

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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April 18, 2019

## INTRODUCTION

### **AUDITORS' REPORT DEPARTMENT OF LABOR FOR THE FISCAL YEARS ENDED JUNE 30, 2013 and 2014**

We have audited certain operations of the Connecticut Department of Labor (DOL) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2013 and 2014.

The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions;
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying *Résumé of Operations* is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Labor.

## **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 that 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 services, and maintenance of labor statistics. During the audited period, field operations of the department were carried out from thirteen job centers and two call centers throughout the state. The department is responsible for the following programs:

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

- Workforce Innovation and Opportunity Act (WIOA) –Advocates One-Stop Career Centers to provide universal access to effective employment and training programs. The department has 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.

Effective July 1, 2011, in accordance with Section 81 of Public Act 11-48, the Office of Workforce Competitiveness (OWC) became an administrative unit of the Department of Labor. Most of the OWC functions and duties were assigned to the Department of Labor, and are administered with OWC's help. These functions and duties include serving as the Governor's principal workforce development policy advisor and liaison with local, state, and federal workforce development agencies. In addition, the department serves as the lead state agency for developing employment and training strategies and initiatives needed to support Connecticut's position in the knowledge economy.

The Department of Labor is administered by a commissioner appointed by the Governor under sections 4-5 to 4-8 of the General Statutes. Sharon Palmer was appointed Commissioner on October 5, 2012 and served in that capacity until December 31, 2015. Dennis Murphy served as acting commissioner from January 1, 2016 until February 5, 2016. Scott D. Jackson was appointed Commissioner February on 5, 2016 and continued to serve in that capacity until June 22, 2018. Kurt Westby is currently serving as Commissioner and was appointed as of June 22, 2018.

## **SIGNIFICANT LEGISLATION**

- Public Act 12-46 – Beginning with the 2013 calendar year, this act changed the method used to calculate the ideal amount of money that should be retained in the unemployment compensation trust fund. Under prior law, the fund's goal was 0.8 percent of the total wages paid by contributing employers. In 2013, the act changed the goal to an average high cost multiple (AHCM) of 0.5, then increases it by 0.1 per year until it reaches an AHCM of 1.0 (one year's worth of average recessionary level unemployment benefits) in 2018. From that point forward, the act requires the fund's goal to be an AHCM of 1.0. By law, a portion of the unemployment taxes paid by employers is based on the fund balance rate, which can vary between zero (when the trust fund has reached its funding goal) and a statutory maximum of 1.4 percent (when the fund is significantly below its goal) of the first \$15,000 in annual wages paid to each employee. The act maintains these minimum and maximum tax rates and, as under prior law, also requires the fund administrator to lower the rate when the fund exceeds its goal. The act also prohibits the administrator from setting a rate that will result in the fund exceeding its goal. The act went into effect on October 1, 2012.

- Public Act 12-1 (June Special Session) – Effective July 1, 2012, Section 101 of the act, placed the Commission on Human Rights and Opportunities (CHRO) within the Department of Labor for administrative purposes only. CHRO had previously been within the Department of Administrative Services for administrative purposes only. Sections 202 and 203 (effective June 15, 2012), expanded and made programmatic and administrative changes to the Subsidized Training and Employment Program. The act opened the program to more small businesses and small manufacturers. Sections 204 and 205 (effective June 15, 2012) established the Unemployed Armed Forces Member Subsidized Training and Employment Program, which is similar to the Step-Up Program. The Subsidized Training and Employment Program or Step-Up, provides wage and training subsidies to employers that hire the unemployed. The program, administered by the CT Department of Labor and the state’s five Workforce Investment Boards, helps small businesses hire employees and expand their workforce. The program provides grants subsidizing businesses’ cost of hiring unemployed veterans during their first 180 days on the job. The act allows the commissioner to adopt implementing regulations.
- Public Act 13-49 (June Regular Session) – This act protects employees who serve or served in the military from workplace discrimination due to their service. It extended the employment protections currently afforded to employees who are U.S. Armed Forces reservists or National Guard members to members of the state armed forces who take time from their employment to perform ordered military duty. Protections include being permitted a leave of absence when the member is ordered to military duty, including meetings and drills during regular working hours and protection from loss of vacation or holiday privileges, or prejudice in promotions, continuances, or reappointments of employment due to absences.
- Public Act 13-63 (June Regular Session) – This act expanded eligibility for the state’s current Unemployment Armed Forces Subsidized Training and Employment Program to include all unemployed, honorably discharged U.S. armed forces members who served for at least 90 days. It eliminated the requirement that the Armed Services’ member serve in a “combat zone” which is a zone in which there is hostile fire or imminent danger and the member is serving an area in direct support of military operations in the combat zone. Pre-9/11 veterans are now eligible to participate in the program.
- Public Act 13-66 (June Regular Session) – Effective October 1, 2013, this act helps to maintain the integrity of the Unemployment Compensation (UC) Program. The federal Trade Adjustment Assistance Extension Act of 2011, (TAAEA) was enacted on October 21, 2011, which requires states to impose a monetary penalty (an amount not less than 15% of the erroneous payment) on claimants whose fraudulent acts resulted in overpayments, and provides that if a claimant’s overpayment is the result of the employer’s failure to respond timely or adequately to an information request by DOL, the employer will be responsible for the entire overpayment (not just the six weeks following its appeal) until the determination is made that the individual is no longer eligible for benefits. The federal Middle Class Tax Relief and Job Creation Act of 2012 requires states to allow all employers to participate in their “shared work” programs. These programs allow participating employers to reduce the hours of employees, rather than laying them off, and

affected employees are able to collect partial unemployment compensation benefits to supplement their reduced wages.

- Public Act 13-141 (June Regular Session) – Effective January 1, 2014, this act required all employers to electronically file unemployment tax and wage data to the Department of Labor. An employer may request a waiver from the electronic reporting requirements by submitting a request for a waiver to the Department of Labor. Prior to January 1, 2014, only employers with 250 or more employees were required to file electronically.
- Public Act 13-247 (June Regular Session) – Effective July 1, 2013, Section 382 of this act provided that the labor commissioner shall establish and implement a program of grants for affected business entities that employ apprentices under a qualified apprenticeship program in the manufacturing trades, plastics and plastics related trades, or construction trades. The total amount of grants available under such program shall not exceed \$50,000. Taxpayers shall apply for grants on forms and in the manner provided by the commissioner. Grants will be awarded on a first-come first-served basis. Up to \$100,000 of the amount appropriated to the Labor Department for the Jobs First Employment Services, for each of the fiscal years ending June 30, 2014, and June 30, 2015, shall be made available in each of said fiscal years for a grant to the WorkPlace in Bridgeport.
- Public Act 13-288 (June Regular Session) – Required any employer not previously subject to the Unemployment Compensation Act that becomes subject to this chapter, shall provide electronic notice to the administrator not later than 30 days. If the employer fails to notify DOL, a penalty of \$50 is assessed. This act also requires any employer acquiring all the assets, organization, trade, or business, including employees, of another employer that is subject to the state’s unemployment law shall provide electronic notice of such acquisition to the administrator not later than 30 days after such an acquisition or pay a \$50 penalty. Finally, if an employer files a tax or wage report without the proper number, a \$25 penalty is assessed.
- Public Act 14-38 (June Regular Session) – Effective July 1, 2014, this act created a new apprentice grant program under the Subsidized Training and Employment Program to provide grants for small businesses and manufacturers to hire high school and college students. Under the act, a “new apprentice” is a student at a public or private high school, preparatory school, or institution of higher education. An eligible small business or manufacturer may apply to DOL for a grant to subsidize on-the-job training for a new apprentice. To be eligible, a small business must (1) employ 100 or fewer full-time employees on at least 50% of its working days in the previous 12 months, (2) have operation and be registered in the state, and (3) be in good standing for all state and local taxes. The act created a grant schedule, with a maximum of \$10 per hour for any apprentice, for eligible small businesses or manufacturers. The new apprentice’s wages (up to \$10 per hour) are covered as follows: 100% for the first 30 days; 75% for days 31-90; 50% for days 91-150; and 25% for days 151-180.
- Public Act 14-128 (June Regular Session) – Effective January 1, 2015, this act changed the method for determining whether a business must provide paid sick leave. Under the act,

an employer must provide the leave if it employs 50 or more people in Connecticut based on the number of employees on its payroll for the week of October 1. This new method follows methods established in the Connecticut Family and Medical Leave Act (FMLA). The act also prohibits employers from firing, dismissing, or transferring an employee from one job site to another to come under the 50-employee threshold. Workers aggrieved by such practices may file a complaint with DOL. The act also changes the timeframe for accruing paid sick leave from a calendar year accrual (January 1 – December 31) to any 365-day year that the employer uses to calculate employee benefits. This allows the employer to start the benefit year on any date, rather than only on January 1.

- Public Act 14-217 (June Regular Session) – Effective July 1, 2014, this act required that \$1 million of the \$5.5 million appropriation for the Department of Labor’s Connecticut Youth Employment Program in the fiscal year 2014-2015 be distributed through the Workforce Investment Boards (WIB) to nine specific cities’ youth employment programs. The act also required each WIB to submit a report to the Appropriations Committee on use of the distributed funds by January 1, 2015.
- Public Act 14-225 (June Regular Session) – Effective October 1, 2014, this act created or expanded several initiatives for the state’s unemployed workers. It requires the Department of Labor (DOL) to (1) promote the state’s apprenticeship programs and (2) convene a working group to determine whether resume-writing assistance providers at the CTWorks One-Stop Career Centers should be credentialed. The act also created initiatives specifically for older unemployed workers (those age 50 or older), such as requiring (1) DOL to create a quick-reference guide of the resources available to older unemployed workers and (2) the Connecticut Employment and Training Commission (CETC) to publicize the benefits of hiring and retaining older workers and include programs for them in their planning.

## **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. No regulations concerning the Employment Security Division are adopted without consulting the advisory board.

Connecticut Employment and Training Commission:

The Connecticut Employment and Training Commission (CETC) is Connecticut's State Workforce Investment Board, authorized under the federal Workforce Innovation and Opportunity Act and state statute. CETC provides workforce-related policy and planning guidance to the Governor and General Assembly and promotes coordination of the state's workforce-related investments, strategies, and programs. Appointed by the Governor, its members represent Connecticut businesses, employers, key state agencies, regional/ local entities, organized labor, community-based organizations and other stakeholders. The Office of Workforce Competitiveness (OWC) provides staff, leadership, support and technical assistance to CETC membership.

## **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>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Federal Contributions	\$30,390,880	\$30,703,211	\$28,884,021
Recoveries of Expenditures	175,754	141,307	167,052
Fees and Fines	422,930	412,120	436,386
Refunds of Expenditures	308,023	264,039	358,918
Miscellaneous	947	3,585	967
<b>Total General Fund Receipts</b>	<b><u>\$31,298,534</u></b>	<b><u>\$31,524,262</u></b>	<b><u>\$29,847,344</u></b>

Total receipts increased slightly by \$225,728 and decreased by \$1,676,918 during the fiscal years ended June 30, 2013 and 2014, respectively. Both the increase and decrease can be primarily attributed to the federal contributions 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>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Personal Services and Employee Benefits	\$14,569,022	\$14,079,777	\$13,688,353
Employee Expenses, Allowances, Fees	170,620	172,318	208,457
Contractual Services	2,103,831	2,211,528	1,837,234
Commodities	65,404	92,525	74,106
Other	2,902	3,703	2,497
Grants	46,499,670	47,452,863	47,977,366
Capital Outlay	101,270	18,132	267,556
<b>Total Expenditures</b>	<b><u>\$63,512,719</u></b>	<b><u>\$64,030,846</u></b>	<b><u>\$64,055,569</u></b>

Total expenditures increased by \$518,127 and \$24,723 during the fiscal years ended June 30, 2013 and 2014, respectively. Grant expenditures increased by \$953,193 and \$524,503 in fiscal years ended June 30, 2013 and 2014. The slight increases in 2012-2013 and 2013-2014 were mainly attributed to grants to non-state agencies.

### **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 (a) through (c) of the General Statutes and consists of monies appropriated by the state, monies received from the federal government or any agency thereof, and monies received from any other source, for the purpose of defraying the administrative costs of the Employment Security Division. According to Section 31-237(a) of the General Statutes, the "Employment Security Division shall be responsible

for matters relating to unemployment compensation and the Connecticut State Employment Service, and shall establish and maintain free public employment bureaus.”

### **Unemployment Compensation Advance Fund**

The Unemployment Compensation Advance Fund was established by Section 31-264a (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 (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 that exceed \$500,000 are to be appropriated to the Unemployment Compensation Fund. During the fiscal years ended June 30, 2013 and 2014, \$3,200,000 and \$3,050,000, 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:

	<b>Schedule of Receipts</b>		
	<b>Fiscal Year Ended June 30,</b>		
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Employment Security Administration Fund	\$97,435,828	\$98,758,751	\$105,033,750
Grants and Restricted Accounts Fund	32,886,407	26,121,493	20,695,952
Employment Security Special Administration Fund	2,791,370	3,211,689	2,983,391
Special Assessment Unemployment Compensation Advance Fund	3,985	20,403	9,032
Banking Fund	0	0	152
Individual Development Account Reserve Fund	90,250	100,000	239,113
Workers' Compensation Fund	53,998	0	16,879
<b>Total</b>	<b><u>\$133,261,838</u></b>	<b><u>\$128,212,336</u></b>	<b><u>\$128,978,269</u></b>

Total receipts decreased \$5,049,502 in fiscal year 2012-2013 and was primarily attributable to the decrease in Grants and Restricted Accounts Fund receipts. A slight increase in total receipts of \$765,933 during the fiscal year ended June 30, 2014 was mainly due to an increase in the Employment Security Administration Fund and a decrease in Grants and Restricted Accounts Funds receipts.

The department received \$23,113,265 and \$18,309,414 in special assessment receipts in the Grants and Restricted Accounts Fund, through an August 2011 special assessment levied on contributory employers, during the fiscal years ended June 30, 2013 and 2014 respectively. The DOL levied the special assessment to repay the interest owed on loans received from the federal government beginning in October 2009, as a result of the Unemployment Compensation Fund becoming insolvent. Interest owed on the loans was \$13,316,991 and \$10,483,623 as of June 30, 2013 and 2014, respectively. Interest repayments were made, totaling \$23,097,805 and \$16,129,536, during the fiscal year ended June 30, 2013 and 2014, respectively. A decrease in the Grants and Restricted Accounts Fund was due to the reduction in the loan balance and interest percentage charged.

Receipts for the Employment Security Administration Fund are used for the purpose of defraying the administrative costs of the department's Employment Security Division and can vary, depending on the number and amount of federal grants received during the year. In addition, Reed Act Funds totaling \$2,033,186 were transferred into the fund during the fiscal year ended June 30, 2014.

	<b><u>Schedule of Expenditures</u></b>		
	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Employment Security Administration Fund	\$96,524,659	\$99,599,246	\$104,563,972
Grants and Restricted Accounts Fund	2,068,540	3,057,438	2,140,277
Employment Security Special Administration Fund	2,800,000	3,200,000	3,050,000
Small Town Economic Assistance Program – Grants to Local Government	2,025,127	10,082,749	7,913,595
Banking Fund	500,000	1,100,000	1,700,000
Individual Development Account Reserve Fund	404,060	81,824	790
Workers’ Compensation Fund	651,783	667,793	669,808
Capital Equipment Purchase Fund	191,471	37,297	24,313
Housing Trust Fund	<u>0</u>	-262,735	0
Economic Assistance Revolving Fund	<u>0</u>	<u>484,435</u>	<u>468,885</u>
<b>Total</b>	<b><u>\$105,165,640</u></b>	<b><u>\$118,048,047</u></b>	<b><u>\$120,531,640</u></b>

Expenditures for the Small Town Economic Assistance Program – Grants to Local Government Fund increased during the fiscal year ended June 30, 2013, due to the establishment of the subsidized training and employment program in accordance with Public Act 11-1 of the October Special Session. In addition, increases in the fiscal years ended June 30, 2013 and 2014 were noted in the Employment Security Administration fund due to an increase in workloads.

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Personal Services and Employee Benefits	\$78,671,036	\$82,379,094	\$90,149,967
Employee Expenses, Allowances, Fees	503,209	532,665	664,174
Contractual Services	16,986,004	16,282,415	14,575,485
Commodities	618,257	544,506	465,802
Grants	6,453,084	17,067,334	14,128,522
Capital Outlay	1,905,829	1,203,405	503,990
Other	<u>28,221</u>	<u>38,629</u>	<u>44,081</u>
<b>Total Expenditures</b>	<b><u>\$105,165,640</u></b>	<b><u>\$118,048,048</u></b>	<b><u>\$120,532,021</u></b>

Total expenditures increased by \$12,882,407 and \$2,483,973 during the fiscal years ended June 30, 2013 and 2014, respectively. Personal Services and Employee Benefits increased by \$3,708,058 and \$7,770,873 during the fiscal years ended June 30, 2013 and 2014, respectively. Increases were primarily due to an increase in salaries, fringe benefit rate increases, and an increase in accumulated leave. Contractual services decreased by \$703,589 and \$1,706,930 during the fiscal years ended June 30, 2013 and 2014, respectively. Included in this was a decrease in the department’s consultant services from \$2,082,210 in fiscal year 2011-2012 to \$1,666,179 in fiscal year 2012-2013 and \$967,116 in fiscal year 2013-2014. As indicated above, Grants increased by

\$10,614,250 during the fiscal year ended June 30, 2013, primarily due to the establishment of the subsidized training and employment program. Grants decreased by \$2,938,812 during the fiscal year ended June 30, 2014, due primarily to a decrease in the subsidized training and employment program. Capital outlays decreased during the fiscal years ended June 30, 2013 and 2014 by \$702,424 and \$699,415, respectively. These decreases were primarily due to the replacement of the department's phone system in the prior fiscal year and an increase in hardware and software purchases made in 2012-2013 to improve storage requirements and modernize servers.

### **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>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Unemployment Compensation Fund	\$1,983,213,680	\$1,693,044,318	\$1,183,661,648
Funds Awaiting Distribution Fund	<u>10,541,653</u>	<u>9,567,191</u>	<u>12,887,016</u>
<b>Total</b>	<b><u>\$1,993,755,333</u></b>	<b><u>\$1,702,611,509</u></b>	<b><u>\$1,196,548,664</u></b>

	<b><u>Schedule of Disbursements</u></b>		
	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Unemployment Compensation Fund	\$2,124,545,994	\$1,670,480,534	\$1,286,530,391
Funds Awaiting Distribution Fund	<u>10,507,817</u>	<u>9,504,912</u>	<u>12,072,713</u>
<b>Total</b>	<b><u>\$2,135,053,811</u></b>	<b><u>\$1,679,985,446</u></b>	<b><u>\$1,298,603,104</u></b>

### **Unemployment Compensation Fund**

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

In accordance with the provisions of Section 31-262 and 31-263 of the General Statutes, the State Treasurer deposits all contributions, less refunds and other appropriate receipts of the Unemployment Compensation Fund, in the Unemployment Trust Fund of the U.S. Treasury. Requisitions from the Unemployment Trust Fund are made on the advice of the administrator (Department of Labor commissioner) for the payment of estimated unemployment compensation

benefits. The resources of the Unemployment Trust Fund are invested by the Secretary of the U.S. Treasury for the benefit of the various state accounts which constitute the fund.

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>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Employer Tax Contributions	\$793,081,975	\$791,354,576	\$772,009,814
Reimbursement from the State, Municipalities and Nonprofits	72,645,451	64,670,936	65,161,442
Reimbursement from Other States	13,382,991	14,554,864	15,668,210
Reimbursements from the Federal Employee Compensation Account	15,341,500	11,387,000	12,958,000
Federal Contributions	965,893,962	657,019,865	224,919,703
Federal Loans	122,867,801	154,057,077	92,890,858
Federal Trust Fund Interest Income	<u>0</u>	<u>0</u>	<u>53,622</u>
<b>Total</b>	<b><u>\$1,983,213,680</u></b>	<b><u>\$1,693,044,318</u></b>	<b><u>\$1,183,661,648</u></b>

Total receipts decreased by \$290,169,362 and \$509,382,670 during the 2012-2013 and 2013-2014 fiscal years, respectively. Federal contributions decreased by \$308,874,097 and \$432,100,162 during the 2012-2013 and 2013-2014 fiscal years, respectively. In fiscal year 2011-2012, the majority of federal contributions were for the Emergency Unemployment Compensation Program, which is a federally-funded program that 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. The extended benefits ended in Connecticut in May 2012. Due to the end of the extended benefits and a reduction in the unemployment rate from 8.5 percent as of June 30, 2012 to 6.5 percent as of June 30, 2014, contributions have been declining. The federal share of extended benefits was 100 percent throughout the 2011-2012 audited 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 decreased by \$7,974,515 in fiscal year 2012-2013 and increased \$490,506 during the 2013-2014 fiscal year. These entities do not pay employer tax contributions. Instead, they are billed when a former employee begins collecting unemployment compensation.

In October 2009, the department began receiving loans from the federal government because the Unemployment Compensation Fund became insolvent. As a result, no interest income was received during the 2012-2013 and 2013-2014 fiscal years because, in accordance with federal regulations, any interest earnings are reduced by any loans made to the state.

Total employer tax contributions decreased by \$1,727,399 and \$19,344,762 during the fiscal years 2012-2013 and 2013-2014, respectively. The unemployment rate has steadily decreased, thus indicating a drop in unemployment claims. In addition, and as noted above, extended benefits ended in May 2012.

Calendar Year	Fund Solvency Rate	New Employer Rate	Range of Tax Rates
2014	1.4%	4.8 %	1.9% to 6.8%
2013	1.4%	4.5%	1.9% to 6.8%
2012	1.4%	4.2%	1.9% to 6.8%

The Unemployment Trust Fund balance at June 30, 2012, 2013 and 2014, was \$198,964,649, \$217,511,402 and \$209,496,325, 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>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Benefits Paid with Employer Contributions, Federal Loans and Federal Reed Funds	\$783,886,394	\$783,863,348	\$735,339,480
Benefits Paid for the State, Municipalities and Nonprofits	73,686,714	55,407,666	65,781,429
Benefits Paid for Other States	13,532,438	14,800,181	14,984,642
Benefits Paid from Federal Employee Contribution Account	15,271,319	11,505,125	12,126,945
Benefits Paid with Federal Contributions	965,301,328	650,847,137	223,452,788
Reed Act Fund Transfer	0	0	2,033,186
Principal Payments on Trust Fund Advances	<u>....272,867,801</u>	<u>....154,057,077</u>	<u>232,811,920</u>
<b>Total</b>	<b><u>\$2,124,545,994</u></b>	<b><u>\$1,670,480,534</u></b>	<b><u>\$1,286,530,391</u></b>

Total disbursements decreased by \$454,065,460 and \$383,950,143 during the 2012-2013 and 2013-2014 fiscal years, respectively. Benefits decreased due to Unemployment Insurance claimants having exhausted all possible benefits available to them. In May 2012, the Federal Extended Benefits Program ended in Connecticut.

As mentioned previously, in October 2009, the department began receiving loans from the federal government because the Unemployment Compensation Fund became insolvent. Principal payments on the Unemployment Trust Fund loan were made, totaling \$154,057,077 and \$232,811,920, for fiscal years ended June 30, 2013 and 2014, respectively. In addition, and in accordance with federal regulations, Federal Unemployment Tax Act (FUTA), tax credit reductions totaling \$57,172,094 and \$87,988,685 were used to pay down the principal balance during the fiscal years ended June 30, 2013 and 2014, respectively. As of June 30, 2014, the principal balance on the loans was \$433,569,137.

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

Fund collections totaled \$21,887,016, and disbursements and transfers totaled \$21,577,625, during the audited period. Of these amounts, collections for the Wage Restitution Account totaled \$2,683,582 and disbursements and transfers totaled \$2,374,449.

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

In the event the whereabouts of any employee is unknown after the issue is resolved, the commissioner is empowered to hold the wages for three months 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.

## **OTHER MATTERS**

### **Information Technology**

#### **Other Matters – Concerns within the Information Technology Unit**

In September 2014, our office received a complaint regarding the management of the Department of Labor's Information Technology (IT) Unit. In addition to general mismanagement of the unit, the complaint alleged that DOL purchased hardware and software that was not fully or properly utilized and hired IT contractors for initiatives that never progressed.

We substantiated that hardware was not fully utilized. Regarding software utilization, DOL lacked reliable information for us to make a determination. We discovered that DOL hired IT contractors as state employees for initiatives that did not progress. Lastly, we found general mismanagement within the unit. Our office determined:

- **Hardware Purchases** – We partially substantiated that hardware purchases were not fully utilized through our review of the department's computer listing as of July 2015. The review showed that 124 of the 1,484 computers (8%) were unassigned. While the amount of unassigned computers appears excessive, it may be attributed to layoffs and retirements during this period.
- **Software Purchases** – DOL did not provide us complete answers to our questions to determine whether it fully utilized its software. The information DOL provided us was unreliable.

- IT Contractors – It appears that DOL subcontracted a substantial number of initiatives during the past 3 years despite the lack of an integrated plan. The lack of such a plan hampers the department’s ability to determine its IT priorities. DOL lacks sufficient documentation to support the progress of its IT initiatives.
- Mismanagement – We found that the DOL Project Management Unit and the Business Unit did not work together to facilitate the department’s needs. We also have significant concerns related to the department’s ability to address federal agency findings that need critical attention.

Our review resulted in 2 occurrences within our State Auditors Findings and Recommendations section of this report that recommend that the DOL IT information should be accurate and available for review. This information should be in a format that is available and up-to-date for review. In addition, DOL should ensure that its systems are secure and meet all federal guidelines.

### **Hostile Work Environment and Other Matters Discovered due to Whistleblower Complaint**

Seven recommendations in the State Auditors’ Findings and Recommendations section address matters related to a hostile work environment within a Department of Labor unit. A hostile work environment may occur if certain factors are present, including but not limited to:

- Perceived inequities in the organization
- Ineffective disciplinary measures
- Autocratic rather than participative management
- Poor communication practices or methods within the organization

Human resources professionals are responsible for implementing specific programs and initiatives, consistent with management strategies, that can help mitigate many of the factors listed above.

### **Agency Responses to Other Matters**

#### **Concerns within the Information Technology Unit:**

Agency’s Response: “We agree with the first three mismanagement concerns identified within the Information Technology (IT) Unit.” To address and improve accountability, managerial changes were initiated to provide the structure with hardware and software purchases; and the creation of an IT strategic plan and resource allocation (especially after the UI modernization initiative, May 2021).

We disagree with the mismanagement finding, identifying the Project Management Office (PMO) and Business Units (BU) not working together to facilitate the department's needs. The agency follows executive order #18 for automation projects, utilizing PMO as the responsible unit. The BU identifies automation needs, but each potential IT effort must be cleared and prioritized through a formal governing body, the "Project Steering Committee". This formal process includes a consultation with the executive administration. In fact, over the past few years, within the scope of this state auditor timeline and subsequent, over twenty-five automation projects were initiated and completed, all with the support and coordination of the PMO and BUs. Clearly, the PMO and BUs collaborate with success. This collaboration continues today, and may be substantiated with the UI Modernization Initiative."

**Hostile Working Environment and Other Matters Discovered due to Whistleblower Complaint:**

Agency's Response: "Although we understand the personnel matters were substantiated within a unit of the agency, we disagree with the Hostile Work Environment categorization. The agency has addressed the concerns that were initiated and fostered by prior management years ago, by implementing corrective policies and procedures, monitoring to affirm such change, open communication, transparency, and support. These managerial changes are expected to maintain accountability and fairness within the unit."

## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

The following recommendations resulted from our current review of the Department of Labor:

### **Payroll and Personnel: Lack of Performance Appraisals**

*Criteria:* Performance appraisals assist management in assessing employee job performance using established standards. Standard business practice advocates that supervisors evaluate employee job performance in writing at least once each year. Generally, the objectives of a performance appraisal are to:

- Give written feedback to employees;
- Document employee performance in organizational records;
- Identify training needs of employees and the organization;
- Form a basis for personnel decisions; and
- Facilitate communication between employee and management.

*Condition:* We sampled 10 employees and discovered that supervisors did not complete performance appraisals in 1 instance for a manager and 4 instances for non-managers during the fiscal years ended June 30, 2013 and 2014.

*Effect:* The absence of written performance appraisals significantly diminishes management's ability to develop employee performance plans, track employee career development, and form a basis for personnel decisions.

*Cause:* Administrative controls were inadequate to ensure the completion of performance appraisals.

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

*Agency's Response:* "We agree with the audit findings. Since 2014 we have instituted an additional follow-up email to managers/directors during the period between the initial notice and the date by which service ratings have to be issued to reduce the possibility that a service rating will not be issued in a timely manner."

**Payroll and Personnel: Inaccurate Leave Accruals and Balances**

*Background:* The Department of Labor uses 2 accounting systems to process payroll transactions. The Financial Accounting and Reporting System (FARS) is the department's primary accounting system to process timesheets and maintain employee leave accruals and balances. The department uses the Core-CT system, the state's primary accounting system, to pay its employees. FARS interfaces with Core-CT weekly, bi-weekly, and monthly, depending on the type of data transfer. The department establishes employee data in both systems and processes necessary payroll corrections after the systems interface.

*Criteria:* Proper internal controls provide assurances that payroll transactions are correctly processed and adequately reviewed.

Collective bargaining contracts stipulate that an employee shall not accrue leave time in a calendar month in which the employee is unpaid an aggregate of more than five working days.

*Condition:* During our review of the compensated absence reports for fiscal years ended June 30, 2013 and 2014, we identified the following:

- Three employees accrued leave time in Core-CT, even though each employee had more than five unpaid days in the aggregate during the previous month.
- For the first half of the fiscal year ended June 30, 2013, the Payroll Unit did not compare employee timesheets (including timekeeper's timesheets) to the data entered into the timekeeping system.
- The department underpaid 1 employee \$213 for vacation time upon termination.
- For 8 employees, the vacation and/or sick balances did not reconcile between Core-CT and FARS.
- For 5 employees, the department manually entered leave time changes in FARS, but not in Core-CT.

*Effect:* Since the state relies on Core-CT for financial reporting purposes, when employee leave accruals and balances are inaccurate, the state may incorrectly report liabilities in the Comprehensive Annual Financial Report.

*Cause:* DOL incorrectly established employee leave plans in Core-CT, and the Payroll Unit experienced several personnel changes during the audited period.

*Recommendation:* The Department of Labor should strengthen its internal controls to ensure that employee leave accruals and balances in Core-CT match its Financial Accounting and Reporting System (FARS), and should report those accruals and balances correctly. (See Recommendation 2.)

*Agency's Response:* "We agree with this finding. In recent years, the payroll unit has set up procedures that provide an easier and uniform method to reconcile the two leave systems reducing the time previously needed and increasing accuracy. Payroll staff have been trained and instructed in following these procedures. Unfortunately, it is still a tedious and imperfect task to reconcile the two leave and accrual systems."

### **Payroll and Personnel: Need for Improved Controls**

*Background:* The Department of Labor uses timesheets as the basis for financial reporting of personal services. The department designates timekeepers for each unit to enter attendance data into the department's system. Timekeepers must receive management permission to access the system and enter attendance data. In addition, timekeepers must be authorized by the Business Management Unit and processed by the Internal Security Unit.

*Criteria:* The DOL Weekly Payroll Time Reporting Procedural Manual requires employees to sign weekly timesheets and submit them to their supervisor for verification and signature. The manual also requires that all leave time is recorded in 15 minute increments.

Proper internal controls provide assurances that employee timesheets are accurately completed, properly approved, correctly processed, and adequately monitored.

The department has a standardized form for employees to request approval for leave time. The leave request form is completed in advance for vacation or personal leave and within 48 hours of return to work for sick or emergency leave.

The state's records retention and disposition schedule for personnel records requires that employee leave request records be retained for a minimum of one year from the date of review and may be destroyed after receipt of a signed Form RC-108, Records Disposition Authorization.

*Condition:* Our review of payroll procedures revealed the following internal control deficiencies during the fiscal year ended June 30, 2013:

- The Payroll Unit did not compare employee timesheets, (including timekeeper's attendance records) to the data entered into the

timekeeping system. Since timekeepers enter their own attendance data into the system and submit the approved timesheets to the Business Management Unit for filing, it appears that the department did not have an adequate segregation of duties or oversight over the processing of timekeeper attendance records.

Our review of payroll procedures revealed the following internal control deficiencies during the fiscal year ended June 30, 2014:

- For 5 transactions selected for review, vacation and/or sick time accruals recorded in FARS and Core-CT did not reconcile.

Our review of attendance records for timekeepers for the fiscal years ended June 30, 2013 and 2014 disclosed the following for 1 timekeeper:

- The Timekeeper's Unit discarded employee leave request forms without obtaining a records disposition authorization.
- In 9 instances, the timekeeper charged vacation leave in 20-minute increments.

*Effect:* Inadequate internal controls provide the opportunity for timesheet errors or abuse to go unnoticed.

*Cause:* There appears to be a lack of adequate internal controls and oversight by the department's Payroll Unit.

*Recommendation:* The Department of Labor should strengthen internal controls over the processing and maintaining of employee timesheets. (See Recommendation 3.)

*Agency's Response:* "We agree with this finding. Emphasis was placed on addressing the internal controls over the processing and maintaining of employee timesheets immediately after the issues were brought to our attention. In January 2013 the payroll unit began auditing employee timesheets, including all timekeepers timesheets to employee data entered into the timekeeping system. Employees and supervisors were instructed to sign all timesheets in blue ink to prevent timesheet photocopies from being submitted.

In August 2013 a new timesheet format was made available to employees that addressed the minimum leave time increment discrepancies finding. Although it is now recommended on the timesheet that leave time should be reported in 15 minute intervals there is no state policy mandating how it could be used. Also from a collective bargaining perspective, subject to

supervisory/managerial approval, employees are entitled to use their accrued leave time in any increments that they want.”

**Payroll and Personnel: Overtime and Compensatory Time:**

*Criteria:* The Engineering, Scientific and Technical (P-4) collective bargaining contract exempts employees above salary group 24 from being paid overtime and instead authorizes them to receive compensatory time. Employees who have accumulated compensatory time must schedule and use that time within six-months of earning it. When the employing agency determines that the granting of compensatory time would create a hardship, the agency may pay the employee straight time with the approval of the Secretary of the Office of Policy and Management (OPM).

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

Since March 24, 2011, the Department of Labor has required overtime requests to be adequately justified by supervisors and approved by executive management.

The Office of the State Comptroller’s Retirement Services Division calculates employee pension benefits, in part based on an employee’s average salary of the 3 highest paid years of service.

*Condition:* Our review of 10 employee overtime expenditures for the fiscal years ended June 30, 2013 and 2014 disclosed that the department paid 2 P-4 exempt employees for overtime payments in lieu of compensatory time, totaling four hours, without obtaining OPM approval.

We reviewed annual attendance records of 15 employees who earned compensatory time and found that for 3 P-4 exempt employees, DOL did not deduct a total of 141.5 hours of expired compensatory time from the employee balances.

Our review of annual attendance records of 3 managers who earned compensatory time disclosed that one did not obtain executive approval to earn 8 hours of compensatory time. Furthermore, the department was unable to locate 5 timesheets for 2 managers.

*Effect:* Without proper oversight and documentation, the department has less assurance that it received the services it compensated its employees for.

The state's pension fund may incur increased liabilities when an employee works unauthorized overtime during the years used to calculate an employee's pension benefits.

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

*Recommendation:* The Department of Labor should strengthen internal controls over compensatory time and overtime to ensure compliance with collective bargaining contracts, DAS Management Personnel Policy 06-02, and departmental procedures. (See Recommendation 4.)

*Agency's Response:* "We agree with this finding. Overtime audit procedures have since been put in place that include running a Core-CT overtime report for the pay period being processed. This report captures all employees who submitted overtime for that pay period. The payroll unit then checks for overtime approval letters for all employees listed on this report. If no approval is received by payroll Wednesday, overtime is removed from payment and the timekeeper, unit supervisor and business management administrator are notified. During this process job titles are also audited for overtime eligibility. If an employee is not eligible for overtime, but has put in for it, the overtime will not be paid unless OPM approval has been received.

Compensatory time procedures have also been put in place since notification of above findings. Compensatory time earned is now audited biweekly after interface with Core-CT. Executive approval is needed for employee compensatory time earned that is greater than four hours in a day, earned on a holiday, or earned on a weekend. Also a biweekly report is run capturing compensation time earned and used for the biweekly period. This information is entered on an EXCEL spreadsheet that updates current employee balances used to ensure compliance with collective bargaining contracts and DAS Management Personnel Policy 06-02.

Currently, all timesheets are systematically audited by payroll staff for accuracy, employee/supervisor signature in blue ink as well as accountability. Every timesheet is pursued by the payroll unit until it is received."

## **Failure to Adhere to Records Retention Policy**

*Criteria:* Section 11-8b of the Connecticut General Statutes states that public records shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules and regulations adopted by the State Library Board. Such public records shall be delivered by outgoing offices and employees to their successors and shall not be otherwise removed, transferred, or unlawfully destroyed.

The State Agencies' Records Retention/Disposition Schedule details the minimum retention requirements for state records. Schedule S2: Personnel Records requires that leave request records be retained one year from date of review and disposition requires a signed Form RC-108. Schedule S6: Information Systems Records requires that security access records be retained one year from when data access privileges are revoked and disposition requires a signed Form RC-108. Records Retention Schedule #12-11-1 requires that employer correspondence be retained for four years after the end of the year which record relates to and disposition requires a signed Form RC-108.

*Condition:* For the fiscal years ended June 30, 2013 and 2014, our review revealed the following noncompliance with records retention policies:

- The OSHA Unit did not maintain RC-108 Records Disposition Authorization forms for disposed DOL-12 Leave Request forms.
- The Research Unit did not maintain employer correspondence for longer than nine months and did not maintain a Form RC-108 Records Disposition Authorization form authorizing the disposition.
- The Benefit Payment Control and Employer Tax Accounting units are not maintaining copies of the written authorization to initiate a cash disbursement. These disbursements are referred to as "off-line" checks. Furthermore, the units did not maintain a Form RC-108 Records Disposition Authorization form authorizing the disposition.
- As was noted in our payroll and personnel review of attendance records, the Timekeeper's Unit discarded employee leave request forms without obtaining a records disposition authorization.

*Effect:* Noncompliance with the state's records retention policies could result in the improper destruction of documents. The lack of underlying records could result in unsupported and potentially erroneous transactions.

*Cause:* It appears that the department does not completely understand all of the state's records retention policies.

*Recommendation:* The Department of Labor should institute procedures to ensure that all records are retained and disposed of in accordance with records retention policies. (See Recommendation 5.)

*Agency's Response:* "We partially agree with this finding. Ensuring agency-wide compliance with state records management policies is a challenge because of overriding programmatic priorities, localized responsibilities, limited staff resources, and a general lack of recognition by managers and staff as to what constitutes a record. As a result, records disposition often occurs without regard for established state policies governing retention and destruction. The agency is working with the Public Records Administrator's office to improve the agency records management program which should result in better compliance with the state's records management policies and procedures, as follows:

1. Many of the agency's records retention schedules are more than 20 years old and need to be reviewed and updated. In many cases, automation has radically changed the way that the agency does business. The records management program has not kept pace. A plan to update records retention schedules will be developed to ensure that the records management program is relevant to today's operations.
2. Official communications with staff are needed to increase the awareness, knowledge, and requirements of the state's records management program. We have contacted (hopefully, we can say that we are working with) the Public Records Administrator's office to see if we could jointly develop communications and/or training tools. Ideally, this information could be emailed directly to all employee desktops. Facilitated training could also be implemented for records custodians and assistant records management liaison officers.
3. The Department will work on updating record retention schedules and processes to meet Connecticut State Library guidelines.

We partially agree with this finding. Documentation related to the initiation of non-garnishment cash disbursements has only been maintained by Benefit Payment Control (BPC) dating back two years. It was not maintained by Employer Tax Accounting Unit which was previously responsible for producing the offline checks requested by Benefit Payment Control. In addition, BPC staff at the time the audited records were disposed of was unaware that Form RC-108 was necessary to authorize

disposition of these records. However, documentation related to the initiation of garnishment-related cash disbursements is maintained. A recent review of the records found the documentation of the garnishment-related cash disbursement that was part of the auditor's examination. This documentation details the process that was followed for this transaction.

Effective in May 2017, responsibility for producing the offline checks has been assumed by BPC staff. BPC supervisory staff has been notified that records may not be disposed of without an authorized RC-108. All BPC staff was issued a memorandum informing them of the record retention and disposal requirements in June 2017."

### **Write-Off of Receivables**

*Background:* The Department of Labor refers accounts that prove to be uncollectible to the Office of the Attorney General for approval. Upon the Attorney General's approval, the Delinquent Account Unit (DAU) requests that the respective delinquent accounts be written off. The Information Technology (IT) Unit posts the write-offs annually.

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

Section 3-7(a) states that any uncollectible claim for an amount of one thousand dollars or less may be cancelled upon the books of any state department or agency upon the authorization of the head of such department or agency.

Sound business practice dictates that procedures be followed in the proper order when processing accounts receivable write-offs.

*Condition:* Uncollectible employer receivables in the amount of \$4,007,343 and \$155,188 were not written off for the fiscal years ended June 30, 2013 and June 30, 2014 respectively.

*Effect:* The Department of Labor continues to report amounts deemed uncollectible as open accounts receivable which overstates receivables.

*Cause:* The process of writing off employer receivables is done annually in 3 consecutive steps. Due to a delay in obtaining Attorney General approval of write-offs for fiscal year 2013, the Information Technology Unit inadvertently ran the first step for fiscal year 2014 prior to running the third step for fiscal year 2013. This caused a failure in the processing of write-offs for both fiscal years. Until this situation is corrected, DOL cannot process subsequent fiscal year write-offs.

*Recommendation:* The Department of Labor should strengthen internal controls to ensure that the process used to write off employer receivables is completed in a timely manner and in the correct sequence. (See Recommendation 6.)

*Agency's Response:* “We disagree with this finding. CGS 31-266c indicates that the department may abate any contributions due which have been found to be uncollectible. Contrary to the finding, the department did find amounts to be uncollectible for FYE 2013 and FYE 2014 and did abate those amounts in accordance with CGS 31-266c. For FYE 2013, \$4,007,343 was deemed uncollectible and was removed from the department’s books on July 23, 2015. For FYE 2014, \$155,188 was deemed uncollectible and was removed from the department’s books on March 31, 2016. There was a slight glitch in the coordination of the FYE 2013 and FYE 2014 abatements – between the Delinquent Accounts Unit and the Information Technology Unit – but that glitch did not prevent the abated amounts from being removed from our books. The department did reinforce its internal controls to ensure proper sequencing of all steps needed to effect abatements.”

*Auditors' Concluding Comment:*

While the department eventually abated the contribution amounts, they were not abated at the time of our review. In addition, the department took 2 full fiscal years to abate them for the 2013 and 2014 write-offs due to a glitch by the Information Technology and Delinquent Accounts units.

### **Deficiencies in the Department's OSHA Unit**

*Background:* The Department of Labor's Division of Occupational Safety and Health (OSHA) Unit administers the state's public employer state plan and enforces occupational safety and health standards as they apply to all municipal and state employees. The Department of Labor does not enforce occupational safety and health standards in private businesses. In those businesses, OSHA standards are enforced by the U.S. Department of Labor.

*Criteria:* Sound businesses practices dictate that federal OSHA deficiencies should be corrected in a timely manner.

*Condition:* The U.S. Department of Labor performs an annual assessment of DOL OSHA activities. In the assessment covering the period of October 1, 2012 through September 30, 2013, the U.S. Department of Labor reported that several key deficiencies cited in the 2011-2012 assessment continued to be uncorrected through 2013 and included the following:

- DOL did not meet the 5-day standard for average number of days to initiate a complaint inspection.

- DOL needs to improve the lapse in time from inspection to citation issuance.
- The DOL average level of violations classified as serious/willful/repeat is below the standard level.

*Effect:* The DOL OSHA Unit continues to fall below federal standards for inspections, and is not meeting federal OSHA expectations for ensuring safe and healthful work places for public workers in Connecticut.

*Cause:* While the DOL OSHA Unit has made progress toward meeting federal standards and continues to work at improving performance, the department still fell short of attaining certain standards.

*Recommendation:* The Department of Labor should implement procedures to ensure that it resolves OSHA deficiencies identified by the U.S. Department of Labor in a timely manner. (See Recommendation 7.)

*Agency's Response:* "We agree with this finding. The CONN-OSHA Director and Program Manager met with all personnel involved in complaint processing to address how the five day goal needs to be achieved. The CONN-OSHA Program Manager is tracking complaint and referral response times by running the State Activities Monitoring Measure (SAMM) monthly and running OSHA Information System (OIS) complaint tracking reports weekly. In the FY 2015 Comprehensive FAME Report for 2015, OSHA reported that the finding had been completed on September 30, 2015.

Federal OSHA reported in the 2016 FAME that "the program's average lapse times for both safety and health continued to trend downward. To meet the further review level, CONN-OSHA's manager has been monitoring the status of cases that have been open for more than 20 days. Although the further review level for health cases was not met in FY2016, the fact that the average lapse time for these cases has declined steadily over the past four fiscal years strongly indicates that the program's corrective action has been effective."

CONN-OSHA has followed OSHA's recommendation and implemented oversight procedures to ensure proper classification. SAMM data for the third quarter of FY 2015 indicates that the further review level has been met. In the 2015 Comprehensive FAME Report for 2015, OSHA reported that the finding had been completed on June 30, 2015."

## **Delays in Depositing Revenue Violate Statutes**

*Background:* The Department of Labor has 4 units that process receipts. The Benefit Payment Control Unit (BPCU) processes receipts for claimant overpayments; the Employer Tax Unit (ETU) for employer contributions; Delinquent Accounts Unit (DAU) for delinquent employer contributions; and Wage and Workplace Standards Unit for civil penalties imposed upon employers and wage restitution for complaints.

*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 \$500 or more, deposit the same within 24 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 7 calendar days.

*Condition:* We reviewed 52 receipts, totaling \$211,559, and found that DOL deposited 4 receipts, totaling \$4,770, 1 day late.

Our review also revealed 2 receipts, totaling \$49,173, that DOL did not date stamp or log into a receipts journal. We were unable to determine their initial receipt date.

*Effect:* Untimely deposits deprive the state of revenue and complainants access to wage restitution.

Without knowing the initial receipt date, we cannot determine whether receipts were deposited in a timely manner as required by Section 4-32 of the General Statutes.

*Cause:* We were unable to determine the reason for the delay in depositing and accounting for receipts.

*Recommendation:* The Department of Labor should strengthen internal controls to ensure that receipts are deposited promptly and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes. DOL should log all receipts into a receipts journal or equivalent tracking device. (See Recommendation 8.)

*Agency's Response:* "We agree with this finding. This Division makes every effort to deposit within the 24-hour period. Occasionally a deposit may go to 48 hours due to issues with a case file. (Additional money due, check not signed, or sent to the wrong department.) With the new computer system, we are anticipating by 7/18 deposits will be made directly.

We agree with this finding. The record in question was not date stamped, though the unit policy is to date stamp receipts that are mailed directly to

the unit. Payments that are mailed to the lock box go straight to the bank. When the bank subsequently sends detail of these payments to Benefit Payment Control (BPCU), the records include a processed date. Staff has been reminded to date stamp incoming receipts. A review of records for May 2017 showed date stamps.”

## **Reporting Requirements**

*Background:* The Department of Labor is mandated to submit approximately 20 reports under various sections of the General Statutes. These reports are necessary to facilitate executive and legislative oversight of assistance programs administered by the department.

*Criteria:* 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 required 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.

Public Act 12-1 section 25 (c) of the June 12 Special Session required that the Commissioner of Social Services and the Labor Commissioner jointly submit annual reports, in accordance with the provisions of section 11-4a, not later than October 1, 2012, and October 1, 2013, to the joint standing committees of the General Assembly having cognizance of matters relating to human services and appropriations and the budgets of state agencies concerning the pilot program related to Temporary Family Assistance Program clients participating in the Jobs First employment services program.

Section 10-95h of the General Statutes, as amended by Public Act 11-48 (section 89) and Public Act 11-1 (section 34) of the October Special Session of the General Assembly, requires the department to submit annually on or before November 15<sup>th</sup> to the joint standing committees of cognizance of the General Assembly a report including information identifying general economic trends in the state, occupational information regarding the public and private sectors, and information identifying emerging regional, state, and national workforce needs over the next thirty years.

Section 4-124uu of the General Statutes, as amended by Public Act 11-48 (Section 97 (c)) requires that not later than January 1, 2012, and annually

thereafter, the Office of Workforce Competitiveness submit a status report on the establishment and operation of the film industry training program to the Labor Commissioner, the Connecticut Employment and Training Commission, and the joint standing committees of cognizance of the General Assembly.

Public Act 11-48, 92 (b) (3) requires that the Connecticut Employment and Training Commission develop a plan for the coordination of all employment and training programs in the state to avoid duplication and to promote the delivery of comprehensive, individualized employment and training services. The plan shall contain the commission's recommendations for policies and procedures to enhance the coordination and collaboration of all such programs.

Public Act 11-133 requires that, effective October 1, 2011, the Office of Workforce Competitiveness biennially submit a report identifying the sectors in which workforce shortages exist and the types of workforce skills needed in such sectors to address workforce shortages and which career pathways should be established to the Board of Governors of Higher Education.

Section 4-124w (b) of the General Statutes, as amended by Public Act 11-48 (Section 81), requires that, not later than October 1, 2012 and annually thereafter, the Office of Workforce Competitiveness, with the assistance of the Department of Labor, submit a report specifying a forecasted assessment by the Labor Department of workforce shortages in occupations in this state for the succeeding 2 and 5-year periods to the Governor and the joint standing committees of cognizance of the General Assembly.

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.

The Office of the State Comptroller Memorandum No. 2013-26 and 2014-21 stated that the GAAP Closing Packages had a due date of September 5, 2013 and September 4, 2014, respectively. The Office of the State Comptroller granted the agency 3 extensions on September 27, 2013, October 11, 2013, and October 25, 2013 for the Fiscal Year Ended June 30, 2013 GAAP Closing Package.

*Condition:* Our review disclosed that DOL did not submit 13 mandated reports for at least 1 of the 2 years reviewed. Furthermore, DOL submitted 3 reports up to 9 months late. We could not determine the timeliness of 4 other reports.

DOL submitted the GAAP Closing Package due during the fiscal year ended June 30, 2013 on October 30, 2013 after the third and final extension deadline. DOL submitted the majority of the GAAP Closing Package due during the fiscal year ended June 30, 2014 on September 11, 2014, and submitted the final portion of the GAAP Closing Package on December 2, 2014.

*Effect:* Executive and legislative oversight of the department is diminished.

Late submission of GAAP Adjustment forms may result in inaccurate financial records.

*Cause:* DOL informed us that the late submission of the GAAP forms was caused by the loss of key personnel and the denial of overtime.

*Recommendation:* The Department of Labor should institute procedures to ensure that it submits all required reports or seek legislation to have the General Statutes amended to reduce or eliminate its reporting requirements. (See Recommendation 9.)

*Agency's Response:* "We agree with the finding with respect to the late submission of the GAAP Closing Package due during Fiscal Year Ended June 30, 2013. Required GAAP documents were submitted late due to significant backlogs in the Unemployment Insurance Tax Division's Fund Accounting Control Unit (FACU). These backlogs were due to staff shortages and IT systems limitations that require significant manual processing in order to produce financial reports. Further, requests for overtime made by FACU were denied due to the fiscal position of the Agency. FACU has taken steps to cross train staff in various financial functions and is now current with respect to GAAP filings."

### **Unapproved Changes to Grant Document General Conditions**

*Criteria:* The Department of Labor (DOL) contracts contain standardized general conditions, which include a provision requiring the contractor to carry insurance during the contract term, related to the nature of the work, to hold the state harmless from any claims, suits, or demands that may be asserted. DOL may request a copy of the contractor's certificate of insurance, but no longer requires it as of the 2013-2014 fiscal year.

- Condition:* Our review of 25 grants for the fiscal years ended June 30, 2013 and 2014 revealed that the department did not obtain grantee certificates of insurance for any grant contracts. In addition, the department could not provide documentation showing that the Office of the Attorney General approved to form the general conditions as modified.
- Effect:* The lack of evidence of insurance coverage may present an increased risk to the state.
- Cause:* The department's legal staff believes that the standard contract's indemnity clause adequately protects the agency and state.
- Recommendation:* The Department of Labor should monitor that sufficient insurance coverage is in place for grantees to ensure financial resources will be available to protect the state in the event of a claim. (See Recommendation 10.)
- Agency's Response:* "We disagree with this finding. In 2013, the Department's legal staff had conversations with an Assistant Attorney General concerning the requirement to obtain copies of the insurance certificates. Based on these conversations, the General Conditions, Section 31, was changed to omit the requirement that the certificates of insurance must be filed with this Department. The contractor is still obligated to acquire the insurance and failure to do so would be a breach of contract. Between, Section 31 and Section 33 on indemnification of the General Conditions, the Department feels that the State is fully protected."

*Auditors' Concluding*

*Comment:* The department did not revise Section 31 until July 19, 2013, when it eliminated the section entirely and December 12, 2013, when it revised the section to delete the requirement for a copy of the insurance certificate. Therefore, in fiscal year 2012-2013, it was still a requirement, but the department did not enforce it. In addition, the department cannot show documentation from the Office of the Attorney General that these revisions were approved.

**Subsidized Training and Employment Program (STEP-UP) Grants**

*Criteria:* Public Act 11-1 (Section 4) enacted in the October 2011 Special Session established STEP-UP for eligible small businesses and small manufacturers to subsidize, for the first 6 months, a part of the cost of employment and training. An eligible small business is defined as one that employed not more than 50 full-time employees during the previous 12 months, has operations in Connecticut, has been registered to conduct business for not less than 12 months, and is in good standing with the payment of all state and local taxes.

An eligible small business may apply for a grant for a new employee, who was not employed by that small business during the prior 12 months. Grants to eligible small businesses shall be in the following amounts: for the first full calendar month a new employee is employed, 100 percent of an amount representing the hourly wage of such new employee, exclusive of any benefits, but in no event shall such amount exceed 20 dollars per hour; for the second and third full calendar months, 75 percent of such amount; for the fourth and fifth full calendar months, 50 percent of such amount; and for the sixth full calendar month, 25 percent of such amount.

An eligible small manufacturer is defined as a business described in sectors 31 to 33, inclusive, of the North American Industry Classification System (NAICS) that employed not more than 50 employees during the preceding 12 months. An eligible small manufacturer may apply for a grant for newly hired employees. The department shall review and approve such manufacturer's description of the proposed training as part of the application.

Public Act 12-1 Section 202 enacted in the June 2012 Special session expanded the provisions of STEP-UP to retailers and businesses employing up to 100 people. The act changed the subsidy period for non-manufacturing small businesses from calendar months to a 180-day period, but did not change the subsidy levels, which range from 100 percent to 25 percent.

The Department of Labor retained one of the state's Workforce Investment Boards (WIB) to administer the Subsidized Training and Employment Program (STEP-UP) and all five WIBs to implement the program. The STEP-UP contracts between the WIBs and DOL require that the department verify employers are in good standing with the department's unemployment insurance tax requirements and have no outstanding wage and workplace violations, prior to participation. The contracts state that the WIBs are responsible for detailed recordkeeping for each worker/business match, including eligibility certifications for workers and businesses, verification of income, residence, executed agreements, monthly timesheets, and any additional information substantiating eligibility and performance.

The DOL standard business practice for preapproval of state grants includes a review of the entity's good standing with Occupational Safety and Health Act (OSHA) compliance.

*Condition:* Our review of 25 STEP-UP agreements revealed the following:

The design of the eligibility determination process did not include adequate procedures to verify all employee eligibility criteria prior to grant approval. The department-issued standard STEP-UP employer/employee agreements

did not require information to determine whether an individual was a new employee for a small business or a newly hired employee for a small manufacturer. We noted that 3 out of 10 small manufacturing employees were not new employees and 1 out of 10 small business employees was not a newly hired employee.

Our prior review disclosed that the department imposed a standard \$12,000 reimbursement limit on small business STEP-UP agreements. The prior audit determined that the \$12,000 limit was documented in error and should be changed to reflect a \$12,500 limit. Our current review revealed that DOL has not updated the grant agreements to reflect the change.

*Effect:* Grant funds may be reimbursed to employers that do not meet all employer and employee eligibility requirements. The \$12,000 reimbursement limit imposed by the department may prevent grantees from the full benefits of the program.

*Cause:* Prior DOL management designed STEP-UP to be business friendly by reducing the burden on employers to support eligibility requirements prior to grant approval.

*Recommendation:* The Department of Labor should develop and implement procedures that ensure compliance with STEP-UP legislation, contracts, and agreements. (See Recommendation 11.)

*Agency's Response:* "We agree with the finding as it pertains to the reimbursement agreements and will review the Step Up employer/employee agreements and edit as appropriate to ensure maximum benefit is provided to participating employers.

The Department will review if there are available options to substantiate whether or not an individual applying for the Step Up program meets the definition of new employee prior to eligibility determination."

### **Failure to Adhere to Established Petty Cash Procedures**

*Criteria:* The State Accounting Manual requires that every transaction must be tangibly documented with forms such as: vendor invoices, cash register tape, and petty cash or post office receipt. Each document must be itemized and detailed, to the extent possible, showing quantity, description, prices, and total.

The State Accounting Manual recommends that whenever possible, a state purchasing card should be used instead of petty cash. Conference fees

should be prepaid on a state purchasing card, if available. When time constraints exist, payment can be prepaid through petty cash.

Comptroller Memorandum No. 2011-11 states that, Effective July 1, 2011, payments for purchases by all state agencies under \$1,000 shall be made using the State of Connecticut Purchasing Card (P-Card). Purchasing cards must be used for payments to any vendor that provides commodities, services, or utilities. Exceptions to this policy include purchases that must be approved using the Core 10 process, vendors who do not accept credit cards, and purchases to restock inventories carried in the Core-CT inventory module.

*Condition:* Our review of 25 petty cash expenditures for the fiscal years ended June 30, 2013 and 2014 disclosed the following reportable conditions: 14 instances of expenditures lacking proper approval; 12 instances of petty cash receipts lacking a recipient signature; 8 instances of transactions lacking a sales receipt supporting the reimbursement; 2 instances of expenditures being reimbursed through the petty cash fund without adequate supporting documentation; and 1 conference registration fee processed through the petty cash fund that should have been processed using a state purchasing card.

*Effect:* Inadequate supporting documentation and a lack of proper approval may lead to the improper use of funds.

*Cause:* DOL is not following its procedures regarding proper approvals and adequate supporting documentation.

It appears that the department processes conference fees through petty cash.

*Recommendation:* The Department of Labor should strengthen internal controls over petty cash to ensure that funds are only expended for properly supported expenditures and that state purchasing cards are used rather than petty cash when feasible. (See Recommendation 12.)

*Agency's Response:* "We agree with this finding. The Department of Labor has taken procedural action in strictly enforcing the State Accounting Manual and Comptroller Memorandum No. 2011-11 since these instances were presented to our department three years ago. In addition the majority of the instances disclosed took place within the local office petty cash accounts.

As a result of these findings, local offices no longer have access to their own petty cash account. All petty cash requests are now submitted directly to Business Management for approval."

## **Need for Improved Administrative Procedures over Board and Commissions**

*Background:* The General Statutes relating to the Department of Labor provide for 5 boards, 2 commissions, and 1 council, collectively referred to as boards. These include the Apprenticeship Council, Board of Labor Relations, Board of Mediation and Arbitration, Board of Review, Occupational Safety & Health Review Commission, Employment Security Division Advisory Board, Employee Misclassification Advisory Board, and Joint Enforcement Commission on Employee Misclassification. The Joint Enforcement Commission on Employee Misclassification incorporates 5 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: (1) post meeting minutes to the public agency's website not later than 7 days after such meeting; (2) file not later than January 31st 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 website.

Section 31-57i of the General Statutes provides for the Employee Misclassification Advisory Board to advise the Joint Enforcement Commission on Employee Misclassification pursuant to section 31-57h on misclassification within the construction industry. The advisory board consists of members representing management and labor in the construction industry. Board members are appointed by specified state elected officials, and serve terms coterminous with the terms of their appointing authorities.

Section 31-57h (b) of the General Statutes requires that the Joint Enforcement Commission on Employee Misclassifications shall meet no less than four times each year.

Section 31-91 of the General Statutes provides for the Board of Mediation and Arbitration, consisting of 2 panels of 3 members each. 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 2 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 5 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 8 members who are appointed by specified state elected officials for a specified initial term and, if applicable, reappointed to a 4-year term. The advisory board includes, in part, 1 member representing employers appointed by the majority leader of the House of Representatives and 1 member representing labor organizations appointed by the president pro tempore of the Senate for an initial term of 2 years; 1 member representing employers appointed by the majority leader of the Senate for an initial term of 3 years; and 1 member representing employers appointed by the minority leader of the Senate for an initial term of 4 years.

*Condition:*

Our review of the boards for the fiscal years ended June 30, 2013 and 2014, revealed the following:

- Two boards did not post meeting minutes to the department's website, 2 boards did not file a schedule of meetings for the ensuing year with the Secretary of the State, and 2 boards did not post such schedule on the department's website. Two boards did not file the agenda of regular meetings with the Secretary of the State and 3boards did not post such agendas on the department's website.
- In reviewing the minutes of the meetings of the Employee Misclassification Advisory Board, we noted that board member attendance was lacking. Of the 2 meetings held during the audited period, only 3 of the 6 appointed members attended those meetings.
- DOL paid members of the Board of Mediation and Arbitration for hearings that continued beyond 2 days without obtaining the statutorily required prior approval from the Labor Commissioner.
- Three of the 5 mediator positions required by Section 31-96 were vacant during the audit period.
- One member of the Employment Security Advisory Board was not appointed to the correct initial term. The president pro tempore of the senate was given an initial term of 4 years instead of the statutory 2-year term.

*Effect:*

Public notice was not provided for board meetings, minutes and agendas. The boards were not operating in compliance with the General Statutes regarding appointments and membership.

*Cause:* A lack of administrative oversight contributed to this condition. DOL did not work effectively with the boards and appointing authorities. It appears that the mediator positions required by Section 31-96 were vacant, because there was no need for 5 positions.

*Recommendation:* The Department of Labor should work with its related boards to ensure compliance with the General Statutes. The department should notify appointing authorities of vacancies or attendance issues to ensure adequate representation at all board meetings. If the department determines that any statutes are impractical or outdated, then it should consider requesting a legislative change. (See Recommendation 13.)

*Agency's Response:* "We agree with this finding. The Connecticut Labor 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 all Boards and Commissions of the FOIA requirements by circulating the Audit Findings to the respective Boards and Commissions. Further, several of the Boards now post Agendas and Minutes of meetings on the Department's website to provide further notice to the public.

With respect to the Joint Enforcement Commission on Employee Misclassification ("JEC"), please be advised that the following two (2) additional member agencies were added in 2013 (P.A. 13-140), bringing the total number of JEC member agencies to seven (7): Department of Insurance and the Department of Consumer Protection. Measures have been taken to standardize the recording of minutes so as to identify JEC and advisory board members in attendance, and to encourage attendance at meetings to the fullest extent possible. Appointing authorities have all been notified of the need to make their appointments to the JEC Advisory Board.

With respect to the Employment Security Advisory Board, the Department will seek to assist appointing authorities in determining the proper appointment periods. The Department notes that subsequent appointments to Mr. Olsen's original appointment have been in line with the authorizing statute.

Additionally, Boards and Commissions have completed the task of filling vacancies by seeking appointments to each respective Board and Commission for the correct terms to ensure adequate representation at all meetings. Furthermore, in regard to the Board of Mediation and Arbitration, the Labor Commissioner has adopted a general policy authorizing the Board to schedule continued hearings as administratively necessary. In addition, the full complement of five (5) statutorily required mediator positions has not been filled due to a present lack of need and funding. The number of mediator positions is assessed on an annual basis."

## **Expenditure Transactions not Processed in Accordance with Relevant Requirements**

*Criteria:* Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order or other documentation approved by the Comptroller. Comptroller Memorandum No. 2008-38 identifies payment types that do not require a purchase order.

The State Accounting Manual (SAM) and Comptroller Memorandum No. 2004-06 require each state agency issuing any purchase order of one million dollars or more to forward the purchase order and all supporting documentation to the Comptroller's Accounts Payable Division for pre-audit. Payments will not be processed until the completion of such audit and the approval of the purchase order.

SAM establishes guidelines for expenditures processing, including the criteria for determining the correct receipt date, and requires that agencies are responsible to ensure that accounts payable procedures are supported by proper internal controls.

*Condition:* Our review of 75 expenditures disclosed the following:

- DOL did not submit 25 purchase orders of one million dollars or more to the Comptroller for pre-audit.
- DOL prepared 6 purchase orders for expenditures after the start of services.
- DOL incorrectly recorded receipt dates for 2 expenditures.

*Effect:* Obligations incurred prior to the commitment and approval of funding have less assurance that funds will be available at the time of payment. 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:* DOL informed us that it was uncertain whether the Comptroller pre-audit requirement applied to grants. DOL also informed us that it did not generate purchase orders when a vendor was a state agency, because it thought such expenditures were exempt from this requirement.

The department's grantee reimbursement request form did not include a field for the date of the end of the billing period.

*Recommendation:* The Department of Labor should strengthen internal controls over expenditures and follow the guidelines provided in the State Accounting Manual. (See Recommendation 14.)

*Agency's Response:* "We disagree with the findings that two receipt dates for two expenditures were recorded incorrectly. Based on past Agency policy voucher 00080558 has been reviewed and accepted by Comptroller's. In addition voucher 00021414 is processed by Department of Administrative Service and we have no control of the receipt date entered.

We agree with the finding for FY2013 and FY2014, however scanning and downloading of contracts for \$1million or more began in FY2015.

We agree with this finding and have addressed the issue of creating PO after start of service since FY2015. All attempts will be made in the future to avoid these situations."

*Auditors' Concluding Comment:*

The last receipt date was December 14, 2013, but was recorded in Core-CT as November 5, 2013, and was paid on November 6, 2013. Therefore, the receipt date was incorrectly recorded, thereby processing the payment prematurely.

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

*Background:* The Department of Labor enters into contracts with Workforce Investment Boards (WIB) for the award of various grants. Each contract includes a purpose, implementation plan, budget, requirements, terms, conditions, assurances, and certifications. Contracts are normally signed by the WIB authorized officer, DOL Commissioner, DOL Business Management Unit and the Attorney General.

*Criteria:* Sound business practice dictates that contracts should be properly completed and fully executed prior to the start and payment of services.

*Condition:* While we noted improvements since our last departmental review, we continue to note internal control weaknesses in our review of 14 contracts in 2013 and 9 in 2014. We noted that all 23 contracts were not fully executed until after the start of the contract period.

*Effect:* Expenditures could be made for unallowable activities.

*Cause:* It appears that contract execution was delayed due to a lag between the time funding was put in place and Attorney General approval.

DOL depends upon the U.S. DOL for funding for these contracts, and there is always a delay. According to agency personnel, it is impossible for the department to fully execute contracts prior to July 1<sup>st</sup>. Since the period of availability of the WIA federal grant awards is 2 years, the department does

not normally draw down the funds on new grants right away. Therefore, in most instances, if the department delayed the service period start date on contracts, there would be no impact on the ability of WIB to provide services.

*Recommendation:* The Department of Labor should strengthen internal controls to ensure that contracts are fully executed prior to the contract start date, and should delay the service period start date on these contracts, if necessary. (See Recommendation 15.)

*Agency's Response:* "We agree with this finding. The DOL continues to strive to reach the goal of having contracts executed prior to their start date; in this endeavor there are multiple road blocks that are not in the control DOL that make reaching that goal more difficult. The WIOA unit has developed a contract-management policy outlining the steps and responsibilities of the unit as it relates to timely execution of contracts, see attached. This policy considers the risk factors involved in delays in of funding announcements, approvals at both the state and federal levels, accounting for potential delays when routing the contracts for processing through the agency, and final signoff by the AG.

Before a contract can be written, the amount of the contract, which usually means the program funding needs to be known so the contract budget can be submitted, as part of the contract package. Contract budgets are negotiated between the contractor and DOL program and financial staff. If the funder of the contracts does not have the availability numbers available early enough it is difficult to get the contracts executed before the start date. For the PY17/FY18 contract period, CTDOL WIOA Administration met the WDBs and provided all available preliminary funding allocations in order to expedite contract execution by July 1, the date most programming is set to begin.

Delaying the service period is not a viable option since performance outcomes are driven by program year periods beginning on July 1 and ending on the following June 30.

The only solution that eliminates the necessity of programs closing down between fiscal years is to write a contract for unverifiable amounts which will contain a great deal of "TBD" information. The contract can be executed prior to the start date but there will need to be many adjustments to the budget and the program depending on the award amount."

## **Ineffective Management of Employer Workplace Violation Case Files**

*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 \$300 for each violation of said chapters and Section 31-288(g). The department deposits civil penalties into the Grants and Restricted Accounts Fund.

Section 31-71h-2 of the State Regulations requires that the Labor Commissioner 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 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 standard rates determined by the Labor Commissioner. Any employer who violates the provisions of Section 31-57f, shall pay a civil penalty of between \$2,500 and \$5,000 for each offense. The contracting state agency that has imposed such civil penalty on an 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.

Sound business practice dictates that management of case files should be efficient and effective.

*Condition:* For the fiscal years ended June 30, 2013 and 2014, our review of 15 DOL files of employers that violated labor regulations disclosed that DOL was deficient in maintaining supporting documentation for all 15 employers. For 9 employers, the department did not maintain a summary of the investigation in the case file. For 9 employers, the civil penalty figure did not reconcile to supporting documentation and DOL did not explain the discrepancy. For 7 employers, DOL did not document an explanation as to why the civil penalty assessment was reduced or completely removed.

Our review also disclosed that the Department of Labor cited 5 employers for violations of Section 31-57f of the General Statutes. DOL did not impose civil penalties because it was not the state contracting department and there was no written documentation that the contracting agency notified DOL of the violations. DOL should have levied civil penalties of at least \$370,000 against the employers. Additionally, 1 case file, for which DOL informed us there was a violation of 31-57f of the General Statutes, lacked

any notation of what civil penalty was applied. We were unable to determine whether this case was a violation because the department does not maintain a list of civil penalty violations by employers.

In addition, our review disclosed that the department maintains paper case files for its review of wage and workplace standards complaints. For 10 of the 21 case files reviewed, we noted that the preliminary notes/progress sheets or final report forms were completed by hand.

*Effect:* Without adequate documentation, the department may be overlooking violations of labor regulations by employers.

By automating case files, supervisors could easily ascertain the status of open investigations. Without automation, and the possible lack of adequate support, a supervisor is hindered from obtaining an accurate assessment of the status of investigations.

*Cause:* It appears that DOL lacks adequate internal controls and oversight.

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 contracting state agency the authority to impose civil penalties. The Department of Labor did not notify the contracting agencies of identified violations because the agencies do not have civil penalty procedures or appeals processes to impose and collect civil penalties for wage rate violations.

*Recommendation:* The Department of Labor should strengthen internal controls over the review of employer labor violations to ensure that adequate documentation is maintained and should consider implementing an automated case management system.

The Department of Labor should seek legislative changes to Section 31-57f of the General Statutes to give itself the authority to impose and collect such civil penalties. (See Recommendation 16.)

*Agency's Response:* "We agree with this finding. This Division has set new parameters on civil penalty assessments. In addition, we hope to be fully computerized by July 2018 which will increase internal controls."

## **Inadequate Controls over Equipment Inventory**

*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 and tagging, recording, and maintaining capital assets and controllable property on the Core-CT Asset Management module.

*Condition:* A physical inspection of 25 inventory items in the Core-CT Asset Management module revealed 3 items valued at \$7,320 that could not be located. Furthermore, DOL claimed it disposed of 6 items, totaling \$57,166, but lacked documentation supporting their disposal. These items were still shown as “in-service” in the Core-CT Asset Management.

Our review of 15 equipment purchases revealed one \$1,260 item that we could not find in the Core-CT Asset Management module. The item had no assigned tag number.

We reviewed 10 equipment disposals and found no documentation for the disposal of 1 item valued at \$6,456.

*Effect:* Deficiencies in the control over equipment inventory result in decreased ability to properly safeguard state assets and accurately report the department’s inventory.

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

*Recommendation:* The Department of Labor should improve internal controls over the custody and reporting of its property inventory. (See Recommendation 17.)

*Agency’s Response:* “We agree with this finding. One out of three items valued at \$7,320 has been lost and will be put on a loss report and deemed out of service in Core-CT. The remaining two items are in the warehouse and will be surplus, they will show in the system as in-service until they are surplus.

Three out of the six items totaling \$57,000 are in the warehouse and will be surplus, they will show in the system as in-service until they are surplus. The Cisco switch costing \$29,167.99 was located by IT staff and resides in Information Technologies. The mobile filing system with a cost of \$21,483.75 has been located by Facilities and resides on the third floor.

The item costing \$1,260 that could not be found in Core-CT was an oversight and was never added. The fax machine was located at the warehouse and is deemed to be scrapped. The proper scrap/surplus documentation will follow.

The item that was disposed of valued at \$6,456 lacked the proper disposal documentation that could have been a filing error. We continue to upgrade our internal controls and safeguarding of our property and equipment. We will be more accurate in our reporting procedures as well moving forward.”

### **CO-59 Asset Management/Inventory Report**

*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 software inventory and tagging, recording and maintaining capital assets and controllable property within the Core-CT Asset Management module. Assets with a cost of \$1,000 or more are capitalized and, when applicable, property with a unit cost of less than \$1,000 is recorded as controllable. The agency is required to annually transmit a detailed inventory of all property, real or personal, owned by the state and in custody of such agency to the Comptroller.

The Property Control Manual also requires that a complete physical inventory of all property must be taken each year to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year.

*Condition:* Our review of the CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2013 and 2014, disclosed the following:

For fiscal year 2013, the DOL amounts reported for Equipment and Licensed Software could not be supported.

For fiscal year 2014, DOL did not file a CO-59 report with the Office of the State Comptroller. Further investigation revealed that DOL did not enter assets purchased or disposed of since December 2013 into the Core-CT Asset Management module and did not take a physical inventory.

*Effect:* DOL did not comply with the requirements of Section 4-36 of the General Statutes and the State Property Control Manual. Furthermore, deficiencies in control over inventory provide a decreased ability to properly safeguard state assets and accurately report the department’s inventory.

*Cause:* We could not locate documentation supporting the amounts reported on the fiscal year 2013 CO-59 report.

DOL did not enter asset additions and deletions into the Core-CT Asset Management module for a portion of fiscal year 2014 and has not performed a current physical inventory. The department did not have the reliable amounts necessary to complete the fiscal year 2014 CO-59 report. Therefore, DOL did not submit the report.

*Recommendation:* The Department of Labor should improve internal controls to ensure that property inventory is maintained in the form prescribed by the Office of the State Comptroller and that accurate CO-59 reports are submitted annually and are adequately supported. (See Recommendation 18.)

*Agency's Response:* "We agree with the findings. The inability for the Auditors of Public Accounts to verify FY 2013 Equipment and Licensed Software is directly related to the lack of a CO-59 report being timely filed with the Office of the State Comptroller for FY 2014. The lack of a CO-59 being filed was due to an internal human resource issue. Upon being made aware of this issue the agency notified the Auditors of Public Accounts, took appropriate human resource actions and worked directly with the Office of the State Comptroller to correct the situation. As advised, and agreed too, the DOL took a physical inventory, updated its Core-CT asset management module and combined the FY 2014 reporting information into the FY 2015 CO-59 report. A dual reporting and verification process was established to ensure that this deficiency could not occur again in the future."

### **IT Unit – Information Not Available for Review**

*Criteria:* Data within the Information Technology (IT) Unit at the Department of Labor should be accurate and available for review by independent evaluators, including the Auditors of Public Accounts. Section 2-90 (g) states that, "Each state agency shall keep its accounts in such form...to exhibit the facts required by said auditors and...shall make all records and accounts available them...upon demand."

*Condition:* Software Purchases – We were unable to obtain complete answers to our questions regarding certain software purchases, and could not rely upon the information DOL provided to us.

We reviewed certain project initiatives to determine whether contractual elements were completed. We had difficulty obtaining information directly from the IT Unit, but did receive access to the information from the Project Management Unit. We were able to obtain information related to only 2 of 4 projects we inquired about; however, the information DOL provided us

was not presented clearly, and it was difficult to assess whether DOL achieved its stated initiatives. Purchase orders did not always contain either a statement of work or a detailed timeline of required work. We could not determine whether objectives were met.

*Cause:* DOL management was unable to provide accurate information concerning certain IT projects based upon the current database system and software inventory listing.

*Effect:* When accuracy and transparency are not evident, the review of such information cannot occur efficiently and effectively.

*Recommendation:* The Department of Labor should improve management's reporting abilities within the Information Technology Unit so that accurate reporting and review can occur. (See Recommendation 19.)

*Agency's Response:* "DOL does not agree with this finding. Software purchases are done by the IT Department in which a CORE Requisition is required with a justification.

All approved projects by the Project Steering Committee are managed by the PMO. All projects follow the State's System Development Methodology and project artifacts are stored in Sharepoint (Requirements, Design, Test Plans, Project Plans, etc.). If consultants are required for a project, the Information Technology Unit writes up an SOW and utilizes the State Contract."

*Auditors' Concluding*

*Comment:* We were able to obtain information related to only 2 of the 4 projects we inquired about. In addition, Sharepoint did not contain all the information needed to ascertain the project status and whether DOL achieved certain initiatives. Purchase orders did not always contain a statement of work or a detailed timeline of required work. We could not determine whether objectives were met.

**Information Technology Unit - Security of Information Systems**

*Criteria:* Information systems should be secure and DOL should immediately remedy findings noted within the safeguard reviews conducted by the Department of the Treasury, Internal Review Service (IRS).

*Condition:* The Department of the Treasury, Internal Revenue Service completed a Safeguard Review in April 2014. The IRS reported 8 findings concerning: maintaining a system of standardized records, maintaining a secure place for storage, restricting access to authorized individuals, employee awareness and internal inspections, submission of required safeguard reports, disposal of federal tax information, using federal tax return information, and computer systems security.

DOL notified our office in the spring of 2016 of a server that appeared unsecured. Allegations that the server had been breached were made but later withdrawn. Initially, DOL was unable to ascertain whether the server had been breached. DOL later stated that it had not been breached, but could not provide substantiating documentation.

In addition, IRS issued a Preliminary Findings Report in March 2017. This report identified 5 critical and 2 significant items requiring correction to improve the safeguarding of federal tax information (FTI) in accordance with IRS guidelines. DOL needed to correct critical findings within three months (by May 31, 2017) and significant findings by August 29, 2017. Critical findings included concerns over DOL's ability to receive, process, store, or transmit FTI securely; and to restrict access to the system and unauthorized disclosures of FTI to Alturia, a vendor for the Voice over Internet Protocol (VoIP) phone system. If DOL used a VoIP system to discuss federal tax information (FTI), it needed to meet IRS security standards. Those standards include restrictions on Alturia accessing potential FTI information.

*Effect:* Personal information may be at risk.

*Cause:* DOL management is unable to effectively control security of its systems.

*Recommendation:* The Department of Labor should immediately address the critical reports from the Department of the Treasury, Internal Revenue Service (IRS) and securely maintain its systems. (See Recommendation 20.)

*Agency's Response:* "DOL agrees with this finding. In reference to the Safeguard Review conducted in April 2014 and 8 findings referenced in auditor report, **CT906-SWA-A-CAP-102016.xls** is attached and is the last CAP response from the IRS for the 2014 to 2017 cycle. This October 2016 CAP shows all findings and their status.

- Between the 2014 and 2017 onsite reviews the IRS Publication 1075 Tax Information Security Guidelines for Federal, State and Local Agencies Safeguards for Protecting Federal Tax Returns and Return Information was updated in September 2016.
- In March 2017 the IRS came back on cycle to conduct an onsite review which closed the 2014 CAP and created a new CAP for cycle 2017 to 2020.
  - There were additional requirements of CT DOL based on the updated PUB 1075

- Onsite IRS utilized a new tool for the Computer System Security that was more in depth resulting in a higher number of findings

**CTDOL 2018 CAP Status State Auditors.xls** contains the 5 Critical and 2 Significant IRS findings the State Auditors identified needing a status. All 7 findings were corrected by CTDOL and closed by the IRS.

The reference to a server was the WEB0009 server.

- The network traffic alert triggered by the Multi-State Information Sharing & Analysis Center (MS-ISAC <https://msisac.cisecurity.org/>) originally alerted BEST to the threat. MS-ISAC later stated the alert was a false positive.
- BEST, CT DOL IT, Research and Risk Management analyzed information and reviewed scans of the server, no evidence of malware or a breach found.”

### **Violence in the Workplace – Untimely Investigation**

<i>Criteria:</i>	Governor Rowland’s Executive Order No. 16, the Office of Labor Relations General Notice 1999- 05, and the Department of Administrative Services Violence in the Workplace Policy & Procedures Manual establish a zero tolerance policy for workplace violence on a statewide basis. The manual also requires timely investigation of all violence in the workplace complaints.
<i>Condition:</i>	<p>The Auditors of Public Accounts received two whistleblower complaints of workplace violence at the Department of Labor within the last year. Those allegations were against the same perpetrator. The complaints alleged that DOL management was aware of these incidents, but did not investigate the matters or discipline the perpetrator.</p> <p>Our initial review of DOL Human Resources records did not reveal any investigations into the incidents; however, we later became aware of an ongoing Human Resources investigation into the matter. DOL took 60 days from the date of the most recent incident to start its investigation. We could not determine when these incidents were formally reported to Human Resources. It took 148 days from the start of the investigation to the date DOL decided on disciplinary measures.</p>
<i>Effect:</i>	There is an increased risk of liability to the state. There is less assurance that the department minimized the potential for a hostile work environment.

*Cause:* DOL management attempted to handle matters informally, in a “frank and open, professional discussion,” which may have prolonged the discord within the division. There were difficulties bringing together the parties that needed to participate in that process.

*Recommendation:* The Department of Labor should investigate all complaints of alleged workplace violence in a timely manner and comply with all provisions of the Violence in the Workplace Policies & Procedures Manual. (See Recommendation 21.)

*Agency’s Response:* “Our understanding is that this item references the two complaints made against the Wage and Workplace Standards Division Director. DOL agrees with the recommendations that it should investigate complaints of alleged violence in a timely manner and comply with provisions of the Violence in the Workplace Policy and Procedures Manual, and will continue to strive to do so.

The Agency takes very seriously its zero tolerance policy regarding Violence in the Workplace. As such we agree that the investigations were not completed in a timely a manner. These two complaints were made to Human Resources (HR) on September 19, 2017, and an investigation commenced immediately. These complaints were made in combination with and in addition to a significant number of other complaints by the union and Division employees. Due to the breadth and complexity of the investigation, including the number of witnesses to be interviewed and documents reviewed, these investigations necessarily required more time to conduct and complete. In addition, reductions in the size of the HR Unit, including the lack of a Principal HR Specialist, also contributed to the length of time needed to conduct and complete the investigations.

Moreover, DOL attempted to arrive at a comprehensive solution to address the significant number of complaints and issues in the Division. The administration worked to do this with the help of the union, among other things; however, after multiple discussions, assistance from the union was not forthcoming and finding a solution took longer than we would have liked. As the report notes, there were difficulties in bringing the parties together that were needed to participate in the process.

Moving forward, the Agency will ensure that complaints are investigated and completed expeditiously, especially those involving such potential impact as allegations of workplace violence. In recognition of the staffing shortcomings in the HR Unit, even given the fiscal constraints facing the Agency, DOL has refilled the Principal HR Specialist position in order to expedite the handling of any future complaints.”

## **Code of Conduct - Untimely Investigation**

- Criteria:* Research by Lynford Graham for Wiley suggests that “the most effective way to implement measures to reduce wrongdoing is to base them on a set of core values that are embraced by the entity,” and “Management needs to clearly articulate that all employees will be held accountable to act within the organization’s code of conduct.” In addition, “management has both the responsibility and the means to implement measures to reduce the incidence of fraud.”
- Condition:* During the course of our review into a related matter, we became aware of a DOL Human Resources investigation into a complaint alleging violations of the Department of Labor’s code of conduct by an employee. These allegations were substantiated, but DOL did not discipline the employee until 152 days after the department received the complaint. Our office became aware of additional complaints against the same employee prior to DOL disciplining that employee.
- Effect:* The Department of Labor’s control environment cannot be effective without consistent and timely discipline for ethical violations. Future instances of misconduct may go unreported if employees perceive management will take little or no corrective action. Employees who file complaints may also feel that management is not protecting their confidentiality, and they may be retaliated against by coworkers or superiors. There is an increased risk for the potential of fraud.
- Cause:* The Department of Labor’s code of conduct and employee handbook do not clarify the disciplinary measures to be assessed for violations of the conduct policy. DOL management attempted to handle matters informally, in a “frank and open, professional discussion,” which may have served to worsen certain situations. There were difficulties in bringing together the parties needed to participate in that process.
- Recommendation:* The Department of Labor should amend its code of conduct to make clear that there will be no retaliation for reporting made in good faith. The Department should consider adding the ability for personnel to communicate their concerns anonymously to reduce fear of retaliation. Matters reported to human resources alleging violations of the code of conduct should be investigated in a timely manner. (See Recommendation 22.)
- Agency’s Response:* “We concur that adherence to the Employee Code of Conduct is necessary to establish an environment in which employees feel that there is free access for all to fair and equitable treatment. In an effort to link possible disciplinary measures with prohibited behavior, DOL’s Employee Conduct Policy will be enhanced to reference possible disciplinary measures

contained in the Employee Handbook. The DOL Employee Handbook contains its Discipline Policy and identifies offenses resulting in reprimand, suspension, demotion and dismissal, and defines what those penalties entail.

As previously explained, DOL attempted to arrive at a comprehensive solution to address the significant number of complaints and issues in the Division. The administration worked to do this with the help of the union, among other things; however, after multiple discussions, assistance from the union was not forthcoming and finding a solution took longer than we would have liked. As the report notes, there were difficulties in bringing the parties together that were needed to participate in the process. Moving forward, the Agency will ensure that complaints are investigated and completed expeditiously, especially those involving such potential impact as allegations of workplace violence. Nonetheless, disciplinary action has already been taken with the specified employee, and that matter (as well as protective action taken by the specified employee) has been closed in accordance with policy and good management practices.

DOL agrees with the recommendation that it should add to its Employee Conduct Policy that there will be no retaliation for complaints made in good faith and that complaints can be made anonymously. As such, several changes have been made to the DOL Employee Conduct Policy, including adding language permitting the filing of anonymous complaints and prohibiting retaliation against any employee for filing complaints. It should be noted that no employee was retaliated against for making a complaint and that employees have been able to file anonymous complaints and have done so previously. Furthermore, DOL agrees with the recommendation that it should investigate complaints alleging violations of the Employee Conduct Policy in a timely manner and will continue to strive to do so.”

## **Negative Work Environment**

### *Background:*

In a negative work environment, there can be low or nonexistent levels of employee morale or feelings of loyalty. Employees are more prone to committing fraud, since they have less obligation to protect it. The American Institute of Certified Public Accountants’ report “Management Antifraud Programs and Controls: Guidance to Help Prevent, Detect Fraud” lists the following as components that make up a negative work environment:

- Perceived organizational inequities
- Autocratic rather than participative management
- Unfair, unequal, or unclear organizational responsibilities

- Criteria:* Good business practices dictate that agencies should work towards a positive work environment.
- Condition:* In the course of a review of management within the Department of Labor’s Wage and Workplace Standards Division, we noted the following issues contributing to a negative work environment:
- Management did not pursue employees with improprieties related to their reimbursement claims for personal vehicle usage, while management required other employees to repay excessive reimbursements;
  - Management allowed certain employees to adjust their work schedule to a 7 a.m. start time while it denied other requests to do the same. Management allowed one employee to have a working lunch instead of taking a mandatory, 30-minute lunch period;
  - DOL implemented a sudden, comprehensive reorganization of personnel and supervisors within the division;
    - Management allowed an employee to remain under the current supervisor while it denied another staff member’s request. Both employees had prior documented disagreements with the new supervisor.
- Effect:* A negative work environment exists within the Wage and Workplace Standards Division, and there is an increased risk of fraud.
- Cause:* A lack of administrative oversight contributed to this condition.
- Recommendation:* The Department of Labor’s human resources personnel should build a positive work environment through professionally-administered training programs and updating and enforcing the department’s code of conduct. (See Recommendation 23.)
- Agency’s Response:* “DOL disagrees that certain Wage and Workplace Standards Division staff members were allowed to start their shift at 7:00 a.m. while others were denied the ability to do so. Wage Enforcement Agents and Wage and Hour Investigators are prohibited from beginning their shift until 7:30 a.m., as they are all required to work phone duty while in the office. Supervisors and clerical staff may start at 7:00 a.m., because they do not have phone duty. No Wage Enforcement Agents or Wage and Hour Investigators were treated differently in this regard. Moving forward, the Division will be more diligent in retaining written documentation of employee schedules, schedule change requests, and approvals and denials of those requests.

While DOL acknowledges that under the Wage and Workplace Standards Division's prior director an employee was allowed to work an 8-hour schedule without a 30-minute lunch break, once it was discovered, in June 2016 (after that director retired), it was immediately rescinded. We have reviewed the issue and, to our knowledge, no other employee in the Division has been allowed to work an 8-hour schedule without a 30-minute lunch period.

DOL agrees that a sudden, comprehensive reorganization of the personnel and supervisors occurred within the Wage and Workplace Standards Division. This reorganization was part of the administration's efforts to develop a comprehensive solution to address the significant number of complaints and issues in the Division. When it was brought to the managers' attention that certain employees had not been moved to a different supervisor, they were moved immediately. Only one individual was not reassigned and this was due to a pending investigation involving the employee and the proposed new supervisor.

DOL agrees that it should help build a positive work environment through a professionally-administered training program. In fact, DOL has already contracted with a facilitator to develop and administer a comprehensive and intensive training program for all employees in the Wage and Workplace Standards Division regarding, among other things, maintaining professional and ethical behavior, developing leadership best practices, promoting active learning techniques that builds self-awareness, instilling a motivation to change, and moving learners forward. In addition, we plan to provide continued coaching and counseling to staff to ensure success. Moreover, if any administrative changes are necessary, modifications to the Employee Conduct Policy will follow.”

### **Human Resources Unit – Investigations of Alleged Improprieties**

*Criteria:* To ensure that the conclusions reached and actions taken related to investigations are reasonable and consistent, the Human Resources Unit should conduct investigations using formal, written procedures. The unit's administrator should document the review of the investigations and evaluate its conclusions. These procedures should include documentation to substantiate the administrator's review of the complaints, a determination of whether the complaint requires further investigation, the proper preparation of case files, and support of the investigation's conclusions.

*Condition:* During the course of our review into matters referred to the Human Resources Unit, we requested a listing of investigations during a certain period. DOL submitted to us a list, but it came to our attention later that the

list was incomplete and excluded three investigations. One of the investigations was of an entire division of the department. Through our review of Human Resources Unit investigation reports, we noted the following:

- DOL provided us 3 investigation reports with a page missing. The department provided us an additional report with 2 pages missing. The missing report pages included correspondence or other documentation significant to our review.
  - One of these missing pages included correspondence related to an inquiry made by the Human Resources Unit for clarification of state regulations. The cause for the inquiry was unclear, and the unit did not provide us with a clear explanation, other than DOL addressed the issue within the report's conclusion.

Upon further review, it appeared that DOL did not pursue additional improprieties alleged, even though they appeared more serious than those on which the department reached conclusions. Due to the nature of inquiries made by the Human Resources Unit, it is reasonable to conclude that DOL identified more serious improprieties during the course of the investigation.

- The methodology and conclusions reached in an investigation into reimbursements made to DOL personnel for personal vehicle usage did not reflect best practices for the following reasons:
  - DOL did not review all relevant rules and regulations applicable to reimbursement for personal vehicle usage for compliance.
  - DOL did not resolve the lack of a definition for a P-2 employee's duty station, and whether the P-5 employee definition applies. It does not appear that DOL considered the official duty station definition within Section 5-141c-2 of the Regulations of Connecticut State Agencies.
  - DOL reached an improper conclusion that the Office of Labor Relations guidance stated that employees may request a \$4.50 daily usage fee for days they did not travel in excess of their normal commuting miles and did not request mileage reimbursement.
  - DOL did not pursue all improper payments, including those made to employees receiving the largest reimbursements.
  - DOL identified an employee who was reimbursed for travel in a personal vehicle that did not reconcile to weekly work log sheets

regarding which municipalities the employee visited. DOL did not pursue these violations.

- DOL gave improper guidance in at least one instance that an employee may ride as a passenger in a state fleet vehicle for daily commuting purposes. DAS General Letter 115 expressly prohibits this activity.

*Effect:* The lack of standardized written procedures for conducting investigations and formal documented reviews by the human resources administrator increases the risk of inconsistencies in investigations related to conclusions reached and actions taken.

*Cause:* There was a lack of proper management oversight. Additionally, certain directors were less than forthcoming to our requests for information.

*Recommendation:* The Department of Labor’s Human Resources Unit should implement standardized written performance and review procedures related to its complaint handling and investigation process. The department should collect all improper payments identified in an investigation. (See Recommendation 24.)

*Agency’s Response:* “DOL agrees that the initial listing of investigations provided by our HR Unit was incomplete and that certain investigations initially provided had pages missing. However, DOL disagrees that staff intentionally failed to provide requested information or documentation. Any failure to provide information was due to a misunderstanding by our HR Director that the Auditor was requesting both completed and ongoing investigations. The Director believed the request had been only for completed investigations and provided all within the date range, and then provided ongoing investigations once he was made aware that those were being requested as well. Further, inadvertent scanning errors caused pages to be missing from certain investigations. Again, once the HR Director was made aware that pages were missing, he sought clarification as to which pages were missing and then provided those pages immediately. Given the missteps that occurred within our HR Unit relating to this finding, all HR staff, including the HR Director, has been directed to formalize complaint and investigation procedures. Moving forward, all requests for information will be scrutinized to ensure responses are timely, accurate and complete.

The finding further provides that there were “additional improprieties within the investigation that were not pursued.” DOL just received additional information from the State Auditors on August 7, 2018 relating to possible additional improprieties involving four individuals. Based on our receipt of that new information, a follow-up investigation was conducted. Three of the four individuals were interviewed by the HR Unit;

the fourth is on an extended leave and could not be interviewed at this time. Based on those interviews coupled with a comprehensive review of DOL records of business reimbursements, DOL has determined two of the four individuals were properly reimbursed all mileage and auto usage fees for the use of their personal vehicles. One individual could not substantiate a discrepancy on one day between his mileage reimbursement form and his weekly report for the same day. As such, we will pursue repayment for reimbursements made covering that one day. Finally, as soon as the fourth individual returns to work, the HR Unit will conduct an investigation to determine if any improper reimbursements were made.

The finding additionally asserts that DOL failed to use best practices in the methodology and conclusions reached in an investigation into personal vehicle usage by employees. Specifically, DOL disagrees that it failed to review applicable rules and regulations regarding reimbursements for personal vehicle usage. DOL did review and rely on General Letter 115 in the course of the investigation. If any additional rules or regulations were applicable, DOL was not aware of them. However, in an effort to ensure compliance with General Letter 115, we reissued General Letter 115 to all employees and published the Facilities Division new Intranet site that sets forth guidelines for both personal and state vehicle usage.

DOL also disagrees that a resolution was not reached regarding defining P-2 employees' duty stations. DOL decided that all P-2 employees in the Wage and Workplace Standards Division would be reassigned to a duty station within State of Connecticut owned or leased buildings or office space. This is in compliance with Section 5-141c-2 of the Regulations of Connecticut State Agencies. DOL further disagrees that an improper conclusion was reached from the guidance provided by the Office of Labor Relations (OLR) regarding the \$4.50 daily usage fee. A written request for guidance was sent via e-mail, and when the response from OLR failed to answer the question asked, DOL contacted OLR by phone and received an answer regarding the daily usage fee. The guidance confirmed that employees who were paid the daily usage fee were entitled to receive that fee.

It is recommended that the HR Unit implement standardized written complaint and investigation procedures. We agree with the recommendation. The HR Unit has a comprehensive system in which all complaints are entered and tracked. The system is capable of producing more than a dozen reports including but not limited to incidents for all DOL employees, incidents within a specified date range, incidents within a specific cost center, incidents by disposition type, etc. The Unit has also been working on formalizing its written complaint and investigation procedures. That task will be completed by August 31, 2018.

At all times DOL has aimed to be forthcoming with the Auditors and has not attempted to obstruct their inquiries. DOL will continue to be forthcoming in the future. Moreover, we agree that DOL should collect all improper payments made in an investigation, and any improper payments that are identified are collected to the best of our knowledge. We evaluated options for an enhanced internal audit of these issues and developed written procedures for regular and ongoing internal audits of both personal and state vehicle use. Further, we will review documentation to determine if additional improper payments need to be collected.”

*Auditors’ Concluding  
Comment:*

The Department of Labor appears to have analyzed the information as directed by OPM Office of Labor Relations (OLR). We questioned the logic of this application and the directions OLR provided. Our questions included:

- What constitutes an employee’s normal daily commute?
- Why is an auto usage fee given to employees who commute to and from the central office?
- Why are employees earning auto usage fees for days they are not using their personal car on official state business?

We plan to forward this information to our field auditors at OPM for further consideration.

**Other Matters - Improper Reimbursements for State Business Use of Personally-Owned Vehicles**

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

- The Agency Transportation Administrator is responsible for authorizing reimbursements to agency employees for the use of personally-owned vehicles on state business.
- All state employees who are authorized by their Agency Transportation Administrator to use their own motor vehicles in the performance of their duties must:
  - Carry at least the minimum insurance coverage of third-party liability of \$50,000/\$100,000 and property damage liability of \$5,000

- Not be paid for the use of their personal vehicle for travel from home to their official duty station or field assignment, unless permitted in their collective bargaining agreement.

Bargaining Unit Contract for P-2 (Social and Human Services) states that “employees required to utilize a personal vehicle for fifty percent (50%) of the assigned monthly work days shall be paid a daily auto usage fee equal to four dollars and fifty cents (\$4.50) for each day of required usage, which shall be in addition to the mileage reimbursement described in Section Two.”

*Condition:* We reviewed mileage reimbursement payments and found that the department’s Wage and Workplace Standards Division reimbursed employees for the use of their personal vehicle despite the availability of a state vehicle.

Documentation showed that employees received mileage reimbursement and daily usage fees for commuting to the department’s central office. Employees even received daily usage fees on days the employee did not request mileage reimbursement.

Three employees received a combined \$530 in improper auto usage fees during the period of February 2016 through May 2016. One of those employees also received \$258 in improper mileage reimbursement payments over the same period.

DOL does not maintain insurance documentation appropriately. DOL did not have insurance documentation available for 3 out of 10 employees in the current period. Three out of the 10 employees reviewed did not meet the minimum required coverage for property damage.

*Effect:* DOL did not adhere to DAS General Letter 115, which resulted in overpayments to employees for the use of personally-owned vehicles on official state business, and an increased risk of liability to the state.

*Cause:* A lack of administrative oversight contributed to this condition.

*Recommendation:* The Department of Labor should adhere to DAS General Letter 115. (See Recommendation 25.)

*Agency’s Response:* “The finding determined that DOL is improperly reimbursing and paying daily usage fees to employees of the Wage and Workplace Standards Division for use of their personal vehicle. The finding further determined

that DOL does not properly maintain insurance documentation for all employees seeking reimbursement.

DOL just received additional information from the State Auditors on August 7, 2018 relating to the possible improper reimbursements involving four individuals. Based on our receipt of that new information, a follow-up investigation was conducted. Three of the four individuals were interviewed by the Human Resources Unit; the fourth is on an extended leave and could not be interviewed at this time. Based on those interviews coupled with a comprehensive review of DOL records of business reimbursements, DOL has determined two of the four individuals were properly reimbursed all mileage and auto usage fees for the use of their personal vehicles. One individual could not substantiate a discrepancy on one day between his mileage reimbursement form and his weekly report for the same day. As such, we will pursue repayment for reimbursements made covering that one day. Finally, as soon as the fourth individual returns to work, The Human Resources Unit will conduct an investigation to determine if any improper reimbursements were made.

We agree with the recommendation that DOL should adhere to General Letter 115. We reissued General Letter 115 to all employees and published the Facilities Division new Intranet site that sets forth guidelines for both personal and state vehicle usage. In addition, while DOL has always attempted to comply with the insurance verification requirements, there may have been lapses in maintaining documentation. We will maintain these records for 3 years. Moreover, we evaluated options for an enhanced internal audit of these issues and have established written procedures to ensure minimum insurance requirements are met by all employees required to use a personal vehicle for business use.”

*Auditors’ Concluding  
Comment:*

The Department of Labor appears to have analyzed the information as directed by the OPM Office of Labor Relations (OLR). We questioned the logic of this application and the OLR directions. Our questions included:

- What constitutes an employee’s normal daily commute?
- Why is an auto usage fee given to employees who commute to and from the central office?
- Why are employees earning auto usage fees for days they are not using their personal car on official state business?

We plan to forward this information to our field auditors at OPM for further consideration.

## **Other Matters - Utilization of State Fleet Vehicles**

*Criteria:* The Department of Administrative Services' General Letter 115 states:

- Agencies are responsible for ensuring that the state-owned vehicles allocated to them are used in the most cost-effective and efficient manner possible;
- Motor vehicles determined by the Director of DAS Fleet Operations and/or the agency to be in excess of the agency's requirements shall be returned to DAS Fleet Operations;
- Approval to assign a vehicle to an individual on a long-term basis shall not be granted if the vehicle will be driven less than an average of seven hundred miles per month, except with explicit approval of the Director of DAS Fleet Operations;
- The use of motor pools instead of assigning vehicles to individuals is encouraged whenever possible; and
- The Agency Transportation Administrator is responsible for maintain records regarding the agency's usage of state-owned and rental vehicles, including but not limited to daily mileage logs, and submitting any required reports to the Director of DAS Fleet Operations.

*Condition:* We attempted to review DOL State Vehicle Usage Reports (CCP-40) for a 12-month period ending September 30, 2017. We were able to review some records for 12 vehicles, but found a complete set of records for only one vehicle. It is unclear whether reports were missing for months in which there was no official state business.

During the course of our review, we also noted:

- An instance in which DOL did not apply its cost-effectiveness test before determining an excess vehicle should be reassigned to an employee who was not previously assigned a state car. Applying the test indicated that the employee should not have had an assigned vehicle;

- A separate instance in which the monthly usage of the vehicle averaged only 511 miles after removing considerable commuting mileage to the department's Wethersfield office for the 11 monthly reports on file. This is less than the required average of 700 miles per month; and
- It is likely that the other vehicles without a complete set of monthly reports also did not meet this 700-mile threshold.

*Effect:* There is reduced assurance that the utilization of state vehicles is being administered in an efficient and effective manner.

*Cause:* A lack of administrative oversight contributed to this condition.

*Recommendation:* The Department of Labor should formalize its policies for the assignment of state vehicles and its retention of records related to vehicle usage. The department should determine whether state vehicle allocation could be improved through the use of a motor pool. (See Recommendation 26.)

*Agency's Response:* "While DOL has always attempted to apply a cost-effectiveness test before making determinations about allocations of state fleet vehicles, we agree that no formal process existed. As such, we agree with the recommendation that it should formalize its policies for assignment of vehicles and record retention. DOL has now evaluated mechanisms to better manage and maintain vehicle assignments and records, and we reissued General Letter 115 to all employees and published the Facilities Division new Intranet site that sets forth guidelines for both personal and state vehicle usage.

DOL also consulted with similarly sized agencies to determine best practices as it pertains to vehicle and fleet usage. Finally, DOL reviewed whether vehicle allocation could be improved through the use of a motor pool. DOL previously discontinued the use of a motor pool due to lack of funding to maintain the pool. Based on our most recent analysis we have again determined it would not be cost effective at this time."

### **Other Matters – Lack of Written Policies and Procedures – Wage & Workplace Standards Division**

*Criteria:* Proper internal controls dictate that formal written policies and procedures should be established and disseminated to provide guidance to employees in the performance of their related duties.

*Condition:* We found a lack of formal, comprehensive written policies and procedures for the recording and tracking of investigations. We questioned certain site visits and determinations made by the Department of Labor's Wage and Workplace Standards Division. No formal documentation existed

describing what caused the division to initiate the site visits or the outcome of the site visits. A review of a separate stop-work enforcement action across several sites revealed varying levels of recordkeeping in enforcement agent files.

*Effect:* The nature of the division’s operations and other contributing factors create a high inherent risk of fraud that has not been appropriately addressed through internal controls such as a policies and procedures manual.

*Cause:* The division has yet to modernize its case management processing systems.

*Recommendation:* The Department of Labor Wage and Workplace Standards Division should establish formal written policies and procedures for all of its operations. (See Recommendation 27.)

*Agency’s Response:* “The finding determined that there is a lack of formal, comprehensive written policies and procedures for the recording and tracking of investigations in the Wage and Workplace Standards Division. DOL agrees with the recommendation to enhance and systematize the process used to review, investigate and track workplace incident reporting. DOL has always strived to address and track all complaints in a comprehensive manner, and we are working to keep consistent records. This process will be significantly improved by the case and document management system that is currently being developed. DOL previously had been exploring options for some time, but those case management systems were determined not to meet the needs of the division.

DOL was able to contract with a vendor for an acceptable system beginning on July 14, 2017. This new system will capture, manage, store, report, and centralize business information to keep data current, accurate and quality controlled. This new solution will allow better utilization of resources, eliminate waste, and deliver services to customers with efficiency, while gaining greater data security. The new system is currently in development, with testing to begin by September 2018. The projected implementation date is October 29, 2018.”

## RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2013 and 2014 contained a total of 18 recommendations. Of those recommendations, 3 have been implemented, resolved or not repeated. The status of the recommendations contained in the prior report is presented below.

### Status of Prior Audit Recommendations:

- The Department of Labor should complete reconciliations and resolve variances of the Unemployment Compensation Fund benefit bank account in a timely manner. **This recommendation has been resolved.**
- The Department of Labor should implement regulations as required by the General Statutes. **This recommendation has been resolved due to the repeal of Section 31-268 of the General Statutes and therefore, the regulations are no longer required.**
- The Department of Labor should strengthen internal controls to ensure that receipts are deposited and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes. **This recommendation is being repeated. (See Recommendation 8.)**
- The Department of Labor 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. The department should consider implementing an automated case management system. **This recommendation is being repeated to reflect current conditions. (See Recommendation 16.)**
- The Department of Labor should strengthen internal controls over the processing of timesheets. **This recommendation is being repeated to reflect current conditions. (See Recommendation 3.)**
- The Department of Labor should strengthen internal controls to ensure that employee leave accruals and balances in Core-CT match FARS and are correct. **This recommendation is being repeated to reflect current conditions. (See Recommendation 2.)**
- The Department of Labor should strengthen internal controls over compensatory time and overtime to ensure compliance with collective bargaining contracts, DAS Management Personnel Policy #06-02, and departmental procedures. **This recommendation is being repeated to reflect current conditions. (See Recommendation 4.)**
- The Department of Labor should ensure that annual performance evaluations are performed on all of its employees. **This recommendation is being repeated in part. (See Recommendation 1.)**

- The Department of Labor should strengthen internal controls over off-line checks to ensure that only proper amounts are paid and that all transactions are recorded in the IBM system. **This recommendation has been resolved.**
- The Department of Labor should strengthen internal controls over petty cash to ensure that funds are only expended for properly supported expenditures and that state purchasing cards are used rather than petty cash when feasible. **This recommendation is being repeated to reflect current conditions. (See Recommendation 12.)**
- The Department of Labor should strengthen internal controls over expenditures and follow the guidelines provided in the State Accounting Manual. **This recommendation is being repeated. (See Recommendation 14.)**
- The Department of Labor should strengthen internal controls to ensure that contracts are properly completed and fully executed prior to the contract period start date and issuance of payment. **This recommendation is being repeated. (See Recommendation 15.)**
- The Department of Labor should strengthen internal controls over the monitoring of grants to ensure compliance with contract provisions and corresponding legislation. **This recommendation is being repeated. (See Recommendation 10.)**
- The Department of Labor should develop and implement procedures that ensure compliance with STEP-UP legislation, contracts and agreements. The department should consistently apply its standard business practices for pre-approval of state grants to STEP-UP grants, including OSHA reviews. **This recommendation is being repeated. (See Recommendation 11.)**
- The Department of Labor should improve internal controls over the custody and reporting of its property inventory. **This recommendation is being repeated for current conditions under two separate findings. (See Recommendations 17 and 18).**
- The Department of Labor should institute procedures to ensure that all required reports are submitted or should seek legislation to have the General Statutes amended. **This recommendation is being repeated to reflect current conditions. (See Recommendation 9).**
- The Department of Labor should work with the boards to ensure compliance with Freedom of Information requirements and the General Statutes. The department should notify appointing authorities of existing vacancies or attendance issues to ensure adequate representation at all board meetings. If the department determines that any statutes are impractical or outdated, the department should consider requesting a legislative change to the respective statute. **This recommendation is being repeated to reflect current conditions. (See Recommendation 13.)**

- The Department of Labor should implement procedures to ensure that deficiencies identified by the U.S. DOL relative to OSHA are resolved in a timely manner. **This recommendation is being repeated to reflect current conditions. (See Recommendation 7.)**

**Current Audit Recommendations:**

- 1. The Department of Labor should ensure that it completes annual performance evaluations for all of its employees.**

Comment:

Our review disclosed that DOL did not complete performance appraisals in 1 instance for a manager and 4 instances for non-managers during the fiscal years ended June 30, 2013 and 2014.

- 2. The Department of Labor should strengthen its internal controls to ensure that employee leave accruals and balances in Core-CT match its Financial Accounting and Reporting System (FARS), and should report those accruals and balances correctly.**

Comment:

Compensated absence reports for the fiscal years ended June 30, 2013 and 2014 revealed discrepancies between the two systems, erroneous information, and a missed payout to a separated employee.

- 3. The Department of Labor should strengthen internal controls over the processing and maintaining of employee timesheets.**

Comment:

The Payroll Unit did not compare employee timesheets, (including timekeeper's attendance records) to the data that was entered into the timekeeping system. For 5 transaction selected for review, vacation and/or sick time accruals recorded in FARS and Core-CT did not reconcile.

- 4. The Department of Labor should strengthen internal controls over compensatory time and overtime to ensure compliance with collective bargaining contracts, DAS Management Personnel Policy 06-02, and departmental procedures.**

Comment:

Our review of 10 employee overtime expenditures disclosed that the department paid 2 P-4 exempt employees for overtime payments in lieu of compensatory time, totaling four hours, without obtaining OPM approval. In addition, our review of annual attendance records disclosed that a total of 141.5 hours of expired compensatory time was not deducted from the balance of 3 P-4 exempt employees. Furthermore, the department was unable to locate 5 timesheets for two managers.

- 5. The Department of Labor should institute procedures to ensure that all records are retained and disposed of in accordance with records retention policies.**

Comment:

Our review disclosed various instances of noncompliance with records retention policies within the OSHA, Research, Benefit Payment Control, and Employer Tax Accounting units. In addition, the Timekeeper's Unit discarded leave request forms without obtaining records disposition forms.

- 6. The Department of Labor should strengthen internal controls to ensure that the process used to write off employer receivables is completed in a timely manner and in the correct sequence.**

Comment:

DOL did not write off uncollectible employer receivables in the amount of \$4,007,343 and \$155,188 for the fiscal years ended June 30, 2013 and 2014, respectively.

- 7. The Department of Labor should implement procedures to ensure that it resolves OSHA deficiencies identified by the U.S. Department of Labor in a timely manner.**

Comment:

Our review disclosed that the annual assessment that the U.S. DOL performs on the department's OSHA activities revealed open deficiencies. These remaining open deficiencies included: not meeting the 5-day stand for average number of days to initiate a complaint; decreasing the lapse time from inspection to citation issuance; and the average level of violations classified as serious/willful/repeat are below the standard level.

- 8. The Department of Labor should strengthen internal controls to ensure that receipts are deposited promptly and accounted for in a timely manner in compliance with Section 4-32 of the General Statutes. DOL should log all receipts into a receipts journal or equivalent tracking device.**

Comment:

Our review of 52 receipts, totaling \$211,559, disclosed that four receipts, totaling \$4,770, were deposited one day late.

- 9. The Department of Labor should institute procedures to ensure that it submits all required reports or seek legislation to have the General Statutes amended to reduce or eliminate its reporting requirements.**

Comment:

DOL did not submit 13 mandated reports for at least 1 of the 2 years reviewed. Furthermore, DOL submitted 3 reports up to 9 months late. We could not determine the timeliness for 4 other reports. DOL submitted the GAAP Closing Package due during the fiscal year ended June 30, 2013 on October 30, 2013 after the third and final extension deadline. DOL submitted

the majority of the GAAP Closing Package due during the fiscal year ended June 30, 2014 on September 11, 2014, and submitted the final portion of the GAAP Closing Package on December 2, 2014.

**10. The Department of Labor should monitor that sufficient insurance coverage is in place for grantees to ensure financial resources will be available to protect the state in the event of a claim.**

Comment:

Our review of 25 grants for the fiscal years ended June 30, 2013 and 2014 revealed that the department did not obtain grantee certificates of insurance for any grant contracts. In addition, the department could not provide documentation showing the Office of the Attorney General approved to form the general conditions as modified.

**11. The Department of Labor should develop and implement procedures that ensure compliance with STEP-UP legislation, contracts, and agreements.**

Comment:

Our review of 25 STEP-UP agreements revealed that the design of the eligibility determination process did not include adequate procedures to verify all the employee eligibility criteria prior to grant approval. In addition, in our prior review, the department imposed a standard \$12,000 reimbursement limit on small business STEP-UP agreements. The prior audit determined that this limit was documented in error and should be changed to reflect a \$12,500 limit. Our current review revealed that DOL has not updated the grant agreements to reflect the change

**12. The Department of Labor should strengthen internal controls over petty cash to ensure that funds are only expended for properly supported expenditures and that state purchasing cards are used rather than petty cash when feasible.**

Comment:

Our review of 25 petty cash expenditures disclosed 14 instances in which expenditures lacked the proper approval, 12 instances in which petty cash receipts lacked a recipient signature, 8 instances in which a transaction lacked a sales receipt supporting the expenditure reimbursement, 2 instances in which expenditures were reimbursed through the petty cash fund without adequate supporting documentation, and 1 instance in which conference registration fees were processed through petty cash instead of using a state purchasing card.

- 13. The Department of Labor should work with its related boards to ensure compliance with the General Statutes. The department should notify appointing authorities of vacancies or attendance issues to ensure adequate representation at all board meetings. If the department determines that any statutes are impractical or outdated, it should consider requesting a legislative change.**

Comment:

One member of the Employment Security Advisory Board was not appointed to the correct initial term; three of the five mediator positions required by Section 31-96 of the General Statutes were vacant during the audited period; the department paid members of the Board of Mediation and Arbitration for hearings that continued beyond the statutory limit without obtaining the Labor Commissioner's prior approval; and only 3 of the 6 appointed members of the Employee Misclassification Advisory Board attended two meetings in the fiscal year ended June 30, 2013. We noted further issues regarding two boards not posting meeting minutes to the department's website, not filing a schedule for meetings with the Secretary of the State for the ensuing year, and not posting the two boards' schedules on the department's website.

- 14. The Department of Labor should strengthen internal controls over expenditures and follow the guidelines provided in the State Accounting Manual.**

Comment:

The department did not submit 25 purchase orders of one million dollars or more to the Comptroller for pre-audit. DOL prepared 6 purchase orders for expenditures after the start of services and incorrectly recorded receipt dates for 2 expenditures.

- 15. The Department of Labor should strengthen internal controls to ensure that contracts are fully executed prior to the contract start date, and should delay the service period start date on these contracts, if necessary.**

Comment:

While our review noted improvements over the prior audit, we did continue to note internal control weaknesses in our review of the 14 contracts in 2013 and 9 in 2014. In all 23 contracts, we noted that they were not fully executed until after the contract period start date.

- 16. The Department of Labor should strengthen internal controls over the review of employer labor violations to ensure that adequate documentation is maintained and should consider implementing an automated case management system.**

**The Department of Labor should seek legislative changes to Section 31-57f of the General Statutes to give itself the authority to impose and collect such civil penalties.**

Comment:

Our review disclosed internal control deficiencies in the department's maintenance of supporting documentation for all 15 employers reviewed. Our review also disclosed that the

department cited 5 employers for violations of Section 31-57f of the General Statutes but did not impose any civil penalties. In addition, the department does not maintain a list of civil penalty violations by employer. The department continues to maintain paper case files and updates its case notes mainly by hand.

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

Comment:

Our review disclosed several errors in the maintenance and reporting of DOL property inventory, including our inability to physically inspect items that could not be located, missing documentation for surplus inventory, and a purchase that could not be traced to Core-CT.

**18. The Department of Labor should improve internal controls to ensure that property inventory is maintained in the form prescribed by the office of the State Comptroller and that accurate CO-59 reports are submitted annually and are adequately supported.**

Comment:

Our review of the CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2013 and 2014 disclosed that the 2013 DOL amounts for the Equipment and Licensed Software lines could not be supported. DOL did not submit the CO-59 for fiscal year 2013-2014. In addition, further investigation revealed that DOL did not enter assets purchased or disposed of since December 2013 into the Core-CT asset management module and did not take a physical inventory.

**19. The Department of Labor should improve management's reporting abilities within the Information Technology Unit so that accurate reporting and review can occur.**

Comment:

Our review of the software inventory revealed that we were unable to obtain comprehensive answers to our questions regarding complete and consistent software inventory listing. Therefore, we could not rely upon the information DOL provided to us.

Our review of certain project initiatives to determine whether contractual elements were completed revealed that information was difficult to obtain directly from the IT Unit. Although we received information from the Project Management Unit, we were able to obtain information for only 2 of 4 projects we inquired about. The electronic database information DOL provided us was not presented clearly, and it was difficult to assess whether DOL achieved its stated initiatives. Purchase orders did not always contain either a statement of work or a detailed timeline of required work. We could not determine whether objectives were met.

**20. The Department of Labor should immediately address critical reports from the Department of the Treasury, Internal Revenue Service (IRS) and securely maintain its systems.**

Comment:

The Department of the Treasury, Internal Revenue Service completed a Safeguard Review in April 2014. The IRS reported findings concerning: maintaining a system of standardized records, maintaining a secure place for storage, restricting access to authorized individuals, employee awareness and internal inspections, submission of required safeguard reports, disposal of federal tax information, using federal tax return information, and computer systems security.

In addition, DOL notified our office in the spring of 2016 of a server that appeared unsecured. Allegations that the server had been breached were made but later withdrawn. Initially, DOL was unable to ascertain whether the server had been breached. DOL later stated that it had not been breached, but could not provide substantiating documentation.

In addition, IRS issued a Preliminary Findings Report in March 2017. This report identified 5 critical and 2 significant items requiring correction to improve the safeguarding of federal tax information (FTI) in accordance with IRS guidelines. DOL needed to correct critical findings within three months (by May 31, 2017) and significant findings by August 29, 2017.

**21. The Department of Labor should investigate all complaints of alleged workplace violence in a timely manner and comply with all provisions of the Violence in the Workplace Policies & Procedures Manual.**

Comment:

DOL did not investigate all workplace violence complaints in a timely manner. DOL took 60 days from the date of one ongoing incident to start its investigation. It took 148 days from the start of the investigation to the date DOL decided on disciplinary measures.

**22. The Department of Labor should amend its code of conduct to make clear that there will be no retaliation for reporting made in good faith. The Department should consider adding the ability for personnel to communicate their concerns anonymously to reduce fear of retaliation. Matters reported to human resources alleging violations of the code of conduct should be investigated in a timely manner.**

Comment:

During the course of our review into a related matter, we became aware of a DOL Human Resources investigation into a complaint alleging violations of the Department of Labor's code of conduct by an employee. These allegations were substantiated, but DOL did not discipline the employee until 152 days after the department received the complaint. Our office became aware of additional complaints against the same employee prior to DOL disciplining that employee.

**23. The Department of Labor’s human resources personnel should build a positive work environment through professionally-administered training programs and by updating and enforcing the department’s code of conduct.**

Comment:

In the course of a review of management within the Department of Labor’s Wage and Workplace Standards Division, we noted several issues contributing to a negative work environment. Management did not pursue employees with improprieties related to their reimbursement claims for personal vehicle usage, while management required other employees to repay excessive reimbursements. Management allowed certain employees to adjust their work schedule to a 7 a.m. start time while it denied other requests to do the same. Management allowed one employee to have a working lunch instead of taking a mandatory, 30-minute lunch period. During a sudden, comprehensive reorganization of the division, management allowed an employee to remain under the current supervisor while it denied another staff member’s request. Both employees had prior documented disagreements with the new supervisor.

**24. The Department of Labor’s Human Resources Unit should implement standardized written performance and review procedures related to its complaint handling and investigation process. The department should collect all improper payments identified in an investigation.**

Comment:

During the course of our review into matters referred to the Human Resources Unit, we requested a listing of investigations within a certain period. DOL provided us a list, but it came to our attention later that it was an incomplete list and excluded three investigations. One of the investigations was of an entire division of the Department of Labor.

Once we received the additional files, we noted that pages were missing. Upon further review, it appeared that DOL did not pursue additional improprieties alleged within the investigation, even though they appeared more serious than those on which the department reached conclusions. In one instance, it was noted that DOL improperly allowed an employee to ride as a passenger in a state fleet vehicle for daily commuting purposes. DAS General Letter 115 expressly prohibits this activity.

**25. The Department of Labor should adhere to DAS General Letter 115.**

Comment:

We reviewed mileage reimbursement payments and found that the department’s Wage and Workplace Standards Division reimbursed employees for the use of their personal vehicle despite having a state vehicle available.

In addition, the same documentation showed that employees received mileage reimbursement and daily usage fees for commuting to the department’s central office. Employees even received daily usage fees on days the employee did not request mileage reimbursement.

Furthermore, the department does not maintain insurance documentation appropriately. DOL did not have insurance documentation available for 3 out of 10 employees in the current period, and 3 employees reviewed did not meet the minimum required coverage for property damage.

**26. The Department of Labor should formalize its policies for the assignment of state vehicles and its retention of records related to vehicle usage. The department should determine whether state vehicle allocation could be improved through the use of a motor pool.**

Comment:

We attempted to review DOL State Vehicle Usage Reports (CCP-40) for a 12-month period ending September 30, 2017. We were able to review some records for 12 vehicles, but found a complete set of records for only 1 vehicle. It is unclear whether reports were missing for months in which there was no official state business.

During the course of our review, we noted an instance in which DOL did not apply its cost-effectiveness test before determining whether an excess vehicle should be reassigned to an employee who was not previously assigned a state car. A separate instance revealed that the monthly usage of the vehicle did not meet the minimum average of commuting for assigning a state vehicle.

**27. The Department of Labor Wage and Workplace Standards Division should establish formal written policies and procedures for all of its operations.**

Comment:

We found a lack of formal, comprehensive written policies and procedures for the recording and tracking of investigations. We questioned certain site visits and determinations made by the Department of Labor's Wage and Workplace Standards Division. No formal documentation existed describing what caused the division to initiate the site visits or the outcome of the site visits. A review of a separate stop-work enforcement action across several sites revealed varying levels of recordkeeping in enforcement agent files.

**ACKNOWLEDGEMENT**

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

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**CONCLUSION**

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Labor during the course of our examination.



Christine J. Delaney  
Principal Auditor

Approved:



John C. Geragosian  
State Auditor



Robert J. Kane  
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