boards. The Department should notify appointing authorities of existing vacancies to ensure adequate representation at all board meetings. If the Department determines that any statutes are impractical or outdated, then the Department should consider requesting a legislative change to the respective statute.**

Comment:

Our review disclosed that the boards did not consistently file with the Secretary of the State and post on the Department's website meeting schedules, agendas, minutes and notices of special meetings. The Department did not request a repeal of legislation for two defunct boards. We also noted issues with member absenteeism, vacancies, term appointments and lack of approval for certain payments.

## **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Department of Labor for the fiscal years ended June 30, 2009 and 2010. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Department are complied with, (2) the financial transactions of the Department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Labor for the fiscal years ended June 30, 2009 and 2010, 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 Department of Labor 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:**

Management of the Department of Labor is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department of Labor'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 Department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of Department of Labor's internal control over those control objectives.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Department's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation 1 - unemployment compensation fund benefit bank account reconciliations, Recommendation 11 - grants monitoring and Recommendation 12 - property inventory and reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Department of Labor 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 Department'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.

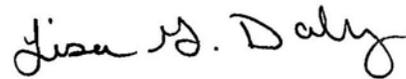
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying Condition of Records and Recommendations sections of this report.

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 of Labor's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of Department 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 courtesies and cooperation extended to our representatives by the personnel of the Department of Labor during the course of our examination.



Lisa G. Daly  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts