

P00
Workforce Development
 Department of Labor, Licensing, and Regulation

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$34,154	\$36,506	\$37,643	\$1,138	3.1%
Deficiencies and Reductions	0	0	-987	-987	
Adjusted General Fund	\$34,154	\$36,506	\$36,656	\$150	0.4%
Special Fund	13,306	15,370	12,141	-3,230	-21.0%
Deficiencies and Reductions	0	0	-159	-159	
Adjusted Special Fund	\$13,306	\$15,370	\$11,982	-\$3,388	-22.0%
Federal Fund	175,259	189,091	181,268	-7,823	-4.1%
Deficiencies and Reductions	0	0	-2,144	-2,144	
Adjusted Federal Fund	\$175,259	\$189,091	\$179,124	-\$9,967	-5.3%
Reimbursable Fund	11,265	6,537	6,347	-190	-2.9%
Adjusted Reimbursable Fund	\$11,265	\$6,537	\$6,347	-\$190	-2.9%
Adjusted Grand Total	\$233,983	\$247,504	\$234,108	-\$13,396	-5.4%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The adjusted fiscal 2016 allowance decreases \$13.4 million from the current working appropriation. In fiscal 2015, the department exhausted the remaining \$2.3 million in special funds that the Division of Unemployment (DUI) received from the U. S. Department of Labor. The loss of these funds significantly contributes to the 22% decrease in total special funds. The agency also lost \$7.6 million in federal grants for workforce development and \$6.4 million in federal funds for DUI's major information technology project. These losses are the main contributors to the 5.3% federal fund decrease.

Note: Numbers may not sum to total due to rounding.

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- In both fiscal 2015 and 2016, there is an agencywide 2% across-the-board reduction in general funds for cost containment. The adjusted grand totals do not reflect the 2% decreases, as the agency has not allocated the 2% between its two programs.

Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	1,275.99	1,282.19	1,281.19	-1.00
Contractual FTEs	<u>218.87</u>	<u>219.01</u>	<u>224.76</u>	<u>5.75</u>
Total Personnel	1,494.86	1,501.20	1,505.95	4.75

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	52.79	4.12%
Positions and Percentage Vacant as of 12/31/14	128.52	10.02%

- The fiscal 2016 allowance abolishes 1.0 regular position from the Job Services division. The position has been vacant since March 1, 2013.
- The fiscal 2016 allowance adds a net of 5.75 contractual full time equivalent (FTE) positions to the department. Most notably, the allowance adds 9.5 contractual FTE positions to DUI.
- The department's turnover rate is 4.12%, which requires 52.79 vacant positions. As of December 31, 2014, the department reports 128.52 vacant positions.

Analysis in Brief

Major Trends

Employment Rate After Job Services: The department provides federal funding for various job services and training for adult, youth, and dislocated workers. The department sets a goal of meeting or exceeding federal standards for the rate at which program participants enter employment. The department continues to fall shy of that goal, with only the youth participants meeting the federal standard.

Resolution of Audit Findings: In fiscal 2014, the department began reporting a new performance measure that tracks the rate at which the department satisfies repeat legislative audit findings. After an audit in fiscal 2015 reported repeat findings, the department continues its progress towards resolution. **The Department of Legislative Services (DLS) recommends that the department comment on its efforts to resolve its most recent repeat audit findings and how those findings may affect the department’s anticipated closure rate.**

Issues

Unemployment Insurance Trust Fund: Employers pay an annual tax that funds the State’s UI Trust Fund. The employers’ tax rate comes from a series of tax rate tables. In calendar 2014, employers paid from the lowest tax rate table (Table A). By September 30, 2014, the Unemployment Insurance (UI) Trust Fund balance fell by nearly 5%. As a result, employers will pay from Table B in calendar 2015. **DLS recommends that the department brief the budget committees on the status of the UI program and specifically on what Table B will mean for Maryland businesses and for the UI Trust Fund.**

Progress of the Employment Advancement Right Now Program: The Maryland Employment Advancement Right Now program (EARN) awarded planning grants to 29 partnership applicant groups at the end of calendar 2013. EARN has moved into the implementation grant process and awarded 28 implementation grants in June 2014. The average implementation grant was \$179,302. The EARN program also has a new evaluation system designed to provide dashboard metrics on partnership success. **DLS recommends that the department brief the budget committees on the progress and success of the implementation grant recipients and how the evaluation system reflects this progress and success.**

Recommended Actions

1. Concur with Governor’s allowance.

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Workforce Development
Department of Labor, Licensing, and Regulation

Operating Budget Analysis

Program Description

The Department of Labor, Licensing, and Regulation (DLLR) includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades. DLLR also administers a variety of employment service and adult learning programs.

This analysis focuses on DLLR's administrative and workforce development units. The administrative offices include the Office of the Secretary, legal services, equal opportunity and program evaluation, the Governor's Workforce Investment Board, appeals, budget and fiscal services, general services, information technology, and personnel.

The bulk of DLLR's funding and personnel are within the following divisions:

- **Division of Workforce Development and Adult Learning (DWDAL):** operates workforce development programs including job services, the Workforce Investment Act, and labor market information programs. It also manages adult education programs including adult literacy programs and skills training for correctional institutions. Its mission is to support the State's economic growth through workforce development, education, and a training system that is responsive to the needs of adult learners, job seekers, employers, and all system partners.
- **Division of Unemployment Insurance (DUI):** operates the federally funded unemployment insurance (UI) programs. Its mission is to provide prompt, temporary, and partial wage replacement to eligible unemployed individuals and help facilitate those individuals' return to work. DUI also collects unemployment insurance tax contributions from employers.

A separate analysis discusses business regulation and occupational licensing functions.

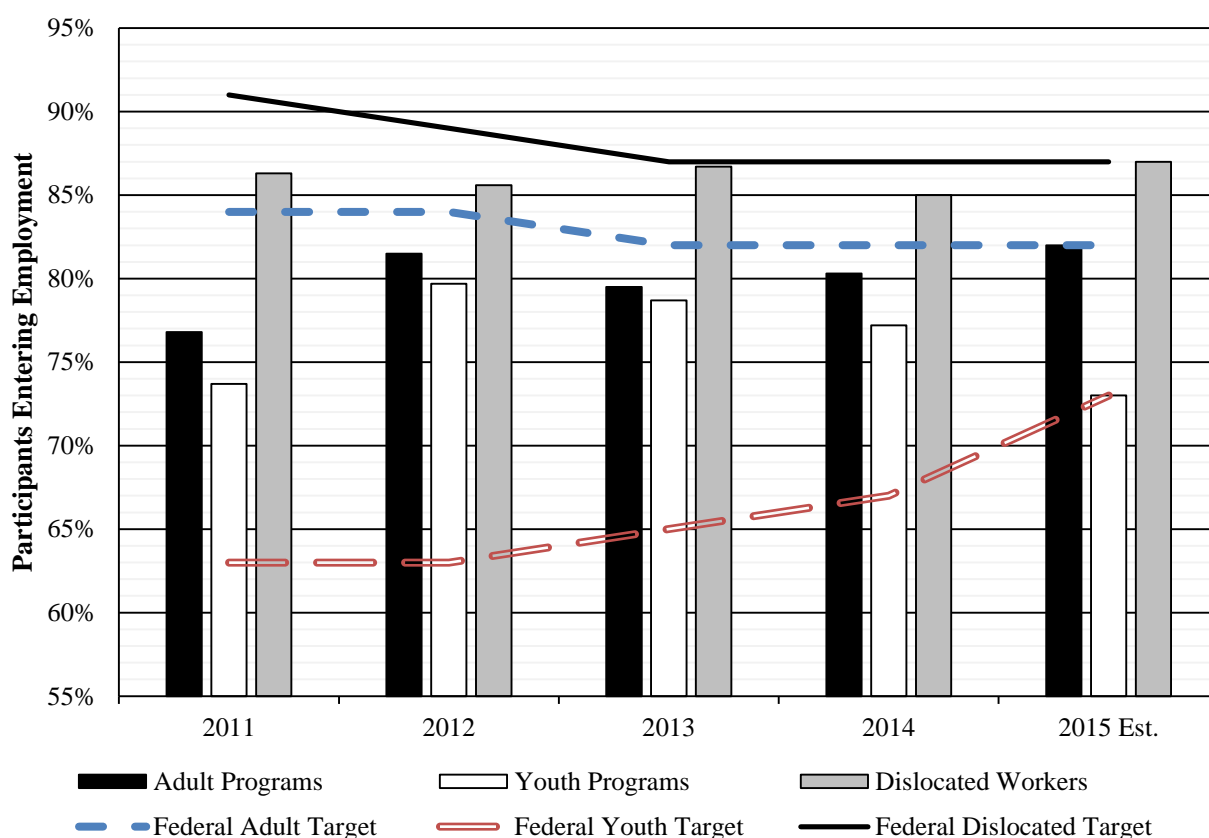
Performance Analysis: Managing for Results

1. Employment Rate After Job Services

DWDAL seeks to allow potential Maryland workers the opportunity for the education, training, and support they need to contribute to Maryland's workforce. The department receives federal funding under the Workforce Investment Act for programs that contribute to this goal. The department has three federally prescribed training programs aimed at different unemployed groups: the adult programs, youth programs, and dislocated worker programs.

The department’s goal is to meet or exceed the federal standard in each program. **Exhibit 1** shows the employment entry rate for the individuals that participate in the department’s three programs. In its calculations, the department only tracks participants that have received a staff assisted core, intensive, or training service. Even though the number of youth participants in fiscal 2014 dropped over 1% from fiscal 2013, only the youth entry rate met the federal standard. In fact, youth employment entry has consistently far exceeded the federal standard.

Exhibit 1
Workforce Development Programs
Fiscal 2011-2015 Est.



Note: The U.S. Department of Labor, Employment and Training Administration considers attainment by the states of 80% or more of the federal standard as meeting the federal standard and acceptable performance. This analysis considers 100% of the federal standard.

Source: Governor’s Budget Books, Fiscal 2014-2016

In contrast to the youth employment programs, the adult program and the dislocated worker program have failed to meet the federal standard in recent years. In fiscal 2013, adult participants entered the workforce at a 79.5% rate, falling short of the 82.0% federal standard. In fiscal 2014, the adult workforce entry increased slightly to 80.3% but was still well short of the 82.0% federal target. Participants in the dislocated worker program narrowly missed the 87.0% mark, reaching 86.7% in fiscal 2013, but dropped to 85.0% in fiscal 2014, missing the federal standard by a wider margin.

2. Resolution of Audit Findings

In October 2011, the Office of Legislative Audits (OLA) released its audit findings related to the Office of the Secretary, the Division of Administration, and DWDAL. Many of the findings determined that the department's Information Technology (IT) office did not adequately secure its data, including UI beneficiaries' personal information. Language was included in the fiscal 2014 budget bill that restricted \$150,000 in general funds in the Office of the Secretary until OLA submitted a report confirming that the findings were resolved. In a letter dated March 27, 2014, OLA reported to the budget committees that the department had satisfied four of five repeat findings. Based on the department's corrective actions, in May 2014, DLS recommended release of the funds.

In August 2014, OLA released a new audit report that included eight total findings, two of which were repeated from prior audits. These repeat findings included concerns that the department had not established adequate controls over a critical server and database and that staff was not properly performing or documenting certain reconciliations of electronic licensing collections. A new, but notable, audit finding determined that the department did not adequately monitor adult education and literacy service grants. The department awards these grants to education entities in local jurisdictions to help fund classes for adults to improve basic skills such as reading, writing, and math. The grants are funded with both federal and State general funds. In fiscal 2013, there were 30 grants totaling approximately \$14.6 million. The audit found that the department did not obtain and review annual audit reports from three grantees with grant awards in fiscal 2013 totaling \$4.6 million (of which \$3.3 million was federal funds); did not verify grant funds to other grantees were spent as intended by grant agreement; and did not perform periodic site visits to grantees as a means to verify expenditures.

The department's Program Analysis and Audit Office provides coordination for the Managing for Results (MFR) process and provides program analysis, management analysis, and internal audit services to the entire agency's management. One of the Program Analysis and Audit Office's goals is to utilize legislative audit recommendations to improve program performance. To measure progress toward that objective, and in response to the fiscal 2014 budget language, the department is now reporting the percent of legislative audit findings that are cleared. In fiscal 2013, the department reported that it resolved 85% of repeat audit findings agencywide, and in fiscal 2014 it reported resolving 90%. The agency anticipates clearing 100% of repeat agencywide audit findings in fiscal 2015 and 2016.

A comprehensive summary of OLA's 2014 audit can be found in **Appendix 2**.

The Department of Legislative Services (DLS) recommends that the department comment on its efforts to resolve its most recent repeat audit findings and how those findings may affect the department’s anticipated closure rate.

Fiscal 2015 Actions

Cost Containment

The Administration’s fiscal 2015 cost containment strategy includes a 2% across-the-board reduction in general funds. The fiscal 2015 working appropriation shown in this analysis does not include the 2% reduction as DLLR has not allocated the 2% between its two programs. If allocated proportionately, the reduction for this program would be \$721,385.

The fiscal 2016 budget plan also includes a revenue adjustment of \$1.63 million in the department’s Special Administrative Expense Fund (SAEF), an adjustment assumed in July 2014 Board of Public Works actions. Maryland employers are required to pay UI contributions. Employers that fail to make a contribution or reimbursement when payment is due must pay an interest penalty until the contribution or payment in lieu of contributions and interest, is paid. Any fines, interest, or penalties collected from employers are put into the SAEF. SAEF funds may be used for various payments and administrative expenses for DUI. At the end of each fiscal year, any unallocated or unencumbered funds that exceed \$250,000 are transferred to the State general fund.

Proposed Budget

As seen in **Exhibit 2**, after adjustments for cost containment, the fiscal 2016 allowance decreases \$13.4 million from the current working appropriation. A large reduction in federal grants significantly contributes to the decline.

Exhibit 2
Proposed Budget
DLLR – Workforce Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2014 Actual	\$34,154	\$13,306	\$175,259	\$11,265	\$233,983
2015 Working Appropriation	36,506	15,370	189,091	6,537	247,504
2016 Allowance	<u>36,656</u>	<u>11,982</u>	<u>179,124</u>	<u>6,347</u>	<u>234,108</u>
2015-2016 Amt. Change	\$150	-\$3,388	-\$9,967	-\$190	-\$13,396
2015-2016 Percent Change	0.4%	-22.0%	-5.3%	-2.9%	-5.4%

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Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$2,547
Employee retirement system contributions	1,160
Increments and general salary increase annualization (prior to cost containment) ..	1,064
Other fringe benefit adjustments	221
Turnover adjustments	70
Abolished/transferred positions	-60
Section 21: abolition of employee increments.....	-1,262
Section 20: 2% pay reduction.....	-2,029

Unemployment Insurance Technology Project

Project manager and project management office.....	1,140
Department of Information Technology services	500
Legal services	450
Design, development, and implementation	-6,386

Other Changes

Workforce Development software license.....	1,707
Postage and telecommunications align with fiscal 2014	565
Other	-244
Board of Appeals and Lower Appeals contractual positions.....	-379
Computer and office equipment replacement.....	-677
Decrease in grants to Unemployment Insurance Technology Support Center and Interstate Connector.....	-1,908
Division of Unemployment Insurance exhaustion of DOL funds	-2,317
Loss of federal Workforce Development grants.....	-7,558

Total **-\$13,396**

DOL: U.S. Department of Labor

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

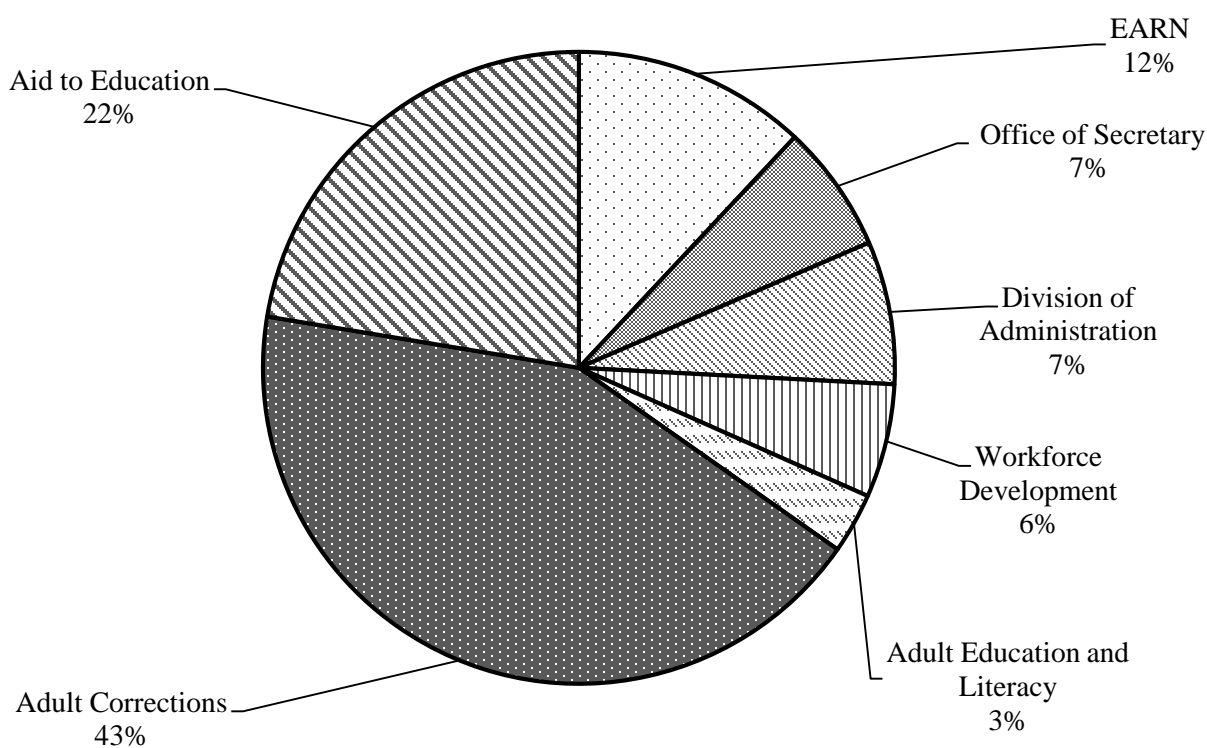
Cost Containment

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes an across-the-board 2% pay reduction. The DLLR Workforce Development budget's share of the increments and salary revision is about \$3.3 million. The adjusted allowance does not reflect the 2% across-the-board decrease, as DLLR has not allocated the 2% between its two programs. If allocated proportionately, it would equal \$756,140 in this program.

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The department's fiscal 2016 allowance, before cost containment reductions, includes \$37.6 million in general funds. **Exhibit 3** shows how the general funds are allocated among the department's divisions. While Exhibit 3 does not consider the \$987,471 in increments and salary reductions, the divisions' percentages of general funds have remained consistent from fiscal 2015 to 2016. Adult Corrections, Aid to Education, and the Employment Advancement Right Now (EARN) program, account for over 75% of the general fund expenditures.

Exhibit 3
General Fund Distribution
Fiscal 2016 Allowance Prior to Cost Containment



EARN: Employment Advancement Right Now

Source: Governor's Budget Books, Fiscal 2016

Division of Workforce Development and Adult Learning

DWDAL received federal grants in fiscal 2015 that are not anticipated in the fiscal 2016 allowance. The largest components of the federal grants are the Workforce Investment Act National Emergency grants. The National Emergency grants temporarily expand the service capacity of the Workforce Investment Act Dislocated Worker training and employment programs at the state and local levels. The grants provide funding assistance in response to large, unexpected economic events that cause significant job losses. A large portion of the grant funds were used to provide assistance to those workers impacted by RG Steel's 2012 closure. Grants totaling \$3.0 million for RG Steel ended in December 2014 and will not be repeated in fiscal 2016. In fiscal 2015, the U.S. Department of Labor (DOL) granted DWDAL the Jobs Driven National Emergency Grant and approximately \$4.5 million will not be repeated in fiscal 2016.

Division of Unemployment Insurance

In fiscal 2015, DUI undertook a project that would completely replace the division's legacy IT system including claims, tax, and appeals systems. The project is part of a three-state consortium to procure the new system. In fiscal 2015, DUI received nearly \$11.8 million in federal funds for the project. The fiscal 2016 allowance includes a decrease in \$6.4 million of federal funds applied to the system's design, development, and implementation. However, the allowance does include about \$2 million in federal funds for other aspects of the project including for Department of Information Technology services, legal services, and to hire a project manager. See **Appendix 3** for additional details.

The fiscal 2016 allowance also decreases DUI contractual salaries by \$2.3 million, the majority of which is special funds. At the start of fiscal 2015, DUI had a contractual salary appropriation of \$4.4 million comprised mainly of federal funds. However, DOL requested that DUI exhaust the American Recovery and Reinvestment Act of 2009 special distribution during fiscal 2015. DUI received \$2.59 in special funds through budget amendments, bringing the working appropriation to approximately \$7.0 million. UI did not, however decrease the federal fund appropriation. As a result, DUI had excess funds. The fiscal 2016 decrease in special funds accounts for this switch.

Issues

1. Unemployment Insurance Trust Fund

UI provides temporary, partial wage replacement benefits to persons who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Employers fund the program through taxes paid to the federal government for administrative expenses and to the state government for deposit in the employer's respective UI trust funds.

The UI Trust Fund and Outlook for Employer Taxes in Calendar 2015

Maryland's UI employer charging and taxation system uses experience tax rate tables (Table A-F) that are based on the balance in the Maryland UI Trust Fund. If the UI Trust Fund balance exceeds 5% of total taxable wages in the State (as measured on September 30 of the current calendar year), the lowest tax rate table (Table A) is used to calculate employer rates for the following calendar year. An individual employer's unemployment experience then determines the rate that employer will pay within the table.

The UI Trust Fund balance has fluctuated over the years. During good economic times in calendar 2007 and 2008, the fund reached over \$1 billion. However, by February 2010, the fund had diminished to a level that required the fund to borrow \$133.8 million from the federal government. In May 2010, the State repaid the borrowed funds and received \$126.8 million more in federal modernization incentive funds. Even with the additional funds, the UI Trust Fund balance remained so low that employers paid from the highest tax table from calendar 2010 through 2012. By September 2013, the UI balance had increased by approximately \$160.0 million from \$794.5 million in 2012 to \$954.7 million, and for the first time since 2008, employers paid from Table A. As of September 30, 2014, the UI balance had fallen to \$910.7 million. This drop pushed the tax rate for employers back up to Table B for calendar 2015.

The State's unemployment rate rose from 3.6% at the end of calendar 2007 to 7.6% at the end of calendar 2009, from which it has made a slight but continuous decline. As of November 2014, Maryland's unemployment rate dropped to 5.6%, its lowest level since 2007. At unemployment's peak in calendar 2009, there were 375,917 UI claims filed. However, by calendar 2013, initial claims fell to 306,856, an 18.0% decrease from 2009. In 2014, claims fell again to 269,649, another 12.0% decline.

Exhibit 4 shows the annual UI Trust Fund balance on September 30, the annual payout amounts, and Maryland's seasonally adjusted unemployment rate, each year since 1999. Exhibit 4 also shows the tax tables that employers paid from during calendar 2006 through 2014 and will pay from during calendar 2015. **DLS recommends that the department brief the budget committees on the status of the UI program and specifically on what Table B will mean for Maryland businesses and for the UI Trust Fund.**

Exhibit 4
Maryland’s Unemployment Rate, UI Trust Fund Balance, and Annual Benefits Payout
(\$ in Millions)
Calendar 1999-2015

<u>Year</u>	<u>Percentage Unemployment Rate at End of Year¹</u>	<u>UI Trust Fund Balance as of Prior September 30²</u>	<u>Tax Rate Table in Effect</u>	<u>Annual Benefits Paid Out³</u>
1999	3.5	\$741.60		\$265.00
2000	3.5	815.8		261.4
2001	4.5	882.8		394.5
2002	4.4	866.9		498.9
2003	4.3	824.7		512.1
2004	4.3	638.5		430.8
2005	3.8	703.6		384.7
2006	3.7	883.1	B	383.5
2007	3.6	1,032.50	A	433.3
2008	5.8	1,057.80	A	785.2
2009	7.6	895.4	B	1,068.80
2010	7.4	301.7	F	900.7
2011	7.3	273.4	F	716.8
2012	7.2	460.2	F	767.3
2013	7	794.5	C	749
2014	5.6	954.7	A	700
2015	n/a	910.7	B	n/a

UI: unemployment insurance

¹Data is from the U. S. Department of Labor (DOL) – unemployment rate for 2013 is as of August 2013.

²Data is from Department of Labor, Licensing, and Regulation – calendar 2003 includes \$142.9 million of Reed Act funds provided by the federal government. Calendar 2010 includes \$133.8 million in borrowed funds (February 2010) and \$126.8 million in federal modernization funds (May 2010); borrowed funds were repaid in full by December 2010.

³Data is from DOL – 2013 payout amount is a fiscal year total.

Note: The 2015 UI Trust Fund balance is recorded as of September 30, 2014.

Source: U.S. Department of Labor; Department of Labor, Licensing, and Regulation

2. Progress of the Employment Advancement Right Now Program

Chapter 1 of 2013 established the Maryland EARN program. The program is designed to create industry-led partnerships to advance the skills of the State’s workforce, grow the State’s economy, and increase sustainable employment. Specifically, the program provides general fund grants on a competitive basis for:

- an approved strategic industry partnership for development of a plan consistent with the purpose of the Maryland EARN program;
- workforce training programs and other qualified programs that provide industry-valued skills training to individuals that result in a credential or identifiable skill consistent with an approved strategic industry partnership plan; and
- job-readiness training and skills training that results in a credential or an identifiable skill.

Under the original legislation, a partnership submits an application for a planning grant. The application must identify the members participating in the strategic industry partnership, include evidence of a shortage in skilled employment within a target industry, state a description of specific high-demand occupations, and outline specific training programs that would result in individuals obtaining credentials or identifiable skills. The competitive grant process gives priority to strategic industry partnerships that maximize collaboration potential through direct financial or in-kind contributions from target industry members. The fiscal 2016 allowance for the total program is \$4.5 million of general funds. The allowance includes \$4.0 million for grants and the remaining funds for administration.

Grant Process

The department established a two-phase grant process to jumpstart the program. In October 2013, the department issued a request for planning grant applications. Organizations use planning grants to fund skill gap studies, employer surveys, consultants, and any other tool necessary to develop a strategic industry partnership workforce training program. In late 2013, the department awarded planning grants to 29 applicant groups with awards averaging \$22,000.

The second phase of the grant process involves implementation grants. Implementation grants fund training opportunities identified in part as a result of the research performed utilizing the planning grant. However, partnerships that were not recipients of the planning grant may apply for implementation grants. The department awarded the first round of implementation grants in June 2014. The average grant award was \$179,302. The grants were awarded to 28 partnerships from the following industry sectors:

- 5 – Health care;

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- 5 – Manufacturing;
- 4 – Construction;
- 3 – Retail/Hospitality;
- 3 – Transportation/Logistics;
- 2 – Biotechnology;
- 2 – Cybersecurity/Information Technology;
- 2 – Health Information Technology; and
- 2 – Green Industry.

Partnerships that received implementation grants began training in September 2014. The department is in the midst of a second round of implementation grant solicitations and awards. On October 20, 2014, the department held an implementation grant solicitation pre-proposal conference and established a November 24, 2014 deadline for submission. The department reviewed proposals in December 2014 and awarded 12 new grants in January 2015. The department intends to begin providing funding in April 2015.

Monitoring Progress

In fiscal 2015, the department began working with the Business Economic and Community Outreach Network (BEACON), a vendor at Salisbury University (SU), to develop an evaluation system for the EARN program. Together, the department and BEACON are preparing metrics to evaluate the performance of the 28 current implementation grant recipients. BEACON will produce quarterly evaluation dashboards for the department on the status of the EARN program as a whole and will produce program specific evaluation dashboards for each partnership.

The department has also partnered with the Eastern Shore Regional Geographic Information System Cooperative at SU to create the EARN CONNECT website, a web portal designed to allow organizations interested in the program to find potential strategic industry partners. The website is not limited to grant applicants or recipients, but is open to any organization interested in the program. Throughout calendar 2014, the website was updated to improve functionality.

It should be noted that the Anne Arundel County Workforce Development Corporation, an implementation grant recipient in the EARN program, received a \$10 million federal grant through the Ready to Work Partnership Initiative.

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DLS recommends that the department brief the budget committees on the progress and success of the implementation grant recipients and how the evaluation system reflects this progress and success.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Labor, Licensing, and Regulation – Workforce Development (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative Appropriation	\$34,612	\$10,370	\$158,378	\$11,543	\$214,903
Deficiency Appropriation	-1,088	1,120	-1,464	0	-1,433
Budget Amendments	733	2,881	23,906	1,203	28,722
Reversions and Cancellations	-103	-1,064	-5,561	-1,481	-8,209
Actual Expenditures	\$34,154	\$13,306	\$175,259	\$11,265	\$233,983
Fiscal 2015					
Legislative Appropriation	\$35,786	\$11,220	\$169,815	\$12,431	\$229,252
Cost Containment	0	0	0	0	0
Budget Amendments	720	4,151	19,276	-5,893	18,253
Working Appropriation	\$36,506	\$15,370	\$189,091	\$6,537	\$247,504

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

In fiscal 2014, the department's workforce development units experienced an overall increase in funds, largely driven by federal fund budget amendments.

The original general fund appropriation decreased by a net of \$458,000, largely due to across-the-board deficiency reductions. The deficiency reductions were mitigated by a number of general fund additions. A general fund deficiency added \$201,000 to reduce the Adult Correction Education program's turnover rate. This allotment allowed the department to fill long-term vacancies that had been held open for cost containment purposes. Budget amendments also increased general funds by over \$733,000 for cost-of-living adjustments (COLA) and other salary adjustments and realigned funds, in part, between workforce development divisions and the business regulation division.

The fiscal 2014 special fund appropriation increased by \$2.9 million over the legislative appropriation. One budget amendment added \$1.9 million in special funds to DUI to offset staff, communications, and supplies cost. A second amendment transferred \$900,000 of special funds from the Dedicated Purpose Account for adult education and job training in order to counteract the impact of federal sequestration. Two deficiency appropriations added over \$1.1 million to supplement operating expenses and salary expenses that were previously covered by federal funds. Finally, COLAs and other salary adjustments increased special funds.

Federal funds increased by \$17 million over the legislative appropriation. A significant increase from budget amendments was minimally offset by a \$1.4 million reduction in federal funds for cost containment. Budget amendments increased the original federal fund appropriation by over \$23.9 million based on a number of federal grants. The federal grants include \$9.87 million from the Workforce Investment Act's Dislocated Worker Program for training services targeting individuals displaced from employment from layoffs or downsizing; \$6.96 million to provide job training, job search services, case management services, and relocation assistance to workers that do not have the necessary skills to compete in the existing market; \$2.74 million from the U.S. Department of Education's Adult Education and Family Literacy Act for civics education and integrated literacy services for individuals who are immigrants and other limited English proficient populations; \$2.76 million from DOL's Reemployment and Eligibility Assessments grant program to expand current services related to job searches, assessments, and training; and \$379,801 from the U.S. Department of Justice's Second Change Act Technology Careers Training Demonstration Projects Awards to establish and provide technology career training programs for incarcerated adults and juveniles. The department experienced lower than expected expenses at one-stop shops and ultimately was unable to use all the federal funds, so it canceled over \$5.5 million in federal funds.

Reimbursable funds decreased \$278,000. Budget amendments in fiscal 2014 added \$7,736 in funds from the Maryland Higher Education Commission (MHEC) to promote awareness of postsecondary educational opportunities to low-income individuals; \$230,000 from the Maryland State Department of Education (MSDE) to upgrade data collection systems for the adult and correctional education programs; \$204,000 from the Governor's Office of Crime Control and Prevention to increase the department's contractual staff, training contracts, and related supplies in order to provide re-entry and job services for soon to be released ex-offenders; and \$760,000 from the Maryland Department of

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Transportation (MDOT) to provide workforce development services to individuals interested in highway construction training opportunities. A reduction in information technology expenses and not spending most of the funding from MDOT caused \$1.5 million in reimbursable funds to go unspent.

Fiscal 2015

In fiscal 2015, the department's workforce development units experienced an overall increase in funds, largely driven by federal fund budget amendments.

The original general fund appropriation increased by \$720,000. This increase is largely a result of a 2% COLA.

The original special fund appropriation increased about \$4.2 million. In fiscal 2013, DUI began appropriating special funds from DOL. The plan was to spend \$3.0 million per State fiscal year on new hires. The lengthy recruitment process caused the division not to spend \$3.0 million during fiscal 2013, and the division had committed to DOL to have the distribution exhausted by March 2015. As a result, amendments added \$2.79 million in special funds. Another budget amendment redistributed the reimbursable appropriation for IT that was funded by programs within DLLR. The new allocation increased the IT special funds by \$1.1 million.

The department's federal funds increased \$19.3 million. One amendment added \$9.73 million from two federal grants, the Job Driven National Emergency Grant and the Workforce Investment Act. DUI experienced an increase in unemployment benefits paid under the federal government's Trade Readjustment Allowances program due to the expiration of the Emergency Unemployment Compensation Program. Through a cooperative agreement with DOL and a grant agreement with the Center for Employment Security Education and Research, DUI also received federal funds to support the ongoing efforts of the UI Technology Support Center. As a result, DUI received \$8.09 million through a budget amendment to reimburse the UI Trust Fund and support the UI Technology Support Center. The fund redistribution to the IT office added \$5.2 million in federal funds and reduced federal funds in DUI by \$3.4 million and the Office of the Assistant Secretary by \$1.2 million.

The IT fund distribution decreased the IT office's reimbursable funds by \$6.7 million. The large decline was countered by an addition of \$823,225 in reimbursable funds through budget amendments. DWDAL received \$139,756 as part of a reimbursable grant by the Governor's Office of Crime Control and Prevention for the purpose of providing re-entry services for soon to be released ex-offenders. DWDAL also received \$561,059 through a memorandum of understanding between the Maryland State Highway Administration and DLLR to assess potential candidates for training in various technical and highway construction-related tasks, and to assist the candidates with job readiness, job searches, and job placement. Finally, the department received \$122,410 to spend MHEC funding for data system development and enhancements to share general education diploma/Adult Education data via the Maryland Longitudinal Data Systems in accordance with a memorandum of understanding between DLLR and MSDE.

Audit Findings

Audit Period for Last Audit:	July 1, 2010 – June 20, 2013
Issue Date:	August 2014
Number of Findings:	8
Number of Repeat Findings:	2
% of Repeat Findings:	25%
Rating: (if applicable)	n/a

- Finding 1:** DLLR’s intrusion detection prevention system was not properly protecting the network.
- Finding 2:** Malware protection on DLLR servers and workstations needs improvement.
- Finding 3:** DLLR lacked assurance that adequate information technology security and operational controls existed over the Maryland Workforce Exchange.
- Finding 4:** **DLLR had not established adequate controls over a critical server and database.**
- Finding 5:** There were not sufficient controls to ensure that certain collections were deposited.
- Finding 6:** **Staff were not always properly performing or documenting certain reconciliations.**
- Finding 7:** Documentation of certain year-end transactions did not support the propriety of the reclassification of funds that otherwise would have reverted to the State’s General Fund.
- Finding 8:** Adult education and literacy service grants were not adequately monitored.

*Bold denotes item repeated in full or part from preceding audit report.

Major Information Technology Projects

Department of Labor, Licensing, and Regulation – Workforce Development Unemployment Insurance Modernization

Project Status¹	Implementation	New/Ongoing Project:	Ongoing					
Project Description:	The Division of Unemployment Insurance (DIVISION OF UI) is taking steps to modernize the technology associated with its three largest functions: benefits (paying claimants), contributions (collecting employer taxes), and appeals (dispute arbitration). Maryland has collaborated with Vermont and West Virginia to jointly address undertaking new systems.							
Project Business Goals:	Create a system that fosters claimant and employer self-service opportunities and improves the customer experience; is flexible enough to accommodate changes in law or policy; and has improved navigation for DIVISION OF UI staff.							
Estimated Total Project Cost¹:	\$76,109,161	Estimated Planning Project Cost¹:	n/a					
Project Start Date:	April 2011	Projected Completion Date:	August 2019					
Schedule Status:	The project is in Systems Development Life Cycle phase 5.							
Cost Status:	Project costs have increased approximately \$2.29 million since fiscal 2015.							
Scope Status:	n/a							
Project Management Oversight Status:	Project manager assigned.							
Identifiable Risks:	Organizations culture is a high risk as staff will need to relearn how to perform work with the new technology. Implementation is also a high risk because the implementation process timing is still unclear.							
Additional Comments:	\$250,000 is allotted for oversight in fiscal 2016.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Balance to Complete	Total
Personnel Services	\$97.0	\$248.0	\$2,412.0	\$1,530.0	\$0.0	\$0.0	\$0.0	\$4,287.0
Professional and Outside Services	12,987.0	8,017.0	21,802.0	23,116.0	5,700.0	0.0	0.0	71,622.0
Other Expenditures	0.0	50.0	72.0	54.0	25.0	0.0	0.0	200.0
Total Funding	\$13,083.0	\$8,315.0	\$24,286.0	\$24,700.0	\$5,725.0	\$0.0	\$0.0	\$76,109.0

¹ Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the Systems Development Lifecycle (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. For planning projects, costs are estimated through planning phases. Implementation projects are required to have total development costs.

**Object/Fund Difference Report
DLLR – Workforce Development**

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,275.99	1,282.19	1,281.19	-1.00	-0.1%
02 Contractual	218.87	219.01	224.76	5.75	2.6%
Total Positions	1,494.86	1,501.20	1,505.95	4.75	0.3%
Objects					
01 Salaries and Wages	\$ 93,034,335	\$ 104,173,405	\$ 109,174,906	\$ 5,001,501	4.8%
02 Technical and Spec. Fees	7,813,887	11,634,677	9,021,238	-2,613,439	-22.5%
03 Communication	4,901,099	4,513,430	5,127,922	614,492	13.6%
04 Travel	543,312	832,747	687,468	-145,279	-17.4%
06 Fuel and Utilities	752,893	1,023,664	1,016,908	-6,756	-0.7%
07 Motor Vehicles	296,479	276,647	228,494	-48,153	-17.4%
08 Contractual Services	20,495,798	28,853,087	22,997,820	-5,855,267	-20.3%
09 Supplies and Materials	1,967,320	2,098,828	1,909,261	-189,567	-9.0%
10 Equipment – Replacement	2,402,222	1,060,052	299,015	-761,037	-71.8%
11 Equipment – Additional	680,726	914,421	498,430	-415,991	-45.5%
12 Grants, Subsidies, and Contributions	97,228,128	87,544,828	81,982,269	-5,562,559	-6.4%
13 Fixed Charges	3,867,119	4,578,634	4,454,806	-123,828	-2.7%
Total Objects	\$ 233,983,318	\$ 247,504,420	\$ 237,398,537	-\$ 10,105,883	-4.1%
Funds					
01 General Fund	\$ 34,154,490	\$ 36,505,719	\$ 37,643,297	\$ 1,137,578	3.1%
03 Special Fund	13,305,652	15,370,422	12,140,776	-3,229,646	-21.0%
05 Federal Fund	175,258,501	189,090,939	181,267,552	-7,823,387	-4.1%
09 Reimbursable Fund	11,264,675	6,537,340	6,346,912	-190,428	-2.9%
Total Funds	\$ 233,983,318	\$ 247,504,420	\$ 237,398,537	-\$ 10,105,883	-4.1%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
DLLR – Workforce Development

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 Executive Direction	\$ 6,747,213	\$ 7,204,768	\$ 6,787,983	-\$ 416,785	-5.8%
02 Administrative Adjudication	100,332	389,731	430,865	41,134	10.6%
05 Legal Services	3,278,536	3,795,773	4,093,448	297,675	7.8%
08 Equal Opportunity and Program Equity	308,896	316,537	331,991	15,454	4.9%
09 Governor's Work Force Investment Board	689,242	759,268	759,945	677	0.1%
11 Appeals	1,461,042	1,761,087	1,463,484	-297,603	-16.9%
12 Lower Appeals	6,727,991	7,109,582	6,894,070	-215,512	-3.0%
03 Office of Budget and Fiscal Services	4,752,101	4,731,871	5,644,765	912,894	19.3%
04 Office of General Services	5,626,032	6,143,421	6,472,760	329,339	5.4%
05 Office of Information Technology	6,419,355	6,967,353	7,502,759	535,406	7.7%
06 Office of Personnel Services	2,017,749	2,131,129	2,270,624	139,495	6.5%
07 Workforce Development Program	83,017,115	75,730,089	70,487,707	-5,242,382	-6.9%
12 Adult Education Program	2,345,279	3,062,436	2,828,428	-234,008	-7.6%
13 Adult Corrections Program	17,803,483	19,254,413	19,791,895	537,482	2.8%
14 Aid to Education	16,221,214	16,183,045	16,041,103	-141,942	-0.9%
01 Office of Unemployment Insurance	76,229,727	79,546,417	77,116,840	-2,429,577	-3.1%
02 Major Information Technology Development Projects	238,011	12,417,500	8,479,870	-3,937,630	-31.7%
Total Expenditures	\$ 233,983,318	\$ 247,504,420	\$ 237,398,537	-\$ 10,105,883	-4.1%
General Fund	\$ 34,154,490	\$ 36,505,719	\$ 37,643,297	\$ 1,137,578	3.1%
Special Fund	13,305,652	15,370,422	12,140,776	-3,229,646	-21.0%
Federal Fund	175,258,501	189,090,939	181,267,552	-7,823,387	-4.1%
Total Appropriations	\$ 222,718,643	\$ 240,967,080	\$ 231,051,625	-\$ 9,915,455	-4.1%
Reimbursable Fund	\$ 11,264,675	\$ 6,537,340	\$ 6,346,912	-\$ 190,428	-2.9%
Total Funds	\$ 233,983,318	\$ 247,504,420	\$ 237,398,537	-\$ 10,105,883	-4.1%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.