

STATE OF CONNECTICUT

**AUDITORS' REPORT
OFFICE OF WORKFORCE COMPETITIVENESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

AUDITORS OF PUBLIC ACCOUNTS
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January 24, 2003

**AUDITORS' REPORT
OFFICE OF WORKFORCE COMPETITIVENESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

We have made an examination of the financial records of the Office of Workforce Competitiveness for the fiscal year ended June 30, 2001. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification which follow.

Financial statement presentation and auditing is performed annually on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Office of Workforce Competitiveness' compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Office of Workforce Competitiveness (OWC) was created under Executive Order # 14 (as revised by Executive Order #14A) and Public Act 00-192, and codified as Section 4-124w of the General Statutes. OWC is identified as being within the Office of Policy and Management for administrative purposes only. OWC "...is intended to focus on the changes needed to prepare Connecticut's workforce for the rapidly changing and competitive economy of the 21st Century...". The responsibilities of OWC include functioning as the Governor's principal workforce development policy advisor; serving as the liaison between the Governor and any local, State, or Federal organizations or entities in workforce development matters and implementation of the Workforce Investment Act of 1998; and coordinating all State agencies' workforce development activities.

The passage of the Federal Workforce Investment Act (WIA) of 1998 resulted in significant changes in the way Federal employment and training programs are administered at the State level. The responsibilities of the Governor include establishment of a State workforce investment board, development of a strategic five-year workforce development plan for the State, and designation of

local workforce development areas. Each state responded to the creation of WIA in a different way. Some states used the legislation as a means to reorganize employment and training activities in their states by combining and reorganizing state agencies, others created new state agencies responsible for oversight and control of employment and training in the state, while others maintained the same infrastructure used to support the Job Training Partnership Act.

In Connecticut, the Governor responded to the changes in Federal policy by designating the Connecticut Employment and Training Council (CETC) as his State Workforce Investment Board in February 1999, pursuant to the provisions of Section 111(e) of the Workforce Investment Act. In June 1999, the General Assembly passed Public Act 99-195, which authorized CETC to implement the Workforce Investment Act.

OWC provides staff support to the Connecticut Employment and Training Commission and the Governor's JOBS Cabinet. The Director of the OWC serves as the Governor's principal Workforce Development policy advisor and is responsible for coordination of workforce development activities of all State agencies. The CETC is discussed later in this report.

In accordance with Executive Order Number 14, dated April 14, 1999, Mary Ann Hanley was appointed by the Governor as Director of the Office of Workforce Competitiveness and currently performs her duties as Director under a personal service contract. Executive Order Number 14A, dated July 2, 1999, amended Executive Order Number 14 by removing the specific reference to Ms. Hanley.

Connecticut Employment and Training Commission:

As noted above, the Connecticut Employment and Training Commission (CETC) was previously part of the Department of Labor. The CETC oversees the development of the Statewide workforce investment policy. In accordance with Public Act 99-195, Section 31-3h of the General Statutes was modified to place the CETC within the Office of Workforce Competitiveness.

The CETC's duties include:

- carrying out the duties of a State job training coordinating council pursuant to the Job Training Partnership Act,
- reviewing all employment and training programs in the State to determine their success,
- developing a plan for coordination of all employment and training programs to avoid duplication and promote the delivery of comprehensive employment and training services,
- overseeing the regional workforce development boards,
- implementing the Federal Workforce Investment Act of 1998,
- developing incumbent worker, and vocational and manpower training programs,
- developing a strategy for providing comprehensive services to eligible youth, including apprentice programs,

In accordance with Section 31-3i, subsection (b), of the General Statutes, the CETC is to consist of twenty-four members, a majority of whom shall represent business and industry and the remainder of whom shall represent State and local governments, organized labor, education and community based organizations, including a representative of a community action agency, as defined

in Section 17b-885. The Governor shall fill any vacancy on the commission from recommendations submitted by the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Majority Leader of the Senate, the Majority Leader of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives. Members appointed to the Commission prior the June 23, 1999, shall continue to serve on the Commission as if they were appointed to the Commission on June 23, 1999.

As of June 30, 2001, the members of the Commission were:

Wallace Barnes, Chair	Lewis A. Miller
James Abromaitis	William Moore
Robert E. Burgess	John W. Olsen
Shaun B. Cashman	Raymond R. Oneglia Jr.
Sonya Googins	Clarence W. Oppel
Adele Gordon	James M. Parent
Lauren W. Kaufman	Mardelle W. Pena
Sam D. Koutas	JoAnn Peters
Valerie F. Lewis	Louis D. Saloom
Jane Z. Mahler	Theodore S. Sergi
Kathleen McManus	Alan J. Tyma
Julio Mendoza	Patricia Wilson-Coker

RÉSUMÉ OF OPERATIONS:

General Fund receipts totaled \$23,000 during the fiscal year ended June 30, 2001, and consisted entirely of grant transfers.

General Fund expenditures during the fiscal year ended June 30, 2001, are summarized below:

Personal Services	\$ 388,005
Contractual Services	564,762
Commodities	15,254
Grants and Transfers	<u>3,785,406</u>
Total General Fund Expenditures	<u>\$ 4,753,427</u>

The majority of the grants and transfers were grants to State agencies, accounting for approximately 80 percent of OWC's total expenditures. The transfers were made to the Department of Labor (DOL) as reimbursement for the use of staff and the support of various programs. The largest transfer resulted from a memorandum of understanding dated September 2000 between the Department of Administrative Services (on behalf of OWC) and DOL. The amount of \$1,050,000 was transferred to DOL for two program initiatives, the Workforce Development Training Program (\$500,000) and the At-Risk and Out-of-School Youth Program (\$550,000).

The contractual service expenditures related primarily to outside professional and consulting services.

CONDITION OF RECORDS

Our examination of the records of the Office of Workforce Competitiveness disclosed certain areas requiring attention, which are detailed in this section of the report.

CETC Membership:

Criteria: Section 31-3h of the General Statutes provides for the establishment of the Connecticut Employment and Training Commission as part of the Office of Workforce Competitiveness.

Section 31-3i of the General Statutes, as amended by Public Act 97-263, provides that the Commission shall consist of twenty-four members, a majority of whom shall represent business and industry and the remainder of whom shall represent State and local governments, organized labor, education and community based organizations, including a representative of a community action agency. The members shall be appointed by the Governor from recommendations of the legislative leaders of the House and Senate.

Condition: According to appointment letters issued by the Governor's Office, only eight of the Commission members (33 percent) appeared to represent the business and industry contingent. Appointment letters were not available for three members. In some cases, the employment of Commission members had changed, placing them in a sector other than that from which they were originally appointed.

Effect: While the actual effect of this condition is not known, inconsistencies between the appointment letters and the actual roles of Commission members places into question whether the members are truly representing the intended groups.

Cause: Some of the current members were appointed to the Commission prior to Public Act 97-263, at which time the criteria for membership was different. There was no indication that appointment letters were reissued to conform to the revised makeup of the Commission.

Recommendation: The Office of Workforce Competitiveness, in consultation with the Governor's Office, should review the membership of the Connecticut Employment and Training Commission to ensure compliance with Section 31-3i of the General Statutes. (See Recommendation 1.)

Agency Response: "The composition of the CETC is regularly monitored by both the OWC and the CETC itself to insure compliance with both state and federal law. As noted, the combined effects, over time, of changes in criteria for membership through state law (97-263) and federal legislation (WIA-1998), coupled with employment changes by

individual members, have served to create inconsistencies between original appointment letters and the current membership's representation. Since, currently 58 percent of the CETC membership is representative of the business and industry sector, OWC will work with the Governor's office to develop a process for insuring that appointment letters are reissued to match changes in membership criteria."

Lack of Proper Commitment of Funds:

Criteria: Section 4-98 of the General Statutes indicates that except for emergency purchases, no budgeted agency shall incur any obligation without an authorized commitment.

Section 4-124w of the General Statutes provides that the Office of Workforce Competitiveness shall be within the Office of Policy and Management for administrative purposes only.

Condition: Our review of the expenditures of the Office of Workforce Competitiveness for the fiscal year ended June 30, 2001, noted certain instances in which contractors appeared to perform work without the apparent execution of an authorized commitment.

In three of the five contracts with this condition, it appears clear that approximately \$100,480 in work was performed by contractors without having a valid commitment (i.e. fully executed personal service agreement) in place.

In the other two instances, we either could not locate the contractor's invoice or the dates of performance were not specifically identified on the invoice. We noted in one case that 485 hours of consulting services were provided to the CETC for the period of September 16, 2000 to December 31, 2000 for a total cost of \$46,075. The associated personal service agreement indicated the proper approval by OPM did not occur until December 6, 2000. The other case involved assisting in preparing the State for meeting its performance obligations under the Workforce Investment Act of 1998. The services in question were provided prior to October 20, 2000 (the date of the contractor's invoice) and totaled \$34,320. The personal service agreement contract period start date was July 1, 2000. The agreement was not approved by OPM until October 10, 2000. It is unknown, in these two cases, how much work was actually performed prior to the executed commitment due to the lack of detail.

Effect: The Office was not in compliance with the provisions of Section 4-98 of the General Statutes. Incurring an obligation without a valid commitment circumvents budgetary controls and increases the risk that expenditures may exceed appropriations.

- Cause:* Contracts were not approved in a timely fashion. The delays in executing the contracts were caused by the need to resolve questions regarding the signatory authority of various officials, while at the same time OWC needed to begin efforts toward its initiatives.
- Recommendation:* The Office of Workforce Competitiveness and the Office of Policy and Management should institute procedures to promote compliance with Section 4-98 of the General Statutes. (See Recommendation 2.)
- Agency Response:* “As noted, delays in executing contracts were due to the fact that OWC was just established statutorily (July 1, 2000) and administrative procedures were being worked out between OPM and DAS, particularly in the area of signatory authority. It wasn’t until August 25, 2000 that the Attorney General’s office issued a decision that DAS was the appropriate signator. Now that those procedures have been established, we will work with OPM to insure contracts will be executed in a timely basis.”

Evidence of Insurance Coverage for Contractors:

- Criteria:* In accordance with standard contract language used by OPM and OWC, contractors are required to have adequate insurance coverage in place to protect the State in the event of a claim against the contractors for workers’ compensation, motor vehicle, and employer liability. Contractors are generally required to deliver evidence of coverage to the State at the time the contract is entered into.
- Condition:* Staff at the Office of Policy and Management were unable to produce evidence of insurance coverage for any of OWC’s contractors.
- Effect:* The lack of evidence of insurance coverage presents an increased risk to the State in the event of an accident or injury.
- Cause:* A lack of administrative control contributed to this condition.
- Recommendation:* The Office of Workforce Competitiveness and the Office of Policy and Management should institute steps to provide evidence of current insurance coverage for contractors. (See Recommendation 3.)
- Agency Response:* “OWC agrees with this recommendation and will seek guidance from OPM on establishing procedures for carrying it out.”

Contracting with Connecticut Economic Resource Center (CERC):

<i>Criteria:</i>	<p>In our <i>2001 Annual Report to the General Assembly</i>, we (the Auditors of Public Accounts) were critical of the use of non-competitive procurements of services from the Connecticut Economic Resource Center (CERC). Section 32-4a of the General Statutes specifies that State agencies may provide financial assistance to CERC within available appropriations. We recommended eliminating the law, thus requiring CERC to compete for services it provides and possibly resulting in more economical costs of services.</p> <p>Standard contractual language used by OWC requires the pre-approval of all subcontractors.</p>
<i>Condition:</i>	<p>The Office of Workforce Competitiveness entered into a grant agreement with CERC valued at approximately \$3,400,000. Documents provided by CERC indicated that most or all of the services to be provided to OWC were to be subcontracted, yet subcontractors were not identified. Administrative costs included in the budget approximated \$258,000.</p>
<i>Effect:</i>	<p>The sizable administrative cost raises the question of whether OWC could have obtained a more economical arrangement if the services were issued directly to subcontractors. The failure to identify the subcontractors increases the risk that CERC could be contracting with an entity that the State would preferably not use.</p>
<i>Cause:</i>	<p>It appears that OWC entered into the grant agreement with CERC because the Agency was in a stage of transition at that time, and OWC received approval from the Office of Policy and Management. A lack of administrative control contributed to the failure to identify subcontractors.</p>
<i>Recommendation:</i>	<p>The Office of Workforce Competitiveness should avoid contracting only with CERC and procure outside consultants using a competitive process. When subcontractors are used, contractual provisions requiring pre-approval should be enforced. (See Recommendation 4.)</p>
<i>Agency Response:</i>	<p>“OWC does not exclusively contract with CERC and has used a competitive process for securing consultation support. CERC actually received a grant from OPM, not a personal service agreement, to carry out a number of very specific activities both in-house and through subcontractors. In some cases, CERC used competitive processes for selecting subcontractors. In addition, in all cases when subcontractors were used, contractual provisions requiring notification of the contractor identity to OWC were consistently followed. All applicable state procedures were followed and all necessary approvals were received, including from OPM and DAS.</p>

OWC disagrees with the interpretation that a “sizable administrative cost” was incurred. The average administrative cost incurred within the audit period was 9.43%. This percentage is far below the accepted level for administrative overhead for state grants. Since OWC does not have a business office staffed by a Chief Fiscal Officer, grant manager and accountants, administrative costs to the state are actually reduced through CERC’s efforts.”

*Auditors’ Concluding
Comment:*

While it is true that OWC itself does not have business office staff, OWC has an “administrative purposes only” relationship with the Office of Policy and Management (OPM). OPM seems to have staff with the required expertise to perform the necessary administrative functions.

Employment Status of the OWC Director:

Criteria:

Executive Orders Number 14 and 14A, issued by the Governor on April 14, 1999, and July 2, 1999, respectively, created the Office of Workforce Competitiveness and provided for the position of Director.

The State’s budget process includes authorized position counts to control the personal service costs. Agency heads are normally included in authorized position counts.

Sound internal control practices dictate that the individuals approving an invoice for payment would be in a position to certify that the services have been rendered in accordance with contractual terms.

Condition:

The Director of the Office of Workforce Competitiveness was engaged via the use of a personal service agreement, rather than by the standard employee-employer relationship.

Invoices submitted to OWC by the Director were approved by a staff member of OWC, as well as representatives of the Office of Policy and Management (OPM). OPM officials are not well-positioned to authorize payments because they may not be aware of the true deliverables. OWC staff are subordinate to the Director, placing them in a perceived conflict of interest when asked to approve invoices of the Agency head.

Effect:

OWC did not actually exceed its authorized position count because some of the positions were filled on a durational basis. However, the practice of employing an agency head outside of the normal process

increases the risk of such a condition.

The reliance that can be placed on the approval of the Director's invoices by the OWC staff is reduced under these circumstances.

Cause: A formal job description for the Director's position had not been created at the time the position was filled.

Recommendation: Steps should be taken to establish the position of Director of the Office of Workforce Competitiveness as an official State position. (See Recommendation 5.)

Agency Response: "OWC was statutorily created on July 1, 2000. At that time, the position of Director became codified in statute. We have asked OPM and DAS to take the appropriate steps to establish this as an official state position. At no time did OWC ever exceed its authorized position count of five (5). During the audit period there were initially three (3) vacancies, which were reduced to two (2) in January 2001."

RECOMMENDATIONS

Prior Audit Recommendations:

Prior audit coverage of OWC was accomplished as part of the Department of Labor (DOL) examination. There were no relevant findings in the most recent DOL report.

Current Audit Recommendations:

- 1. The Office of Workforce Competitiveness, in consultation with the Governor's Office, should review the membership of the Connecticut Employment and Training Commission and ensure compliance with Section 31-3i of the General Statutes.**

Comment:

We noted that the composition of the Commission, as reflected in appointment letters, does not necessarily reflect the statutory majority of representation by the business and industry sector. We additionally noted that three Commission members do not have evidence of being appointed by the Governor's Office.

- 2. The Office of Workforce Competitiveness and the Office of Policy and Management should institute procedures to promote compliance with Section 4-98 of the General Statutes.**

Comment:

We noted three contracts in which a total of \$100,480 in work was performed prior to the execution of authorized commitments.

- 3. The Office of Workforce Competitiveness and the Office of Policy and Management should institute steps to provide evidence of current insurance coverage for contractors.**

Comment:

Standard contract language used by OWC requires certain levels of insurance coverage to be in effect in order to protect the State. A process is not in place to document that the coverage is in place.

- 4. The Office of Workforce Competitiveness should avoid contracting only with CERC and procure outside consultants using a competitive process. When subcontractors are used, contractual provisions requiring pre-approval should be enforced.**

Comment:

Grant agreements exceeding \$3,400,000 were entered into with CERC without the

benefit of competitive bidding. Since CERC subcontracts much of their work, it may have been more economical for OWC to deal directly with those entities.

5. Steps should be taken to establish the position of Director of the Office of Workforce Competitiveness as an official State position.

Comment:

Permitting the Director to be employed via a personal service agreement creates potential issues with regard to authorized budgeted positions and the execution of routine documents.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Office of Workforce Competitiveness for the fiscal year ended June 30, 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audit of the Office of Workforce Competitiveness for the fiscal year ended June 30, 2001, is included as a part of our Statewide Single Audit of the State of Connecticut for that fiscal year.

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

Compliance:

Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Office of Workforce Competitiveness is the responsibility of the Office of Workforce Competitiveness' management.

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

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

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

The management of the Office of Workforce Competitiveness is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants applicable to the

Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Office of Workforce Competitiveness' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or failure to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies extended to our representatives by the personnel of the Office of Workforce Competitiveness during the course of our audit.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts