

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
DEPARTMENT OF LABOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 1997 AND 1998**

**AUDITORS OF PUBLIC ACCOUNTS**  
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March 9, 2000

**AUDITORS' REPORT  
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FOR THE FISCAL YEARS ENDED JUNE 30, 1997 AND 1998**

We have examined the financial records of the Department of Labor for the fiscal years ended June 30, 1997 and 1998. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This examination has therefore been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants and evaluating the Department's internal control structure policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Recommendations and Certification that follow.

**COMMENTS**

**FOREWORD:**

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

The major function of the Department is to serve the unemployed, primarily by finding suitable employment for those unemployed and by providing to the unemployed, monetary benefits which are dependent upon the claimant's employment and wage history. Included among the other functions of the Department are administration of certain State and Federal training and skill development programs, regulation and enforcement of working conditions, enforcement of minimum and other wage standards, enforcement of labor relations acts, mediation and arbitration service and maintenance of labor statistics. Field operations of the Department were carried out from 18 Job Centers throughout the State. The Department was responsible for the following programs:

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

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- Job Training Partnership Act – Provides job training to those economically disadvantaged individuals and other individuals who face serious barriers to employment and who are in special need of such training to obtain productive employment.
- Employment Service – Provides job placement and other employment services to unemployed individuals and provides employers with a source of qualified applicants.
- Community Employment Incentive Program – Provides employment placement projects for recipients of general assistance.
- Vocational and Manpower Training – Assists this State in attaining maximum economic growth and technological progress while minimizing individual hardship and reducing unemployment.

The Department of Labor is administered by a Commissioner who is appointed by the Governor under Sections 4-5 to 4-8 of the General Statutes. For the period audited James P. Butler served as Commissioner.

The Department of Labor administers the following Councils, Boards and Commissions.

### Connecticut State Apprenticeship Council:

The Council advises and guides the Commissioner in formulating work training standards and developing apprenticeship-training programs.

### Connecticut Board of Mediation and Arbitration:

The Board provides mediation and arbitration to employers and employee organizations.

### Connecticut State Board of Labor Relations:

The Board investigates complaints of employers' unfair labor practices affecting the right of employees to organize and bargain collectively.

### Employment Security Board of Review:

The Employment Security Appeals Division is an independent quasi-judicial agency within the Department that hears and rules on appeals from the granting or denial of unemployment compensation benefits. The Division consists of the Referee Section and the Employment Security Board of Review.

### Connecticut Occupational Safety and Health Review Commission:

The Commission hears and rules on appeals from citations, notifications and assessment of penalties under the Occupational Safety and Health Act (Chapter 571 of the General Statutes).

Connecticut Employment and Training Commission:

The Commission carries out the duties of a State job training coordinating council pursuant to the Federal Job Training Partnership Act. It is responsible for reviewing all employment and training programs in the State to determine their success. The Commission is required also to develop a plan to coordinate employment and training programs and to recommend improvements.

Advisory Council on Displaced Homemakers:

The Council assists with the development of recommendations to operate programs that meet the training and job placement needs of displaced homemakers.

Employment Security Division Advisory Board:

The Board advises the Commissioner on matters concerning policy and operations of the Employment Security Division (see description of Division on page 4). No regulations concerning the Employment Security Division are adopted without consulting the advisory board.

**RÉSUMÉ OF OPERATIONS:**

The operations of the Department, which were accounted for in the General Fund, five special revenue funds, three fiduciary funds, and a wage restitution account are discussed below.

**General Fund:**

**General Fund Receipts:**

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Employer contributions	51,847	(22,491)	16,141
Investment interest	331,020	172,138	(49)
Federal contributions	926,865	1,023,819	1,042,135
Other grants – restricted	853,049	4,277,169	256,512
Recoveries of expenditures	335,492	397,120	341,013
Fees and fines	208,870	186,311	178,355
Refunds of expenditures	503,766	399,074	670,475
Miscellaneous	<u>36,793</u>	<u>12,451</u>	<u>93,393</u>
Total General Fund Receipts	<b><u>\$3,247,702</u></b>	<b><u>\$6,445,591</u></b>	<b><u>\$2,597,975</u></b>

Total receipts increased by \$3,197,889 during the 1996-1997 fiscal year and decreased by \$3,847,616 during the 1997-1998 fiscal year. The increased receipts in the 1996-1997 fiscal year were the result of Section 32 of Public Act 96-268, “An Act Concerning the Human Services Budget Implementation”. The Act states that funds from the appropriation of the Department of

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Social Services are to be transferred to the Department of Labor for stipends issued pursuant to the grant program established in Section 27 of this act. The transfer of \$3,450,000 was made for only the 1996-1997 fiscal year therefore receipts decreased for the 1997-1998 fiscal year.

**General Fund Expenditures:**

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

	<b>Fiscal Year Ended June 30,</b>		
	<b>1996</b>	<b>1997</b>	<b>1998</b>
	\$	\$	\$
Budgeted Accounts:			
Personal services	7,000,445	7,791,039	7,903,805
Contractual services	792,179	782,166	946,415
Commodities	185,135	173,173	155,569
Sundry charges	7,526,086	7,499,972	7,996,818
Capital outlay	<u>65,411</u>	<u>11,781</u>	<u>57,829</u>
Total Budgeted Accounts	<u>15,569,256</u>	<u>16,258,131</u>	<u>17,060,436</u>
Restricted Accounts	<u>1,183,926</u>	<u>3,742,256</u>	<u>1,005,728</u>
Total Expenditures	<b><u>\$16,753,182</u></b>	<b><u>\$20,000,387</u></b>	<b><u>\$18,066,164</u></b>

General Fund expenditures increased by \$3,247,205 in 1996-1997 from the 1995-1996 total of \$16,753,182. This increase was due to expenditures for the stipend program that was funded from the Department of Social Services' appropriation. Since this was a one-year transfer, expenditures decreased by \$1,934,223 in the 1997-1998 fiscal year.

**Special Revenue Funds:**

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

**Employment Security Administration Fund:**

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

**Unemployment Compensation Advance Fund:**

The Unemployment Compensation Advance Fund is established by Section 31-264a, subsection (b), of the General Statutes. Fund receipts include employer special bond

assessments for debt service. Issuance of up to \$1,000,000,000 in State revenue bonds was authorized to repay benefit funds borrowed from the Federal government. This action avoided Federal interest charges and provided advances for benefit payments until revenue from employer taxes is sufficient to support benefit payouts.

**Employment Security Special Administration Fund:**

The Employment Security Special Administration Fund is authorized by Section 31-259, subsection (d), of the General Statutes to receive all penalty and interest on past due employers' contributions. Money in the fund shall be used for the payment of costs of administration, 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 1 of any calendar year, the assets in the Employment Security Special Administration Fund which exceed \$500,000 are to be appropriated to the Unemployment Compensation Fund. In June 1997 and 1998, \$3,800,000 and \$3,300,000, respectively, were transferred to the Employment Security Administration Fund for the purpose of offsetting projected deficits of Federal administrative funds.

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

**Schedule of Receipts**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Employment Security Administration Fund	111,653,826	103,176,880	98,144,094
Unemployment Compensation Advance Fund	107,780,455	136,384,269	134,604,140
Employment Security Special Administration Fund	3,276,703	3,865,875	3,522,402
Inter Agency/Intra Agency Grants		56,971	13,164
Capital Equipment Purchase Fund	0	6,408	0
Total	<b><u>\$222,710,984</u></b>	<b><u>\$243,490,403</u></b>	<b><u>\$236,283,800</u></b>

Total receipts increased by \$20,779,419 in the 1996-1997 fiscal year from the previous fiscal year total of \$222,710,984. This increase was mostly attributable to an increased bond assessment to employers based on the anticipated amount of monies needed for bond repayment for that fiscal year. In 1997-1998, receipts decreased by \$7,206,603, mainly due to a decrease in federal funding.

**Schedule of Expenditures**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Employment Security Administration Fund	112,293,315	99,592,427	101,085,081
Employment Security Special Administration Fund	3,600,000	3,800,000	3,300,000
Workers Compensation Fund			621,877
Inter Agency/Intra Agency Grants	684,093	283,204	283,813
Capital Equipment Purchase Fund	<u>477,943</u>	<u>793,263</u>	<u>1,083,696</u>
Total	<b><u>\$117,055,351</u></b>	<b><u>\$104,468,894</u></b>	<b><u>\$106,374,467</u></b>

Additional expenditures also included payments for debt service and operational costs related to the administration of the Unemployment Compensation Advance Fund.

A summary of expenditures from special revenue funds in the audited period, along with those of the preceding fiscal year, follows:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Personal services	44,560,148	46,008,720	44,244,527
Contractual services	9,226,623	9,432,316	10,975,735
Commodities	2,144,983	1,815,837	1,860,739
Revenue refunds	4,039,303	2,021,720	825,362
Sundry charges	54,428,806	44,308,944	45,522,771
Equipment	2,649,010	880,768	2,945,100
Buildings and improvement	<u>6,478</u>	<u>589</u>	<u>233</u>
Total Expenditures	<b><u>\$117,055,351</u></b>	<b><u>\$104,468,894</u></b>	<b><u>\$106,374,467</u></b>

Total expenditures decreased by \$12,586,458 during the 1996-1997 fiscal year from the previous fiscal year total of \$117,055,351. This decrease is mainly due to a decrease in federal funding for the Job Training Partnership Act (JTPA) program. In the 1997-1998 fiscal year expenditures increased by \$1,905,575.

**Fiduciary Funds:**

The purpose of the Unemployment Compensation Fund is discussed below.

**Unemployment Compensation Fund:**

Section 31-261 of the General Statutes authorized the Unemployment Compensation Fund to be used for the receipt of employers' contributions and for collection of benefits paid for State and municipal government workers and for nonprofit organizations. Section 31-263 of the General Statutes authorizes the Unemployment Compensation Benefit Fund, a depository designated by the Treasurer, to be used for the payment of unemployment benefits.

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

The majority of the receipts consist of employer tax contributions. The majority of the disbursements consist of unemployment compensation benefit payments and repayments of benefit funds borrowed from the Federal government.

Receipts and disbursements for all of the Department's fiduciary funds during the audited period, together with those of the preceding year, are summarized below:

**Schedule of Receipts**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Unemployment Compensation Fund	594,458,238	636,705,349	655,805,374
Fringe Benefit Recovery Fund	300,280	228,863	386,673
Pending Receipts Fund	199	4,432	4,144
Total	<b><u>\$594,758,717</u></b>	<b><u>\$636,938,644</u></b>	<b><u>\$656,196,191</u></b>

**Schedule of Disbursements**

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Unemployment Compensation Fund	483,631,513	411,665,077	362,074,068
Pending Receipts Fund	199	4,432	4,144
Total	<b><u>\$483,631,712</u></b>	<b><u>\$ 411,669,509</u></b>	<b><u>\$362,078,212</u></b>

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Employer tax contributions	545,761,553	581,393,926	590,594,109
Federal contributions	10,023,000	7,798,500	5,672,134
Reimbursement from the State, municipalities and nonprofits	23,025,314	22,746,080	18,174,369
Reimbursement from other states	4,878,594	4,632,949	4,219,212
Federal Trust Fund interest income	10,771,181	20,134,218	37,145,531
Miscellaneous	(1404)	(324)	19
Total	<b><u>\$594,458,238</u></b>	<b><u>\$636,705,349</u></b>	<b><u>\$655,805,374</u></b>

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Total employer tax contributions increased by \$35,632,373 and \$9,200,183 during fiscal years 1996-1997 and 1997-1998, respectively. The increases are attributable to an increase in the taxable wage base.

Federal Trust Fund interest income increased by \$9,363,037 and \$17,011,313 during fiscal years 1996-1997 and 1997-1998, respectively. This resulted from an increase in deposits to the Federal Unemployment Trust Fund because of increased employer tax contributions.

Revenue bonds were authorized by Public Act 93-243 to repay benefit funds borrowed from the Federal government by September 30, 1993, and to provide advances for benefit payments. Bonds outstanding at one time are limited to \$1,000,000,000 plus amounts needed for debt service reserves. Bonds were issued during fiscal year 1993-1994 in the amount of \$1,020,700,000; of this amount \$814,505,000 and \$689,755,999 remained outstanding at June 30, 1997 and 1998, 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>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
	\$	\$	\$
Benefits paid with employer contributions	444,936,781	377,460,251	334,399,091
Benefits paid with Federal contributions	9,832,750	7,731,391	5,573,913
Benefits paid for the State, municipalities and nonprofits	23,716,343	21,970,637	17,381,541
Benefits paid for other states	4,958,615	4,502,798	4,241,523
Miscellaneous	187,024		478,000
Total	<b><u>\$483,631,513</u></b>	<b><u>\$411,665,077</u></b>	<b><u>\$362,074,068</u></b>

Benefits paid with employer contributions decreased by \$67,476,530 and \$43,061,160 during the 1996-1997 and 1997-1998 fiscal years, respectively. Benefit payment decreases were mostly attributable to decreases in unemployment compensation claims.

### **Wage Restitution Account:**

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. Collections and disbursements totaled \$2,416,673 and \$2,320,994, respectively, during the audited period.

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

**PROGRAM EVALUATION:**

Under the provisions of Section 2-90 of the General Statutes, the Auditors of Public Accounts have been authorized to include an examination of performance in order to determine effectiveness in achieving expressed legislative purposes.

Public Act 97-4, Section 2 of the June 18 Special Session, codified as 31-254 of the General Statutes states that employers are to provide the Department with a list of new employees within 20 days. Once the Department receives this information, it is required to enter this information into the State directory within five business days. The Department of Social Services (DSS) is to provide to the Department on a daily basis, a list of child support obligors. (Up until October 1, 1998 this information was to be provided on a biweekly basis.) The DSS is to notify the Department on a biweekly basis of individuals who are receiving public assistance under Aid to Families with Dependent Children, Medicaid, Food Stamp, State Supplement and General Assistance Programs. The Department is responsible for comparing their list of new employees to the lists provided by DSS and to promptly notify DSS of any matches. We found that the Department was not complying with Section 31-254 of the General Statutes.

*Criteria:* Section 31-254 of the General Statutes requires the following:

Subsection (b) requires the Department to administer a State directory of new hires. An employer must report new employees not later than 20 days after the date of employment to the Department. The Department must enter the new hire information into the State directory within five business days.

Subsection (d) requires the Department of Social Services (DSS) to inform the Department daily of IV-D support cases. The Department is required to promptly match the new employees on the State directory to the DSS list.

Subsection (e) requires the DSS to inform the Department biweekly of individuals receiving the following public assistance: Temporary Assistance for Needy Families, Medicaid, Food Stamps, State Supplement and General Assistance. The Department is required to promptly match the new employees on the State directory to the DSS list.

*Condition:* New hires information received from employers on tape are not always entered into the State directory promptly. A review of the new hire tape log maintained by the Research Unit shows a turnaround time of as many as 18 business days.

The DSS does not send the IV-D information to the Department on a daily basis as required.

The Department could not provide us with adequate documents to show how often the public assistance list is received from the DSS.

The Department was also unable to provide us with documentation showing how often the information received from the DSS was matched with the new hires information.

*Effect:* The Department is not complying with the legislative mandate. The potential benefits of performing these matches are lessened.

*Cause:* There seems to be a lack of coordination and cooperation within the Department and between the Department and DSS.

The Department does not maintain adequate records documenting the custody of tapes received from and sent to the DSS.

*Recommendation:* The Department should develop and implement control procedures to ensure compliance with the requirements of Section 31-254 of the General Statutes. (See Recommendation 10.)

*Agency Response:* “We agree with the audit finding. The audit for this program was conducted based upon our old Unisys mainframe programs and procedures, most of which were very labor intensive to maintain and control. The New Hire application was migrated from our Unisys system to our IBM system only a few days prior to the audit process. Parallel processing and verification on both systems had only recently been completed. During the time that the audit was being performed, there was some minor confusion about which programs, systems, and related procedures were being discussed.

The Department has implemented appropriate controls and logs in addressing this issue. The IBM system has many features inherent in the system software and application design that corrects deficiencies found in the Unisys process. IBM system allows for automated processing routines, magnetically stored logs and audit reports, enhanced documentation, online report viewing and archival capability. The automated processing provides us with the ability to verify how often the DSS processing takes place, and whether or not it was successful. Additionally, we are able to electronically transfer data between the agencies, eliminating the use of couriers and tapes.

At this time, the Department of Labor is prepared to receive and process DSS data on a daily basis, using FTP (file transfer protocol) and automated processing, as required in the criteria section. We believe that all of the conditions as listed in the audit finding have since been rectified.”

## CONDITION OF RECORDS

### Information Systems:

Our review of computer system security revealed the following:

*Criteria:* Data processing security should include a comprehensive disaster recovery plan.

*Condition:* In the Department's Information Technology Plan, it is stated that the agency is "lacking both a formal disaster survival plan and access to an alternate computer backup site from which recovery from a natural disaster could be achieved."

*Cause:* We were informed by the agency that there is no money allocated in the budget for the development of a disaster recovery plan. The agency also stated that this project was currently on hold due to the Statewide computerization contract. Negotiations for the contract have since been terminated.

*Effect:* In the event of a disaster, the Department may not be able to recover in a timely manner to perform its mission of protecting and promoting the interests of workers in this State.

*Recommendation:* A comprehensive disaster recovery plan should be developed. (See Recommendation 1.)

*Agency Response:* "We agree in part with the audit finding. To date, no further progress has been made regarding Department of Labor's [DOL] disaster recovery project. As we stated previously, DOL had been waiting on the outcome of the State's privatization of Information Technology and not actively pursuing disaster recovery on its own. Now, with privatization no longer an issue, the Department of Information Technology (DOIT) is proceeding toward a statewide IT [Information Technology] consolidation. It is our assumption that, with this statewide consolidation of IT functions, disaster recovery will be addressed at that time as a statewide issue. However, we are not relying solely on that possibility. The Department has budgeted funds that will provide for an overall departmental disaster recovery study. The disaster recovery study will be initiated during the first quarter of this year and will be confined to the IBM environment."

**Reporting Systems:**

Our review of reports prepared by the Department and submitted to the State Comptroller noted that these reports were not always accurate.

*Background:* The State Comptroller requires submission of the Schedule of Expenditures of Federal Awards (SEFA), the Generally Accepted Accounting Principles (GAAP) package and other reports. Annual inventory reporting is discussed under the caption “Equipment Inventory.”

*Criteria:* Reports should be complete, accurate and in compliance with the State Comptroller’s instructions.

*Condition:* Our review of the SEFA revealed expenditures for two federal programs were overstated by \$801,089 and expenditures for two other federal programs were understated by \$303,297.

There were various errors on the following GAAP reports: Compensated Absences, Report of GAAP Expenditures, and Report of Accrued Salaries and Wages. These errors included overstating the number of employees and vacation leave hours and understating accounts payable. Also, amounts were reported in the incorrect funds.

*Effect:* Balances could be misstated for the Comptroller’s Annual Financial Report.

*Cause:* Reporting errors reflect oversights by the Department. For the SEFA, the Department did not report all Federal expenditures and incorrectly reported grant transfers for two programs. For the GAAP reports, the Department used two different reports for the employee count and for leave time.

*Recommendation:* Financial reports should be prepared accurately and in compliance with the State Comptroller’s requirements (See Recommendation 2.)

*Agency Response:* “We agree with this finding. In the future, care will be taken to exclude Transfer Invoices from the Schedule of Expenditures of Federal Awards.

We have automated most of the data gathering processes, including employees’ accumulated vacation and sick hours as well as employee counts. The exclusion of two programs from the report was an oversight. The Department assumed a program from the Education Department in mid-year and staff preparing the report failed to detect the program and include it on the SEFA report.

Future SEFA reports will be reviewed to ensure accuracy and compliance with the State Comptroller's requirements."

**Recovery of Benefit Overpayments:**

Our review of the Department's procedures for collecting unemployment compensation benefit overpayments revealed no effort has been made to correct this finding from the prior audit.

*Criteria:* Section 31-273, subsection (a), of the General Statutes allows the Department of Labor to recover benefit overpayments by offsetting such amounts against future benefit payments. The deduction shall not exceed 50 percent of the claimant's weekly benefit amount.

*Condition:* Once it has been determined that an overpayment has occurred for reasons other than fraud, the overpayments are recovered from unemployment benefits subsequently payable to the individual in an amount equal to 50 percent of the weekly benefit entitlement. However, the benefit payment system allows the claimant to receive a full benefit payment for the last claim payable in the benefit year even though an overpayment exists.

*Cause:* The computerized benefit payment system automatically deducts the recovery from each benefit payment. However, the system does not deduct the recovery from the last eligible benefit payment paid to the claimant in a benefit year. In December 1997, the Benefit Payment Control Unit submitted a request to the Information Technology Unit to correct this problem. The Information Technology Unit has not yet acted on this request.

*Effect:* The Department is not fully recovering benefit overpayments as allowed in the General Statutes.

*Recommendation:* Unemployment compensation benefit overpayments should be recovered to the full extent authorized by statutory provisions. (See Recommendation 3.)

*Agency Response:* "We agree with this finding. With the Y2K deadline approaching, and the Department's migration to the IBM mainframe, the necessary programming corrections in the benefit overpayment recovery system have been delayed. The Department is committed to fully recovering all benefit overpayments and complying with applicable statutes. We will continue to monitor this request with the Information Technology Unit to ensure that the necessary programming is completed at the earliest possible date."

**Unemployment Compensation Benefit Bank Account:**

Our review of the Unemployment Compensation Fund Benefit bank account revealed the following:

*Background:* The Fund Accounting Unit maintains the Department's records for the Unemployment Insurance Program. A major function of the Unemployment Insurance Program is the issuance of benefit checks from the Unemployment Compensation (UC) Fund Benefit bank account. The Fund Accounting Unit is responsible for preparation of reconciliations for this bank account.

*Criteria:* Bank reconciliations should be completed in a timely manner. Adequate internal controls require the identification and prompt resolution of reconciling items and segregation of duties.

*Condition:* We previously reported that the Department was one year behind in reconciling this account. As of May 1999, the last completed bank reconciliation was November 1998.

In November 1998, there was a variance of \$90,241 between the cash in the general ledger for the UC Benefit bank account and the UC Benefit account bank statement. As the Department was attempting to become current in the reconciliation of the UC bank account to its ledgers, the resolution of reconciling items with the bank was not pursued on a timely basis. When the Department did present the list of reconciling items to the bank over a year later, the bank refused to research the items and adjust the account accordingly. The State Treasurer's Office confirmed that in the agreement with the bank, the bank could refuse to make adjustments on items over one year old. As a result, 381 reconciling items were written off. We were able to determine that the estimated net effect is the State was overcharged by \$20,240, an adjustment was needed to the general ledger for \$43,034, and we cannot readily determine if the State was overcharged or the general ledger needs to be adjusted by \$26,967.

The person reconciling this bank account also has the ability to remove outstanding checks from the ledgers without any supervisory review.

*Cause:* The Department is still not current in its reconciliations because it went to a "full reconciliation" process in August 1998. With this process the bank matches paid checks to issued checks and investigates any discrepancies. The Department was previously using a "partial reconciliation" process with the bank. The bank provided a list of all checks paid and the Department then matched those paid with the checks issued. This process resulted in numerous coding errors to investigate. The Department has stated

that when the “full reconciliation” process began, a backlog occurred in the reconciliation process because there were transmission problems of issued checks information to the bank. Also, the bank was not providing accurate weekly paid check tapes to load into the Department’s bank reconciliation system.

Agency personnel stated that they were not aware that the bank would not research items that were over one year old.

*Effect:* Errors could occur and not be detected on a timely basis and resources could be lost due to delays in completing the bank reconciliations. Internal controls are weakened when there is inadequate segregation of duties.

*Recommendation:* The Department should complete reconciliations of the Unemployment Compensation Fund Benefit bank account in a timely manner. Action should be taken as soon as possible on reconciling items. There should be adequate segregation of duties in the bank reconciliation process. (See Recommendation 4.)

*Agency Response:* “We agree with this finding. The Fund Accounting Control Unit, comprised of eight employees, is responsible for reconciling all of the Tax Division bank accounts, including the Benefit Payment bank account. This account reconciles a volume of 120,000 checks on a monthly basis. The unit was adversely impacted when the supervisor and a key Revenue Examiner II elected to retire on August 1, 1997.

The unit remained understaffed until November 1997. From January 1998 until April 1998, one employee was out due to a serious illness requiring the unit to operate, once again, understaffed. As a result of the staffing changes and the integration of a new supervisor and assistant supervisor, the unit has to be reorganized and the job duties reassigned. Six of the eight employees were assigned new job duties with the added burden of training replacements.

The merger of Fleet Bank and Shawmut Bank led to numerous processing problems. Bank reconciliation exceptions that needed to be researched and resolved were delayed due to a lack of bank services while the bank completed its merger process. Additionally, we experienced conversion problems with the change from Fleet Bank’s partial reconciliation to a full reconciliation process in August 1998. There were numerous issues to resolve with the weekly paid tapes and other reports sent to us. When valid paid tapes were sent to us, we had to modify and test our computer programs to process the new formats. We had a three-month backlog of weekly tapes to verify and enter into our bank reconciliation accumulation file. All of the above circumstances

hampered Fund Accounting's ability to timely reconcile the benefit payment bank account.

We have addressed many issues with Fleet Bank to improve the quality and timeliness of their services. After consulting with Fleet Bank, the State Treasurer, and Information Technology, steps to facilitate the reconciliation process were instituted. We are currently requesting adjustments to the benefit payment bank account on a timely basis.

We are currently [July 6, 1999] reconciling January 1999. Data available from Fleet Bank would only allow us to be reconciling April 1999. We are within three months of being considered timely and should reach that level by December 1999.

New procedures have been instituted in Fund Accounting to provide better internal controls over the removal of outstanding checks. The individual reconciling the bank account now must submit a request for authorization to remove outstanding checks to the unit supervisor.”

### **Equipment Inventory and Reporting:**

Our review of equipment inventory records disclosed that the valuation of equipment on the Annual Inventory of Real and Personal Property Report (CO-59) was not accurate and that equipment was not tagged on a timely basis.

*Criteria:* Section 4-36 of the Connecticut General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller and an annual report of all property that is in the custody of the department must be reported accurately annually. The State of Connecticut's Property Control Manual prescribes procedures for the maintenance of equipment inventory records.

*Condition:* The annual CO-59 Fixed Assets/Property Inventory Report was incorrect for the fiscal year ended June 30, 1998. The Department uses a computer-generated report to obtain the beginning balance of inventory, additions, deletions and ending inventory totals for the CO-59 report. The Department could not provide us with the detail of these balances. Also, the following errors were noted in our testing:

Not all additions were added to the report. The Department had equipment purchases in the 97-98 fiscal year totaling \$3,036,795, yet only additions of \$1,987,186 were reported. This resulted in a difference of \$1,049,609. The reason we found for this difference was that the Department was not tagging equipment as soon as it was received and therefore it was not entered unto the Department's computerized inventory system as an addition for the

97-98 fiscal year. We obtained an inventory listing as of July 23, 1998. We noted that items purchased in September 1997 were not tagged and entered on the inventory listing as of June 30, 1998. These items were subsequently tagged by the agency when they conducted a yearly physical inventory in August 1998.

We also reviewed 16 surplus items totaling \$37,518 from the 97-98 fiscal year to test the disposition of surplus property. We found that seven or 44 percent of these items should have been removed from the inventory on hand list dated July 23, 1998.

Our physical inspection of equipment revealed the following:

1. On a visit to one of the field offices on April 22, 1999, we found eight computers costing \$14,000, untagged and in unopened boxes. These computers had been received in March 1999.
2. A LaserJet printer at a field office was replaced. The inventory records still show the old printer at that location. We could not determine if the new printer was ever added to the inventory.
3. A laptop was transferred in August 1998 from a field office to the Central Office. The equipment inventory does not show this transfer. Agency personnel responsible for recording this information have indicated that they have a backlog of information that needs to be data entered into their asset management system.

*Cause:* The agency has not established adequate procedures for the reporting and control of equipment inventory.

*Effect:* The CO-59 report cannot be relied upon for accuracy. Assets are not properly safeguarded.

*Recommendation:* Internal controls over the reporting, recordkeeping, and tagging of equipment inventory need to be significantly improved. Documentation to support balances should be retained for audit. Agency personnel need to attend training on the preparation of the CO-59 report. Equipment should be tagged immediately upon receipt and entered into the agency's computerized inventory system. (See Recommendation 5.)

*Agency Response:* "We agree with this finding. Since the new inventory system was installed, there have been problems with the system printing duplicate reports. The problem lies in the software. The property system does not keep a history table for reports that have been printed. As assets are updated from the previous fiscal year, the system changes the figure on the inventory reports which, in turn, creates problems in printing the same report twice. The result is that data differs each time a report is printed if entries were made to the previous fiscal years' inventory. The Facilities Unit

requested and has received funding for the property system enhancement. A vendor has been selected and work is underway correcting this software problem. Current estimate from the vendor is that programming changes will be completed by June 30, 1999.

The additions that were not added to the Fixed Assets/Property Inventory Report were kiosks that had been purchased for the Department of Labor. The order was received at the Department in numerous crates loaded on pallets and shrink-wrapped. The Facilities Unit was asked not to tag this equipment since it was to be shipped out and installed in the Department's field offices. Tagging the equipment at that point meant taking the packaging apart and repackaging the equipment. Unfortunately, due to scheduling problems the equipment was not delivered and tagged as originally scheduled. During this interim period, the equipment was stored in a secured facility in Central Office. We will no longer wait to tag any equipment that is received, and we will adhere to our current procedures and tag all equipment upon delivery.

Auditors noted that surplus property had not been removed from the inventory system. Our procedures at the time of the audit were to retain the surplus property on our system until it cleared the State and Federal Distribution Centers Internet system. As this audit was being conducted, the items in question were awaiting authorization from the Disposal Center for transfer and/or disposal. Our new procedures call for immediate removal of items from the property system as they are entered into the State and Federal Distribution Centers Internet system.

Auditors discovered untagged computers during a field office visit. The computers were being delivered as part of a large order. The order had not been completed and the Facilities Unit was not notified of the delivery. The computers were securely stored in the job center director's office. The Facilities Unit will make every effort to immediately tag all equipment that is delivered to job centers.

The untagged laser printer discovered during a field office visit was replaced as part of the terms of the maintenance agreement where the vendor fixes or replaces printers in the field offices as needed. The vendor replaced the laser printer and forwarded the information to the Information Technology Unit. Information Technology was in the process of forwarding the paperwork to the Facilities Unit.

Laptops are portable equipment that are not always found in the same office that is indicated on the property system. During the

yearly physical inventory, local office staff is required to bring the portable equipment to be inventoried – this, in turn, updates the location.”

*Auditors’ Concluding Comments:*

The surplus items that we tested had cleared the State Internet system and authorization was received from the Disposal Center for transfer and/or disposal. The Department should not remove any items from the property system until this authorization is received.

The laptop computers are assigned by location to individuals. The laptop in question had been transferred to another individual in another location. The Agency should not wait until the yearly physical inventory in order to update transfers.

**Equipment Purchases:**

Our review of equipment purchases in the 97-98 fiscal year revealed that adequate planning was lacking.

*Criteria:* Equipment should not be purchased in excess of current requirements.

*Condition:* The Department purchased approximately \$1,356,000 in equipment in September 1997 with State and Federal dollars. At the time of our review on April 15, 1999, \$227,331 of this equipment had not been installed and was located in the Department’s warehouse.

*Cause:* It appears that this purchase of equipment was not adequately planned.

*Effect:* Resources were not adequately utilized.

*Recommendation:* Sufficient planning should be done so that equipment is not purchased in excess of current requirements. (See Recommendation 6.)

*Agency Response:* “We agree with this finding. The Department of Administrative Services (DAS) awarded a contract to Lexitech on November 20, 1996 to install access systems (self-service Job Bank information) for the Department of Labor. The Department issued an initial purchase order on December 30, 1996 for 89 kiosk desktop units, 46 laser printers, and 27 cabinet kiosks (replacements for existing kiosk units). Negotiations continued until May 19, 1997 when

Lexitech issued a revised quotation for 110 kiosk desktop units, 72 laser printers and 11 cabinet kiosks.

At the time of the award, the Department had worked through a new understanding of how it could best serve the job-seeking public. The Department made a decision to use an advanced version of the public domain software produced by the Midi Corporation of New Jersey that we had used on our first generation of kiosks. Moreover, the Department had become aware that it could not easily support a kiosk installation configuration that placed machines in a public area outside of well-supervised service offices. The revised purchase emphasized desktop units for seated use and envisioned sitting machines in office areas as opposed to all or similar sites.

The Department's initial siting plan emphasized libraries, welfare offices, DOL offices and DOL partner sites. The machines were to offer Job Bank information download over network connections or transmitted by diskette to the individual sites where network connections were too expensive. During the interval between the derivation of the request for proposal and the final purchase award, PC technology made the Department's initial plans obsolete. The Internet became the vehicle for conveyance of information. Libraries developed separate Internet access initiatives and had no interest in placing touch screen kiosk devices at their sites. Additionally, welfare reform and resultant changes in welfare-to-work programs removed one of the principal locations for the machines.

The Department has located appropriate sites for all machines. Unfortunately, sites that the Department expected to be ready for the machines were not available as initially expected. The most troublesome were the Motor Vehicle Department (DMV) offices. DMV offices had not obtained the necessary TCP/IP capability necessary to operate the machines. The Labor Department and Motor Vehicle Department decided in April of 1999 to place the eight remaining devices in their offices with static information until network connection is established. Five sites still await final network installation. Two of the sites moved and have just become operational. One site is in the process of renovation and two others await local decisions concerning commitment of local resources."

**Personal Service Agreements:**

Our review of personal service agreements disclosed several violations of the General Statutes. On July 26, 1999, we notified the Governor and State officials of our finding in accordance with Section 2-90 of the General Statutes.

*Criteria:* Section 4-98 of the General Statutes states that no budgeted agency may incur any obligation except by the issue of a purchase order and commitment transmitted to the Comptroller. Section 4-211(b) of the General Statutes states that each State agency must submit a written evaluation to the Office of Policy and Management of a consultant's performance upon completion of the consultant's work. Section 4-213 of the General Statutes states that no State agency may hire a personal service contractor without executing a personal service agreement.

*Condition:* We reviewed 26 personal service agreements and their amendments. Our review revealed that 18 or 70 percent of the contractors began work prior to the commitment of funds in violation of Section 4-98. The dollar value of this work is \$147,448. It should also be noted that nine of these personal service agreements were amended to extend the contract period and/or to increase the dollar amount of the contract. Eight of the nine amendments are included in this exception.

Our review of the 26 personal service agreements also showed that the department never submitted a written evaluation of the consultant's performance upon completion of the consultant's work in violation of Section 4-211, subsection (b) of the General Statutes.

We noted two instances where a personal service agreement should have been used but a direct purchase order and purchase order were used. The purchase order was used to bridge the gap between a personal service agreement and an amendment to the agreement.

*Cause:* Although the department has a manual "Procedures for Developing and Managing Personal Service Agreements", agency personnel do not follow it. The Department does not adequately plan for amendments to contracts.

*Effect:* Budgetary controls are compromised when expenditures are not committed in advance. It cannot be determined whether the work performed by the consultant was satisfactory. Personal service agreements are not always used as required by statute.

*Recommendation:* Statutory requirements for personal service agreements should be followed. (See Recommendation 7.)

*Agency Response:* "We agree with the finding. The Department has taken positive action to ameliorate the condition cited. Beyond issuing the manual "Procedures for Developing and Managing Personal Service Agreements", the Department has issued a memorandum dated May 10, 1999 to all of its directors which describes the State and Departmental policy regarding the timely processing of

Personal Service agreements. Also, Business Management staff responsible for providing technical assistance to agency managers have been instructed to remind managers of the state requirements regarding Personal Service Agreements.

With respect to the submittal of a written evaluation of a consultant's performance, the Department's Business Division has instituted new procedures. Upon expiration of a contract, an Office of Policy and Management (OPM) Personal Service Agreement Evaluation form is sent to the responsible contact person. A memo outlining the requirements and establishing a due date for the response is included. Logs are maintained by the Department's Business Division tracking the process until the forms are completed and forwarded to OPM."

**Telephone Charges:**

On November 30, 1998, the Department, pursuant to Section 4-33a of the General Statutes, notified our Office of the misuse of telephones at a field office. On February 24, 1999, we notified the Governor and other appropriate State officials of the finding in accordance with Section 2-90 of the General Statutes.

*Criteria:*

Section 3-117 of the General Statutes allows the Commissioner of Administrative Services to charge the agency's appropriation for telecommunication services prior to the agency certifying this charge. This statute also states that each State agency has 30 days after it is notified of its telecommunication charges to review the charges and certify that the services were provided to the agency. Prior to paying any bill, the agency is responsible for reviewing the charges for appropriateness and accuracy.

*Condition:*

The Department was not adequately reviewing telecommunications charges. There are 54 cost centers. The Agency was performing audits on two to four cost centers per month in our audit period. As a result of inadequate reviewing of the telephone bills, an employee was able to make inappropriate calls over a two and one-half year period. In a letter dated November 30, 1998, the Department reported to our office and the State Comptroller that there was misuse of telephones in the Manchester field office. This was uncovered by the Agency during their audit of telephone bills for the month of April 1998. The Department reported that 8,309 inappropriate calls were made costing \$11,467. The Department estimated that the employee used 744 state hours at a cost of \$16,368.

When we selected the month of May 1998 for testing, the agency was supposed to audit four cost centers that month. We could only find documentation of two cost centers being audited for that month. We also scanned the bill for other types of inappropriate

calls. Our review revealed that inappropriate calls were being made at the career centers. These calls, totaling \$561, were mainly out-of-the-country calls.

*Cause:* The Department's policy was to review portions of the telephone bill. It does not appear that their policy was fully adhered to since an individual made inappropriate calls for an extended period of time. The Department also believed that there was a block on all calls that are made out of the country but no documentation of this request can be found. Although there is a policy for persons who are not State employees to log in calls made at the career centers, these persons were not logging in inappropriate calls.

*Effect:* Federal and State resources were inappropriately used. The Department has entered into an agreement with the employee to pay back the cost of the inappropriate calls and State time used over a ten-year period. The employee also received a thirty day unpaid suspension.

*Recommendation:* Procedures should be developed to assure the agency that telephone bills are sufficiently reviewed and calls made are appropriate, especially at career centers where risk is high. The agency should seek blocks for all out of the country calls (See Recommendation 8.)

*Agency Response:* "We agree with this finding. Since we discovered the telephone abuse in the Manchester office, the Department has developed a systematic approach to auditing the agency's telephone usage. Our new procedures require that each cost center within the agency is audited twice during each calendar year. The results of these audits are kept on file for a period of three years. Additionally, our managers and supervisors have heightened their awareness of the possibilities of telephone abuse and are more diligent in monitoring their staffs' telephone usage.

As to the particular incident reported to the Governor, a stipulated agreement was reached between all parties concerned. The employee received a 30 day unpaid suspension for his actions and agreed to repay the agency for the telephone calls and for the time spent during working hours making the calls. Our Payroll Unit, through the Comptroller's MSA payroll system, automatically deducts \$100 per pay period from the employee.

The Director of Field Operations has issued a request that a block be placed on all international calls emanating from a job centers' career center. Any job center director that feels international access is needed for business purposes will be required to justify the request; and if approved, only specific lines will be allowed to access an international operator."

**Cash Management:**

Our review of cash management of Federal funds for the Employment Training Assistance (Dislocated Workers) and Job Training Partnership Act (JTPA) programs revealed that the State was disbursing funds earlier than needed.

*Criteria:* The Cash Management Improvement Act (CMIA) agreement between the State of Connecticut and the United States Department of the Treasury requires that the Dislocated Workers and JTPA programs must use the funding technique of pre-issuance funding for requesting payments to local governments and private industry councils. This technique requires the State to request funds such that they are deposited in a State account not more than two days prior to the day the State makes a disbursement. When this technique is properly applied the State will incur a Federal interest liability.

*Condition:* The Department of Labor did not comply with the CMIA agreement. We tested a total of 44 transactions for the Dislocated Workers and JTPA programs from the 1997-1998 fiscal year. For nine or 21 percent of the transactions, State funds were disbursed three to 14 days prior to the receipt of Federal funds.

*Effect:* The State may not recover the interest of \$831 for the nine transactions. According to the CMIA agreement, interest may not be recovered when the State deliberately or repeatedly fails to request funds in accordance with the proper funding technique.

*Cause:* The Department's procedures do not conform to the CMIA agreement.

*Recommendation:* The Department should follow the funding technique specified in the CMIA agreement to minimize interest loss for the State. (See Recommendation 9.)

*Agency Response:* "We agree with the finding. The Job Training Partnership Act (JTPA) will expire on June 30, 2000. Since there remains approximately 12 months of program life, it does not appear advantageous to change the funding technique (pre-issuance). In order to conform to the Cash Management Improvement Act (CMIA) agreement, the Department will calculate interest on an ongoing basis. The annual result of the calculation will be made available to the auditors."

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

Twelve recommendations were presented in our prior report. The Department fully complied with eight of the recommendations. One recommendation was partially resolved and three of the recommendations have not been resolved and are therefore repeated in this report.

- Computer system security should be improved to provide for identified password access and a comprehensive disaster plan. This recommendation has been partially resolved. The Department still does not have a comprehensive disaster recovery plan. –This recommendation is restated as Recommendation 1 of this report.
- The Department should develop and implement procedures to obtain and review audit reports from its State grantees in a timely manner. This recommendation has been resolved. The Department now has procedures in place and is reviewing the audit reports on a timely basis.
- Petty cash fund operations should be improved to ensure compliance with the State Comptroller’s procedures. This recommendation has been resolved. The account is reconciled and travel advances are returned on a timely basis.
- Financial and other reports should be prepared in compliance with statutory provisions and the State Comptroller’s requirements. This recommendation is restated as Recommendation 2.
- The Department should keep current and make timely efforts to collect monies owed to reimburse Connecticut’s Unemployment Compensation Fund. This recommendation has been resolved.
- The Department should take the action necessary to resolve the issue of verification of reciprocal billings. This recommendation has been resolved. The Department is actively pursuing this issue.
- The Department should improve its internal controls over receipts. This recommendation has been resolved.
- Unemployment compensation benefit overpayments should be recovered to the full extent authorized by statutory provisions. - This recommendation is restated as Recommendation 3.
- The Department of Labor should improve internal controls for the issuance of manual checks. This recommendation has been resolved.
- Receipts should be deposited promptly in compliance with statutory requirements. This recommendation has been resolved.

- Purchases should be made based on the criteria established by the General Statutes and in accordance with the Department of Administrative Services' Purchasing Manual. This recommendation has been resolved.
- Reconciliations of the Unemployment Compensation Fund Benefit bank account should be completed by the Department in a timely manner. - This recommendation is restated as Recommendation 4.

*Current Audit Recommendations:*

**1. A comprehensive disaster recovery plan should be developed.**

Comment:

The Department does not have a formal disaster plan or access to an alternate backup site in the event of a disaster.

**2. Financial reports should be prepared accurately and in compliance with the State Comptroller's requirements.**

Comment:

Our review of the Schedule of Expenditures of Federal Awards (SEFA) and the Generally Accepted Accounting Principles (GAAP) package reports revealed that the reports were not always complete, accurate, and in compliance with the State Comptroller's instructions.

**3. Unemployment compensation benefit overpayments should be recovered to the full extent authorized by statutory provisions.**

Comment:

The benefit payment system allows the claimant to receive a full benefit payment for the last claim payable in the benefit year even though an overpayment exists. System programming needs to be reviewed to correct the deficiency.

**4. The Department should complete reconciliations of the Unemployment Compensation Fund Benefit bank account in a timely manner. Action should be taken on reconciling items as soon as possible. The bank reconciliation process should be documented to assure that there is adequate segregation of duties.**

Comment:

At the time of our review in May 1999, the last completed bank reconciliation was November 1998. Since the bank does not research items over one year old, it is necessary to identify these reconciling items and present them to the bank. We also noted inadequate segregation of duties for removing outstanding checks from the ledgers.

- 5. Internal controls over the reporting, recordkeeping, and tagging of equipment inventory needs to be significantly improved. Documentation to support balances should be retained for audit. Agency personnel need to attend training on the preparation of the CO-59 report. Equipment should be tagged immediately upon receipt and entered into the computerized inventory system.**

Comment:

We found that the CO-59 report was not properly prepared and that documentation to support totals was not retained for audit. Equipment inventory was not accurate since items were not removed from the inventory list when disposed of and transferred equipment was not properly recorded. Equipment was not always tagged upon receipt.

- 6. Sufficient planning should be done so that equipment is not purchased in excess of current requirements.**

Comment:

We found equipment totaling \$227,331 that was purchased by the Department in September 1997 was still located at the Department's warehouse in April 1999.

- 7. Statutory requirements for personal service agreements should be followed.**

Comment:

We found several violations of the General Statutes with regard to personal service agreements. We found instances where contractors began work prior to the commitment of funds, the department never submitted a written evaluation of a performance of a contract, and instances when the incorrect purchasing authority was used.

- 8. Procedures should be developed to assure the agency that telephone bills are sufficiently reviewed and calls made are appropriate, especially at career centers where risk is high. The Agency should seek blocks for all out of the country calls.**

Comment:

The Department was not sufficiently reviewing telephone bills. As a result, an employee was able to misuse telephones for an extended period of time. Also, we found inappropriate calls being made when we reviewed one month's bill.

**9. The Department should follow the funding technique specified in the CMIA agreement to minimize interest loss for the State.**

Comment:

The Department was disbursing State funds three to 14 days prior to the receipt of Federal funds.

**10. The Department should develop and implement control procedures to ensure compliance with the requirements of Section 31-254 of the General Statutes.**

Comment:

We found that the Department was not entering new hire data into the State directory within five business days. The Department could not provide us with adequate documentation as to how often IV-D and public assistance information was provided by DSS. The Department could not provide us with documents to show how often the information received from DSS was matched with the new hires information.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Labor Department for the fiscal years ended June 30, 1997 and 1998. 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 audits of the Labor Department for the fiscal years ended June 30, 1997 and 1998, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with 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 Labor Department 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 Labor Department is the responsibility of the Labor Department's 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 years ended June 30, 1997 and 1998, 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 Labor Department 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

## *Auditors of Public Accounts*

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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 Labor Department's 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.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: lack of a comprehensive disaster recovery plan for its computer system, deficiencies in reporting systems, failure to collect benefit overpayments, failure to reconcile the benefit account, deficiencies in equipment inventory and reporting, excessive equipment purchases, inadequate controls over personal service agreements, inadequate reviewing of telecommunication bills, failure to follow cash management requirements, and inadequate controls to ensure compliance with Section 31-254 of the General Statutes.

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 the requirements 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. 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over 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**

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the Labor Department during this examination.

JoAnne Sibiga  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts