

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF WORKFORCE COMPETITIVENESS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011*

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

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September 16, 2013

AUDITORS' REPORT OFFICE OF WORKFORCE COMPETITIVENESS FOR THE FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011

We have examined the financial records of the Office of Workforce Competitiveness (OWC) for the fiscal years ended June 30, 2009, 2010 and 2011. Financial statement presentation and auditing has been on a Statewide Single Audit basis to include all state agencies. This audit has been limited to assessing the office's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the office's internal control structure policies and procedures established to ensure such compliance. It should be noted that effective July 1, 2011 per Section 77 of Public Act 11-48, the office was merged with the Department of Labor (DOL). As such, this report will be the last separate report that will be issued on OWC, as it will now be included as part of future DOL audits.

COMMENTS

FOREWORD:

The Office of Workforce Competitiveness 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. The office "...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 the office 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.

In accordance with Public Act 05-251, the commissioner of the Department of Administrative Services, in consultation with the secretary of the Office of Policy and Management (OPM), developed a plan for the Department of Administrative Services (DAS) to provide personnel, payroll, affirmative action and business office functions for OWC. This transfer became effective during the fiscal year ended June 30, 2006.

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 enactment of the Workforce Investment Act in a different way. Some states used the legislation as a means to reorganize employment and training activities by combining and reorganizing state agencies; some created new state agencies responsible for oversight and control of employment and training; 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 Commission as the 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 the Connecticut Employment and Training Commission to implement the Workforce Investment Act.

In June 2002, the governor accepted the commission's recommendation to consolidate the state's eight Workforce Investment Areas into five. The consolidation was completed by July 1, 2003.

The office provides staff support to the Connecticut Employment and Training Commission and the Governor's Jobs Cabinet. The director of this office serves as the Governor's principal workforce development policy advisor and is responsible for coordination of workforce development activities of all state agencies.

In accordance with Executive Order Number 14, dated April 14, 1999, the prior director, Ms. Mary Ann Hanley, was appointed by the Governor as director of the office under a personal services agreement. Executive Order Number 14A, dated July 2, 1999, amended Executive Order Number 14 by removing the specific reference to the director by name.

Significant Legislation:

Legislative action effective during the audited period that has impacted OWC is summarized below:

- Public Act 10-32, effective May 10, 2010 is codified as Section 9 subsection (a) of section 4-122hh of the General Statutes. The act requires OWC, within available appropriations, to establish a grant program to provide a flexible source of funding for the creation and generation of talent in institutions of higher education and vocational-technical schools for student outreach and development.

Connecticut Employment and Training Commission:

The Connecticut Employment and Training Commission (CETC) was previously part of the Department of Labor. 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 commission within the Office of Workforce Competitiveness.

CETC 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, 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, 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 CETC 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.

At June 30, 2011, the members of CETC were:

Wallace Barnes, Chair	Deborah Monahan
Christopher P. Bruhl	John W. Olsen
Thomas F. Burns	Raymond R. Oneglia
Joseph M. Ercolano	Clarence W. Oppel, III
Kenneth J. Flanagan	James M. Parent
Noel Grant	John R. Rathgeber
Valerie F. Lewis	Stuart E. Rosenberg
Patricia H. Mayfield	JoAnn M. Ryan
Joan McDonald	Louis D. Saloom
Lawrence McHugh	Michael P. Starkowski
Mark McQuillan	Wyrot Marie Ward
Michael Meotti	Lyle Wray

RÉSUMÉ OF OPERATIONS:

Total expenditures during the fiscal years ended June 30, 2009, 2010 and 2011, as compared to the prior year are summarized below:

<i>Fiscal Years Ended June 30, 2008 - 2011</i>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Payroll	\$ 446,341	\$ 421,513	\$ 346,798	\$ 447,196
Contractual Services	956,598	463,860	247,694	246,575
Purchased Commodities	-	4,703	4,232	4,241
Fixed Charges	5,058,835	7,897,403	3,662,871	7,321,611
Capital Outlays	-	-	-	-
Total Expenditures	\$ 6,461,774	\$ 8,787,479	\$ 4,261,595	\$ 8,019,623

The expenditure accounts categorized under Fixed Charges which has a subcategory named grants and grant transfers, accounted for approximately 90, 86 and 91 percent of OWC's total expenditures, respectively, during the fiscal years ended June 30, 2009, 2010 and 2011, as compared to 78 percent in the 2008 fiscal previous year.

The majority of the grant payments made were to various workforce development training programs, including the workforce program initiatives, a mandate to assist Connecticut's workers and businesses to better compete in the new economy. The funding provided for these initiatives totaled approximately \$2,488,309, \$748,667 and \$737,817, respectively, in the 2009, 2010 and 2011 fiscal years, as compared to \$1,400,946 in the 2008 fiscal year.

Grants and transfers to state agencies for the fiscal years ended June 30, 2009, 2010, and 2011, were \$841,606, \$0, and \$46,909, respectively.

Total revenue for the fiscal years ended June 30, 2009, 2010 and 2011, are presented below:

	<i>Fiscal Years Ended June 30, 2009 - 2011</i>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Refunds of Prior Expenditures	\$ 437	\$ 9,251	\$ 2,500
Federal Aid, Restricted	-	-	926,871
Grants Transfer Federal Grant Restricted	500,000	875,000	1,021,046
Grant Transfer Non-Federal Restricted	999,625	105,000	200,000
Grant Transfers Other		1,780,688	2,337,576
Total Revenues	\$ 1,500,062	\$ 2,769,939	\$ 4,487,992

During the audited period, OWC received federal grants through the American Recovery and Reinvestment Act (ARRA). The majority of the revenues received by the office were through grant transfers and memorandums of understanding from the Department of Mental Health and Addiction Services, Department of Labor and the Department of Social Services.

During fiscal year 2011, DAS drawdown on behalf of OWC came directly from the US Department of Labor through an ARRA grant named ARRA CT Green Job Partnership. The ARRA CT Green Job Partnership grant accounted for all of the federal aid restricted revenue that the office received.

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.

Purchase Orders:

Criteria: Section 4-98 subsection (a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order transmitted to the State Comptroller to commit the agency's appropriations to ensure that funds are available for the payment of such obligations.

In addition, good internal controls for purchasing require that commitment documents be properly authorized prior to obligating for goods and services.

The Department of Administrative Services is responsible for the processing and issuing of purchase orders.

Condition: In our review of 28 purchase orders for committing funds for payments of goods and services during fiscal years 2009, 2010 and 2011, we noted that four purchase orders (14 percent) were issued after the vendor invoices had been received by the DAS financial unit.

Effect: Expenditures were incurred for goods and services prior to funds being committed in violation of Section 4-98 subsection (a) of the General Statutes.

Cause: It appears that inadequate communications between the DAS financial unit and office staff for the purchasing of goods and services contributed to the deficiency. At times, the DAS financial unit was not informed of the purchase of goods received or services rendered until after the vendor invoice was received by office staff.

Recommendation: The Office of Workforce Competitiveness should, in conjunction with the Department of Administrative Services, improve purchasing procedures to ensure compliance with Section 4-98 subsection (a) of the General Statutes. (See Recommendation 1.)

Agency Response: "DAS agrees with this recommendation in part. When DAS supported OWC, it attempted to make sure that OWC staff understood the importance of communicating with the DAS business office. DAS will continue to work with its client agencies to help their employees understand State of Connecticut purchasing policies and procedures. Because DAS no longer

supports OWC, however, it is not in position to help OWC improve its compliance. Per OWC “There is no basis on which to dispute the auditor's findings; however, the current OWC complies in full with the recommendation.”

Non-Discrimination Clauses:

Criteria: Sections 4a-60 and 4a-60a of the General Statutes provides that every contract to which the state or any political subdivision of the state other than a municipality is a party shall contain provisions that the contractor agree and warrant that in the performance of the contract such contractor will not discriminate or permit discrimination on a number of bases.

Condition: Our review of OWC grant awards and contracts noted 18 out of 30 transactions tested (60 percent) did not contain a signed non-discrimination certification by the grantee/awardee prior to final execution of the grant or contact.

Effect: Assurance that vendors are in compliance with non-discrimination laws is reduced.

Cause: A lack of administrative control contributed to this condition.

Recommendation: The Office of Workforce Competitiveness should verify that the provisions agreed upon by its vendors or contractors have been properly executed and are in compliance with Sections 4a-60 and 4a-60 subsection (a). (See Recommendation 2.)

Agency Response: “There is no basis on which to dispute the auditor's findings; however, the current OWC complies in full with the recommendation.”

Evidence of Insurance Coverage for Contractors:

Criteria: In accordance with standard contract language used by OWC, contractors are required to have adequate insurance coverage in place to protect the state in the event of a claim against the contractor 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 executed.

Condition: OWC was unable to produce evidence of insurance coverage for any of its contractors. Adequate procedures to obtain evidence of insurance have not been established.

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 should institute steps to obtain evidence of current insurance coverage for all of its contractors. (See Recommendation 3.)
- Agency Response:* “There is no basis on which to dispute the auditor's findings; however, the current OWC staff will examine this issue and make sure that we are in compliance with this requirement.”

Reports Not Filed Timely:

Criteria: Section 31-3bb of the General Statutes requires the Connecticut Employment and Training Commission to submit the Report Card for Employment and Training on or before October 1, 1998, and annually thereafter. The report requires at a minimum, the identification of program costs, number of persons satisfactorily completing the program, and employment placement rates.

Section 31-3h subsection (b) (3) of the General Statutes requires CETC to 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 and shall be submitted on June 1, 2000, and annually thereafter, to the Governor for approval.

Section 31-3h, subsection (c) of the General Statutes requires on January 31, 2000, and annually thereafter, CETC shall submit to the Governor and the joint standing committees of the General Assembly having cognizance of matters relating to appropriations, education, labor and social services a report on the progress made by the commission in carrying out its duties and responsibilities during the preceding year and the commission’s goals and objectives for the current year.

Condition: The Report Card for Employment and Training Programs for the fiscal year ended June 30, 2011, was not submitted by CETC to the Governor and the joint standing committees of the General Assembly. We found that CETC did submit its report card during fiscal years 2009 and 2010.

CETC is required to submit an annual report and plan to the Governor. Our testing revealed that CETC did not submit its annual plan on or before June 1st during fiscal years 2009, 2010 and 2011. We also noted that CETC did not submit its annual report to the Governor and the joint

standing committees of the General Assembly on or before January 31st during fiscal years 2009 and 2011. CETC did submit its fiscal year 2010 annual report on time.

Effect: The timely submission of the required reports allows a determination to be made as to whether or not the programs are meeting their intended goals.

Cause: The current report due dates specified in the statutes conflict with the due date of the material required to compile the report, or the timing of the legislative session.

Recommendation: The Office of Workforce Competitiveness should pursue technical legislative changes to Sections 31-3bb, 31-3h subsection (b) (3) and 31-3h, subsection (c). This would resolve the conflicts between the statutory requirements and the programmatic reporting requirements or submission dates. (See Recommendation 4.)

Agency Response: “We agree that this suggestion would help resolve conflicts. The current OWC will pursue this recommendation in the next Legislative session.”

Property Control:

Criteria: Section 4-36 of the General Statutes requires the office to establish and keep an inventory account in the form prescribed by the Comptroller, and annually on or before October 1st, to transmit to the Comptroller a detailed inventory, as of June 30th. The form should reflect the real and personal property having a value of one thousand dollars or more. Subsidiary records must be maintained to support the amounts reported. Amounts added to, and deleted from, such records should agree with purchasing and disposal records.

Condition: The Asset Management/Inventory Report/GAAP Reporting Form CO-59, for the fiscal year ended June 30, 2009, 2010 and 2011, was prepared by the Department of Administrative Services on behalf of the Office of Workforce Competitiveness. The inventory reports were understated by \$4,232 for fiscal year 2010 and \$4,241 for fiscal year 2011. DAS did not report the additions to the stores and supplies inventory on behalf of OWC during fiscal years 2010 and 2011. Our audit also noted that when OWC was merged into the Department of Labor, no documentation was exchanged between DAS and DOL for the transfer of equipment.

Effect: The lack of control over inventory results in a decreased ability to properly safeguard state assets and decrease the accuracy of financial reporting.

Cause: It appears that controls over inventory were not being carried out as designed.

Recommendation: The Department of Administrative Services should improve its controls and inventory procedures for annual reporting of assets. (See Recommendation 5.)

Agency Response: “DAS disagrees with this finding. DAS acknowledges that it did not report stores and supplies on the CO-59 inventory reports but asserts that it made this decision based upon the direction of the Office of State Comptroller Policy Division, which advised that the supplies were not required to be inventoried because they were not capitalized. DAS also disagrees with the implication that the DAS business office should have exchanged paperwork with DOL when OWC was merged into DOL. When OWC was merged with DOL, Core-CT not the DAS Business Office handled the mass asset transfer for DAS. The assets were no longer available to DAS but were transferred from the OWC inventory to the DOL inventory.”

Auditor’s Concluding Comment: The State Property Control Manual states personal property having a value of one thousand dollars or more, which includes office and scientific equipment, should be reported on the CO-59 form. Upon our inquiry, the Office of the State Comptroller’s Policy Division indicated to us that it did not “have waivers on file exempting DAS or any of their consolidated agencies from reporting their stores and supplies.”

OWC Former Director:

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

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

Subdivision (3), of Section 4-212 of the General Statutes states, “personal service agreement means a written agreement defining the services or end product to be delivered by a personal service contractor to a state agency, excluding any agreement with a personal service contractor that the state accounting manual does not require to be submitted to the Comptroller.”

Condition: The director of OWC was employed using a personal service agreement (PSA), rather than through the standard state hiring system. We found that the director’s PSA was paid in full well before the end date of the agreement. The final payment on the agreement was made on February 3rd, 2011, six and

half months prior to the agreement end date. The term of the agreement was from August 16th, 2010 to August 15th, 2011, with a cost not to exceed \$159,650 for services performed. It appears inconclusive as to whether the director fulfilled the responsibilities of the agreement.

Section 5 of the PSA states “the contractor shall be compensated monthly for services rendered, upon acceptance of work and approval of properly executed invoices. Invoices shall, at a minimum, include the contractor name, the contract number, the contractor’s federal identification number, the billing period, and a brief synopsis of the work performed.” It was noted that the invoices submitted to OWC by the director were reviewed and approved by an OWC staff member, as well as representatives of DAS. OWC staff was subordinate to the director, placing them in a perceived conflict of interest when asked to approve invoices of the agency head.

As part of our review we noted that the director, in her capacity as the contracted head of OWC, reviewed and approved OWC employee timesheets. Even though the director was paid in full by Department of Administrative Services (DAS) in February 2011 for “meeting the requirements of the PSA”, the documentation obtained showed the director approving timesheets for her subordinates from February 10th, 2011 through June 30th, 2011.

Effect: There is a potential conflict of interest in having a state contractor serving as a director of an agency and approving the timesheets of staff assigned, while submitting invoices for their own compensation to same staff for approval.

Safeguards to ensure the receipt of contractual deliverables were weakened by paying the contractor in full six months prior to the agreement end date.

Cause: A formal job description for the director’s position had not been created at the time the position was filled. OWC had requested that DAS formally establish the position and salary range for the director position. While DAS confirmed receipt of the request in a September 2004 letter to the director of OWC, the position has not yet been established by DAS.

Recommendation: The personal services agreement (PSA) created for the director was no longer valid with the Office of Workforce Competitiveness (OWC). OWC was merged into the Department of Labor which took effective July 1, 2011 under Section 77 of Public Act 11-48. Thus there is no longer a potential conflict of interest at OWC. (See Recommendation 5.)

However, the Department of Administrative Services should take the necessary steps to comply with Section 4-212 subdivision (3) of the General

Statutes and verify that the contractor has met their agreed upon requirements of the PSA before paying the contractor in full. (See Recommendation 6.)

Agency Response: “Department of Administrative Services agrees with this recommendation and will comply with all rules regarding personal service agreements. With respect to the auditors’ comments regarding the creation of a formal job description for the OWC director’s position, DAS in fact made several attempts to establish a classified state position for the OWC Executive Director, but such position was never approved by former administrations”.

“There is no basis on which to dispute the auditor’s findings, the Office of Workforce Competitiveness currently utilizes a DAS state employee position and salary range. Thus, the potential for a conflict of interest no longer exists”.

Reemployment of Retired Employee:

Criteria: The Office of Policy Management’s (OPM) General Notice No. 2003-15 reemployment of retired employees states that “reemployed retirees should not be place on personal service contracts. Such contracts will not be approved by OPM.”

Department of Administrative Services (DAS) Managers Guide states “current state employees may enter into personal service agreements with the state agencies only in very limited circumstances and only after receiving prior written approval from DAS. Retired state employees are prohibited from entering into personal service agreements with state agencies.”

Condition: We found that DAS and the Office of Workforce Competitiveness (OWC) had a memorandum of agreement (MOA) in effect from March 11th, 2011 through June 30th, 2011 in which OWC transferred funds to DAS for compensation of a state employee. The employee retired from state service effective July 1st, 2011. The retirement was not made official until August 1st, 2011 by the Office of the State Comptroller because DAS submitted the documentation after July 1st, 2011. The first monthly pension installment received by the employee was effective August 2011. However, we found that the employee entered into a personal service agreement (PSA) with Connecticut Innovations (CI) from August 1st, 2011 through June 30th, 2012. The PSA agreement was for \$20,000 dollars.

Effect: CI did not adhere to OPM’s General Notice No. 2003-15 and the DAS managers’ guide on the reemployment of retired state employees.

Cause: CI was not in compliance with procedures and policies on the reemployment of retired state employees.

Recommendation: The Connecticut Innovations should take the necessary steps to comply with General Notice No. 2003-15 and not reemploy retirees on a personal service contracts. (See Recommendation 7.)

Agency Response: Connecticut Innovations (CI) agrees with the finding. CI will review our standard Professional Service Agreement (PSA) and make the necessary changes to comply with General Notice No.2003-15.

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2007 and 2008 contained a total of seven recommendations. There has been satisfactory resolution of three of these recommendations. Four recommendations have been repeated or restated to reflect current conditions.

Status of Prior Audit Recommendations:

- **The Office of Workforce Competitiveness should adhere to the internal control procedures which are designed to ensure the accuracy of payments.** This recommendation has been resolved by the office.
- **The Office of Workforce Competitiveness should institute steps to obtain evidence of current insurance coverage for contractors.** This recommendation is being repeated in a modified form. (See Recommendation #3.)
- **The Office of Workforce Competitiveness should continue to pursue technical legislative changes, which would resolve the conflicts between statutory and programmatic reporting requirements or submission dates.** This recommendation is being repeated. (See Recommendation #4.)
- **An annual physical inventory should be performed and the result of the inventory compared to the accounting records and other supporting documents of the Office of Workforce Competitiveness. An accurate Assets Management/Inventory Report/GAAP Reporting Form CO-59 should be prepared.** This recommendation is being repeated. (See Recommendation #5.)
- **The Office of Workforce Competitiveness and the Department of Administrative Services should implement the internal controls necessary to ensure that the computer software inventory of the Office of Workforce Competitiveness is maintained in accordance with the software inventory policy and procedures as set forth in the State Property Control Manual.** This recommendation has been resolved by the office.
- **The Office of Workforce Competitiveness should follow through with the Department of Administrative Services to establish the position of Director of the Office of Workforce Competitiveness as an official state position.** We will continue this recommendation in a modified form. (See Recommendation #6.)
- **The GAAP Form 5-Contractual Obligations and Retainages should be prepared according to the instructions issued by the Office of the State Comptroller.** This recommendation has been resolved by the office.

Current Audit Recommendations:

- 1. The Office of Workforce Competitiveness should, in conjunction with the Department of Administrative Services, improve purchasing procedures to ensure compliance with Section 4-98 of the General Statutes.**

Comment:

Expenditures were incurred for goods and services prior to funds being committed in violation of Section 4-98 subsection (a) of the General Statutes.

- 2. The Office of Workforce Competitiveness should verify that the provisions agreed upon by its vendors or contractors have been properly executed.**

Comment:

Assurance that vendors are in compliance with non-discrimination laws is reduced.

- 3. The Office of Workforce Competitiveness should institute steps to obtain evidence of current insurance coverage for contractors.**

Comment:

The lack of evidence of insurance coverage presents an increased risk to the state in the event of an accident or injury.

- 4. The Office of Workforce Competitiveness should pursue technical legislative changes, which would resolve the conflicts between the statutory and programmatic reporting requirements or submission dates.**

Comment:

The timely submission of the required reports allows a determination to be made as to whether or not the programs are meeting their intended goals.

- 5. The Department of Administrative Services should improve its controls and inventory procedures for annual reporting of assets.**

Comment:

The control over inventory results in a decreased ability to properly safeguard state assets and decrease the accuracy of financial reporting.

- 6. The Department of Administrative Services should take the necessary steps to comply with Section 4-212 subdivision (3) of the General Statutes and verify that the contractor has met their agreed upon requirements of the PSA before paying the contractor in full.**

Comment:

Safeguards to ensure the receipt of contractual deliverables were weakened by paying the contractor in full six months prior to the agreement end date.

- 7. The Connecticut Innovations should take the necessary steps to comply with General Notice No. 2003-15 and not reemploy retirees on a personal service contracts.**

Comment:

CI was not in compliance with procedures and policies on the reemployment of retired state employees.

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 years ended June 30, 2009, 2010 and 2011. This audit was primarily limited to performing tests of the Office of Workforce Competitiveness' compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the office are complied with, (2) the financial transactions of the office are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the office are safeguarded against loss or unauthorized use. The financial statement audits of the Office of Workforce Competitiveness for the fiscal years ended June 30, 2009, 2010 and 2011, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

In accordance with statute certain executive branch agencies can be subject to some or all business office and other administrative functions being assumed by the Department of Administrative Services. When this occurs, memoranda of agreement are to be executed detailing whether the Department of Administrative Services or the audited agency retains ultimate responsibility for compliance with laws, regulations, contracts and grant agreements. In the absence of such agreements, the audited agency would remain responsible for all compliance issues that may arise. When referring to the controls of the audited agency, we are also referring, where appropriate, to the relevant controls that the Department of Administrative Services has in place to ensure compliance.

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

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

Management of the audited agency and the Department of Administrative Services is responsible for establishing and maintaining internal control over the Office of Workforce Competitiveness' financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the office's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the office's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control over those

control objectives. Accordingly, we do not express an opinion on the effectiveness of the office's internal controls over those control objectives.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdown in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Office's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Office of Workforce Competitiveness' financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation 1 - purchase orders, Recommendation 4 - reports not filed timely, Recommendation 5 - property control and Recommendation 6 - OWC former director. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Office of Workforce Competitiveness complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the office's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Condition of Records and Recommendations section if this report. The finding is as follows:

The Office of Workforce Competitiveness should pursue technical legislative changes, which would resolve the conflicts between the statutory and programmatic reporting requirements or submission dates.

This report is intended for the information and use of the Office of Workforce Competitiveness management, the Department of Administrative Services, 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.



Nikolaos Perdikakis
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts