

P00
Workforce Development
Department of Labor, Licensing, and Regulation

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$26,699	\$27,355	\$31,294	\$3,939	14.4%
Contingent & Back of Bill Reductions	0	0	-22	-22	
Adjusted General Fund	\$26,699	\$27,355	\$31,272	\$3,917	14.3%
Special Fund	7,261	12,855	10,378	-2,477	-19.3%
Contingent & Back of Bill Reductions	0	0	-8	-8	
Adjusted Special Fund	\$7,261	\$12,855	\$10,370	-\$2,485	-19.3%
Federal Fund	170,647	159,471	158,494	-977	-0.6%
Contingent & Back of Bill Reductions	0	0	-117	-117	
Adjusted Federal Fund	\$170,647	\$159,471	\$158,378	-\$1,093	-0.7%
Reimbursable Fund	9,830	9,951	11,543	1,591	16.0%
Adjusted Reimbursable Fund	\$9,830	\$9,951	\$11,543	\$1,591	16.0%
Adjusted Grand Total	\$214,437	\$209,633	\$211,563	\$1,930	0.9%

- The fiscal 2014 allowance includes a deficiency for fiscal 2013 of almost \$2.2 million in general and federal funds under the Division of Workforce Development and Adult Learning. The general funds will be used to upgrade the department's general educational development tracking system so that it will be compatible with a new computerized exam. The federal funds will supplement the department's literacy and English for Speakers of Other Languages programs.
- The fiscal 2014 budget bill includes an across-the-board reduction to health insurance expenses. The workforce development units' share of this reduction is \$146,978 across all funds.

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

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P00 – DLLR – Workforce Development

- The fiscal 2014 allowance increases by \$1.9 million from the fiscal 2013 working appropriation. This is largely due to the inclusion of \$2.5 million in general funds for the proposed “Employment Advancement Right Now” program and due to an increase of \$1.0 million in general funds for the Literacy Works program. The increase in the allowance is partially offset by declines in special and federal funds that are attributable almost entirely to the Division of Unemployment Insurance.

Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Positions	1,292.49	1,290.39	1,290.39	0.00
Contractual FTEs	<u>216.39</u>	<u>252.72</u>	<u>212.42</u>	<u>-40.30</u>
Total Personnel	1,508.88	1,543.11	1,502.81	-40.30

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	79.62	6.17%
Positions and Percentage Vacant as of 12/31/12	87.30	6.77%

- Regular full-time positions remain unchanged in the fiscal 2014 allowance; however, contractual full-time equivalents decline by 40.3 due to an expected change in workload under the Division of Unemployment Insurance and due to a decline in General Education Development testing proctors under the Division of Workforce Development and Adult Learning.
- Vacant positions total 87.3 at the end of calendar 2012, slightly above what is required to meet turnover.

Analysis in Brief

Major Trends

Unemployment Insurance Appeals Begin to Abate: The number of unemployment insurance (UI) claimants is continuing to decline after reaching a high in fiscal 2010. The pressure from the corresponding UI appeals cases is starting to abate for the Lower Appeals division. However, due to the lag in timing for higher appeals, the Board of Appeals remains busy and has lost some of its efficiency.

Fewer Achievements by Adult Students: Since the transfer of adult education programs from the Maryland State Department of Education, the department has utilized the same performance measures that existed under the prior structure. The original measures are showing declines in various outcomes, including occupational certificates and literacy certificates.

Issues

Employment Advancement Right Now Program to Add to Department's Other Workforce Training Tools: The Administration has introduced Senate Bill 278/House Bill 227, the Maryland Employment Advancement Right Now (EARN) program. According to the bill, 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 for working families. The department currently offers a range of workforce assistance programs that are primarily aimed at the job seeker, although there is significant industry input at both the State and local level through the workforce investment boards. **The Department of Legislative Services (DLS) recommends that the department discuss the proposed EARN program including how it would differ from the department's current workforce development offerings and how the department would measure the success of the program.**

Status of the UI Trust Fund: In fiscal 2012, the balance in the UI Trust Fund began to rebound significantly. Additionally, benefit payouts began to ebb. As a result, employers in the State will be able to pay from a lower tax table in calendar 2013 than they did in calendar 2012. **DLS recommends that the department brief the budget committees on the status of the UI program and specifically what Table C will mean for Maryland businesses in 2013.**

Department Is Cited for Repeat Audit Findings: In a legislative audit released in October 2011, the department was cited with five repeat findings out of a total of nine. The Joint Audit Committee continues to be concerned with the number and frequency of repeat audit findings across State agencies. In an effort to see these findings satisfactorily resolved, the committee has asked the budget committees to consider action in the agency budgets where such findings occur. **DLS recommends that the department confirm its resolve to address the findings. Further, DLS recommends withholding a portion of the department's appropriation until the Office of Legislative Audits has determined that the repeat findings have been corrected.**

Recommended Actions

1. Add language restricting funds until legislative audit findings are remedied.
2. Add language making the funding for the Maryland Employment Advancement Right Now program contingent on the enactment of legislation that authorizes the program.

P00
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. The department also administers a variety of employment service and adult learning programs.

This analysis focuses on the department'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 (GWIB); appeals; budget and fiscal services; general services; information technology; and personnel.

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

- **Division of Workforce Development and Adult Learning** operates workforce development programs including job services, 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 a workforce development, education, and 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, partial wage replacement to eligible individuals who are unemployed, help facilitate their return to work, and collect unemployment insurance tax contributions from employers.

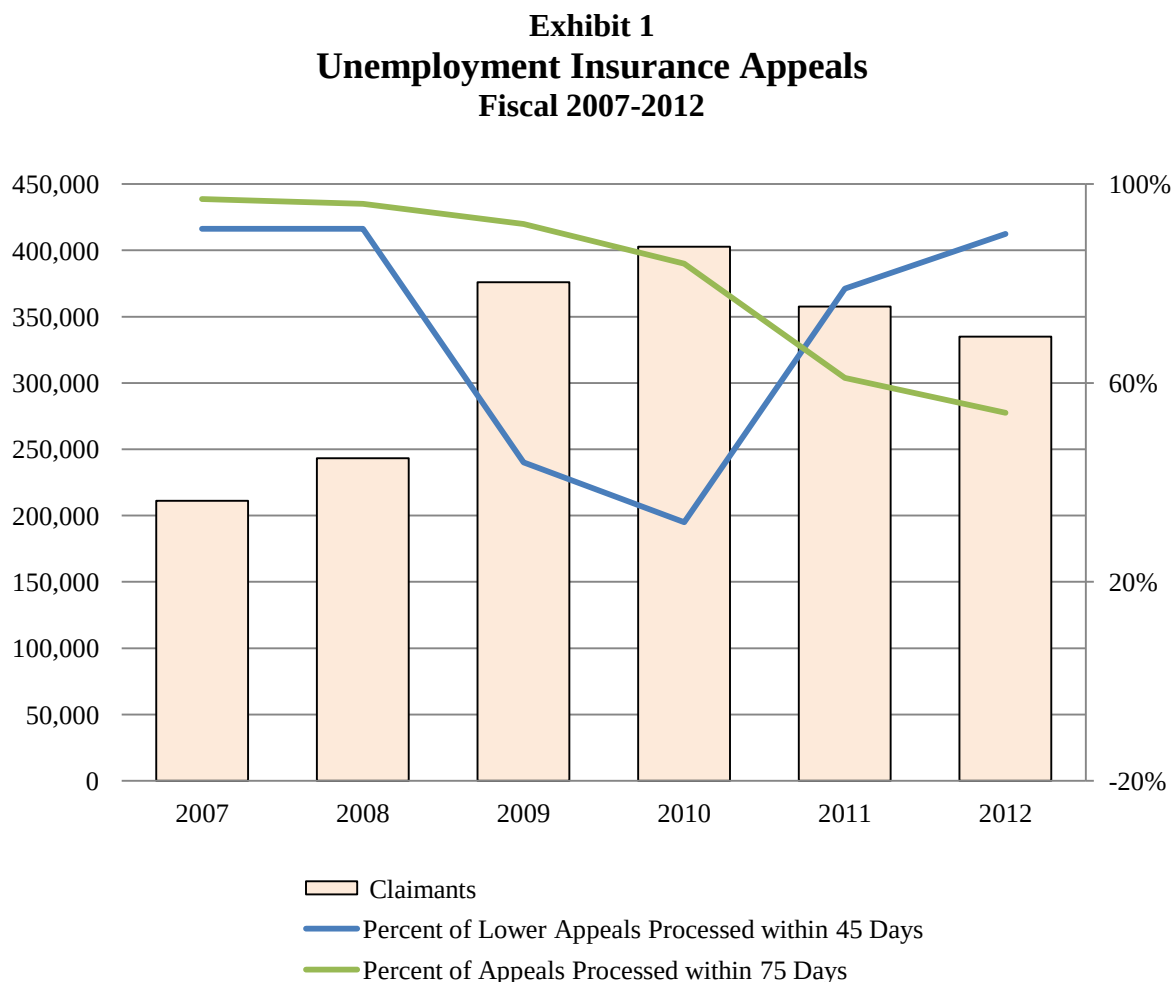
A separate analysis discusses business regulation and occupational licensing functions.

Performance Analysis: Managing for Results

1. Unemployment Insurance Appeals Begin to Abate

The Lower Appeals Division hears and decides appeals from the department's initial determination on UI claims matters. The unit strives to process 85% of the appeals within 45 days. The Board of Appeals hears and decides appeals from decisions of the lower appeals unit. This board strives to process 90% of appeals within 75 days.

Exhibit 1 shows the number of claimants for UI benefits as compared to the efficiency rate of processing UI appeals. From fiscal 2008 to 2009, the number of individuals claiming UI benefits increased by 40%. The number of appeals increased by a proportionate amount. The exhibit shows that as claims increased, the efficiency of lower appeals decreased. Once the number of claimants began to decline in fiscal 2012, the performance of the lower appeals unit improved significantly. Additionally, an increase in federal funds for additional staff and the assistance of the Office of Administrative Hearings helped to improve the efficiency.



Source: Governor's Budget Books, Fiscal 2010-2011

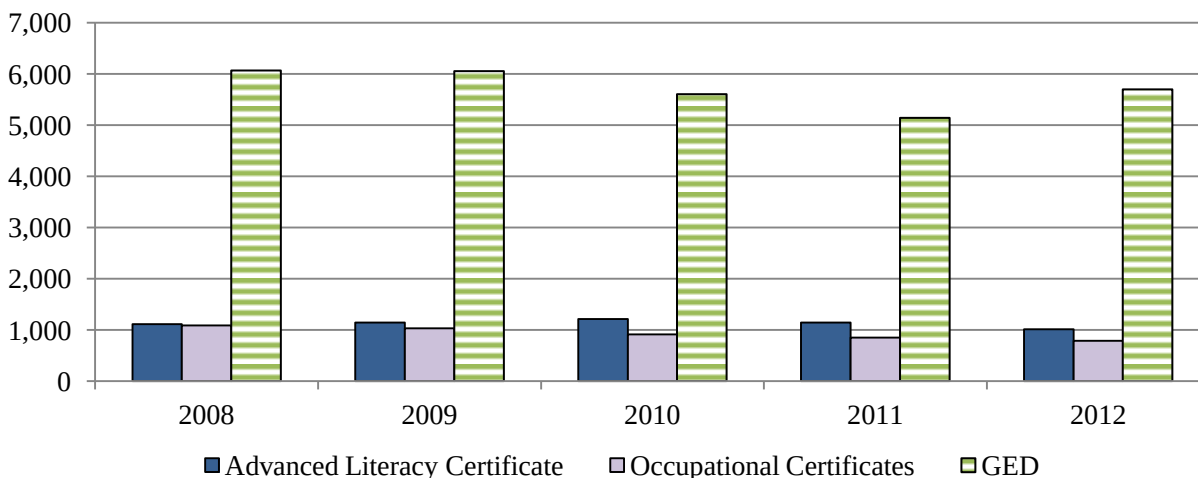
However, the workload of the Board of Appeals unit lags behind the Lower Appeals unit. As such, the pressure of appeals begins to show itself in the declining efficiency in fiscal 2011. The unit's productivity fell by 27.4% in fiscal 2011 and another 11.5% in fiscal 2012. It is assumed, however, that the appeals caseload will soon begin to decline, and that the Board of Appeals will again be able to reach its productivity goals.

2. Fewer Achievements by Adult Students

Chapter 134 of 2008 transferred adult education, literacy, and correctional education services from the Maryland State Department of Education (MSDE) to DLLR as of July 1, 2009. This legislation was enacted in order to align the State’s workforce development resources with adult learning needs. The Division of Workforce Development and Adult Learning is tracking the number of learners who advance a literacy level; the rate of high school diplomas awarded; the rate of entering employment; total instructional hours; completion of academic, occupational, and transitional programs; total enrollment; and the number of students/inmates on waiting lists. Additionally, adult learning programs are now subject to the StateStat process.

Exhibit 2 shows a sampling of the division’s outcomes. Since the transfer of the adult education functions to the department, the awarding of various adult student certificates/diploma has generally declined. It should be noted, however, that the budget for the Adult Education program declined 37.6% from the original appropriation in fiscal 2010 to the actual appropriation in fiscal 2011. Funding has not been restored to that original level. However, the consistent decline in occupational certificates is particularly counter to the purpose of combining adult education and workforce development programs. Since 2008, the number of occupational certificates has fallen by 27.6%. It was expected that a greater emphasis on workforce development would result in greater workforce skills for adult learners.

Exhibit 2
Adult Education Outcomes
Fiscal 2008-2012



GED: general educational development

Source: Department of Labor, Licensing, and Regulation

Fiscal 2013 Actions

Section 25 of Chapter 1 of the First Special Session of 2012 (the Budget Reconciliation and Financing Act of 2012) required the Governor to abolish at least 100.0 vacant position as of January 1, 2013, saving at least \$6 million in general funds. The workforce development units' share of the reduction was 1.5 positions, and \$120,881 in savings.

Proposed Deficiency

The fiscal 2014 allowance includes a fiscal 2013 deficiency of \$2,172,512 in federal and general funds. The general funds (\$413,571) will be used to upgrade the current General Educational Development (GED) tracking system to be compatible with the new national testing standards. The nonprofit organization that administers GED testing has developed a new test that is entirely computerized. Currently, test takers in the State have access to only a paper test. It is expected that the test will be fully computerized by 2014; however, the department plans to establish a pilot program with the new system at a few testing sites around the State in 2013. The deficiency will allow the department to update its current tracking system to enable recordkeeping that is compatible with the computerized test sites.

The federal funds deficiency (\$1,758,941) will be used to supplement the department's adult education programs and will specifically provide grants for civics education and integrated English literacy services to individuals who are immigrants and other limited English proficient populations.

Proposed Budget

The fiscal 2014 allowance is \$211.6 million, an increase of \$1.9 million, or 0.9%, from the fiscal 2013 working appropriation. **Exhibit 3** details the specific changes in the allowance, most notably, changes in the department's workforce grant programs.

Exhibit 3
Proposed Budget
DLLR – Workforce Development
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2013 Working Appropriation	\$27,355	\$12,855	\$159,471	\$9,951	\$209,633
2014 Allowance	<u>31,294</u>	<u>10,378</u>	<u>158,494</u>	<u>11,543</u>	<u>211,710</u>
Amount Change	\$3,939	-\$2,477	-\$977	\$1,591	\$2,077
Percent Change	14.4%	-19.3%	-0.6%	16.0%	1.0%
Contingent Reduction	-\$22	-\$8	-\$117	\$0	-\$147
Adjusted Change	\$3,917	-\$2,485	-\$1,093	\$1,591	\$1,930
Adjusted Percent Change	14.3%	-19.3%	-0.7%	16.0%	0.9%

Where It Goes:

Personnel Expenses

Annualized general salary increase	\$801
Increments and other compensation.....	-1,494
Reclassifications.....	-652
Employee and retiree health insurance.....	530
Retirement System	1,699
Workers' compensation premium assessment	146
Turnover adjustments.....	-1,545
Other fringe benefit adjustments.....	53

Other Changes

Employment Advancement Right Now Program.....	2,500
Federal funds available under Aid to Education	1,619
Annapolis Data Center and other outside technology expenses.....	1,320
Literacy Works program	1,000
Rent	561
Federal workforce development grants	-2,955

P00 – DLLR – Workforce Development

Where It Goes:

Other Changes

Contractual staff	-885
Unemployment Insurance communications costs	-456
Costs related to general educational development paper testing.....	-251
Other miscellaneous changes	-61
Total	\$1,930

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

Division of Workforce Development and Adult Learning

The primary change in the fiscal 2014 allowance is the inclusion of \$2.5 million for the newly proposed Employment Advancement Right Now (EARN) program. The Administration has introduced SB 278/HB 227 which creates the grant program that is designed to provide funds on a competitive basis for strategic industry workforce training, job-readiness training, and skills training that result in a credential or an identifiable skill. This issue will be discussed further under the Issues section of this analysis.

Grant funding under the department's traditional workforce training programs decline by a net of \$2.9 million in federal funds. This is primarily due to the conclusion of federal grants that were specifically targeted to Base Realignment and Closure (BRAC) workforce issues and to energy sector workforce issues. Partially mitigating the loss of these grants is an increase in funds awarded under the National Emergency Grants of the federal Workforce Investment Act. These funds are specifically targeted to address the loss of jobs related to the closure of RG Steel at Sparrows Point.

The division also provides federal and general fund grants to community colleges, local public school systems, community-based organizations, public libraries, and correctional institutions to provide basic literacy and general education training to adults. The fiscal 2014 allowance for this purpose increases by about \$2.6 million in general and federal funds. Of this, \$1.0 million in general funds was added to the division's Literacy Works program. This represents a 15.6% increase in the funding for that program. The remaining \$1.6 million increase in federal funds were awarded to the State through a formula that is based on the ratio of adult and youths age 16 and older who are not enrolled or required to be enrolled in secondary school under State law and who do not hold a high school diploma.

Division of Unemployment Insurance

The fiscal 2014 allowance for UI decreases by approximately \$2.5 million. This is primarily due to the anticipation of a decline in the workload of the division. Federal funds are provided to the department based on a formula of the expected workload indicators. Salaries are declining by about \$1.2 million. This is largely due to vacancies and to the downward reclassification of positions. The

P00 – DLLR – Workforce Development

department advises that it expects to hold on to vacancies until the expectations of a lessened workload are fully realized.

Additionally, the division is reducing its contractual staff considerably, approximately 18.0%. Similarly, communication expenses, associated with the level of UI claims and benefits, are also declining by about 10.4%.

Other Changes

The fiscal 2014 allowance reflects various small increases that more accurately budget for the workforce development units' use of space and technology. For example, the costs associated with the use of the Annapolis Data Center are increasing. Similarly, a new allocation of rent charges has led to an increase in rent to the workforce units. Finally, the units are now reimbursing its own Office of Information Technology (IT) based on actual usage.

As mentioned before, the department is in the process of transitioning to a computer based GED test, rather than a paper based test. The department expects to save about \$251,000 in paper forms for the outdated test in fiscal 2014.

Issues

1. Employment Advancement Right Now Program to Add to Department's Other Workforce Training Tools

The Administration has introduced SB 278/HB 227, the Maryland EARN program. According to the bill, 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 for working families. Specifically, the program will provide 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.

An application for a grant under the program must identify the members participating in the strategic industry partnership and include evidence of a shortage in skilled employment within a target industry, a description of specific high-demand occupations, and the specifics of training programs that would result in individuals obtaining credentials or identifiable skills. The competitive grant process must give priority to strategic industry partnerships that maximize the potential of the collaboration through direct financial or in-kind contributions by members of the target industry.

Additionally, the bill requires that the department develop and implement a State employment advancement strategy in consultation with the Department of Budget and Management. The strategy must identify (1) State government positions in need of skilled employees, and (2) mechanisms to provide incumbent State employees with access to skills training programs. The department must also develop a uniform and easily accessible statewide Train Maryland website promoting available training programs in the State, including those available under the Maryland EARN Program.

Dovetailing with Department's Other Training Programs

The proposed EARN program is designed to foster workforce training that is industry driven. The current workforce development programs within the department are, by contrast, primarily driven by the individual seeking services. However, the department is not without current input from the private business community. Representatives from the business community and from the education community are represented on the local workforce investment boards and on GWIB.

Local One-stop Employment Shops

Many of the State's employment services are provided and tailored by local workforce investment boards. There are 12 local boards across the State, and each is chaired by a local business person. The point of contact for most individuals seeking services is the one-stop shops, which are located in each county. Services include:

- **Core Services** – eligibility determination, outreach, assessment, training information, job searches, placement, and labor market information;
- **Intensive Services** – specialized assessment, diagnostic testing, employment barrier evaluation, individual counseling, career planning, out-of-area job search, educational remediation, and internships; and
- **Training Services** – occupational skills, on-the-job training, cooperative programs, skills training, and job readiness training.

Funds are provided to each jurisdiction based on a formula that considers a variety of workforce indicators such as population and employment data. In fiscal 2012, 183,852 individuals received workforce services from a one-stop shop. Of that total, 117,046 received staff assistance.

GWIB

GWIB is housed within the department and coordinates the efforts among agencies to deliver education and training for anyone seeking employment, as well as basic job-search skills development. GWIB is charged with the development of the State plan, development of allocation formulas for distribution of specified funds, and development and continuous improvement of comprehensive State performance measures. GWIB is comprised primarily of business leaders but also includes government representatives, college presidents, the State superintendent of schools, elected officials, labor, and representatives of nonprofit organizations. It focuses the department's policies based on a "demand driven approach to workforce development."

Maryland Workforce Exchange

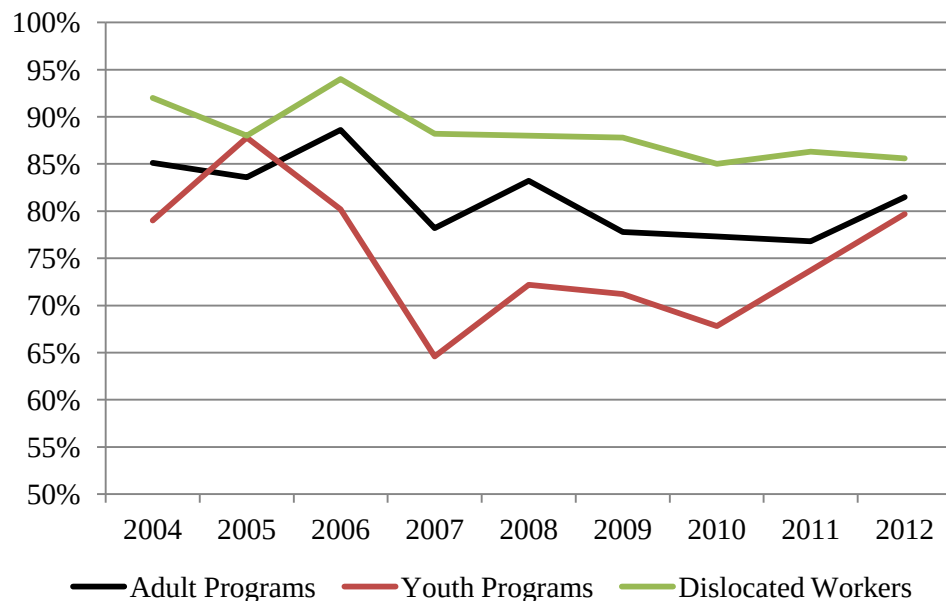
The proposed legislation requires the department to develop a uniform and easily accessible statewide Train Maryland website promoting available training programs in the State, including those available under the Maryland EARN Program. The department currently operates the Maryland Workforce Exchange – a website that is a "link to over 75,000 jobs and additional information about career options in Maryland." The exchange has links for general job searches and also for targeted industry job searches such as cybersecurity jobs and green jobs. There is also a link that allows for job market trend searches for any type of career. Additionally, there is a link to education and training information including approved training providers and schools, information about how many people received training in any given field, and information about financial aid.

Outcomes of Current Job Training Programs

Recent studies have shown that job retraining works best in periods of structural unemployment as opposed to cyclical unemployment. Further studies show that employers are more likely to hire more workers if they do not have to pay for training. To that end, the department provides federal funding for training for adult, youth, and dislocated workers.

Exhibit 4 shows the “entered employment rate” for the individuals that participate in the department’s three federally prescribed training programs. The department tracks those individuals that have been assisted by departmental staff and have had intensive or training services. Both adult and youth participants have showed recent increases in the rate in which they entered employment. However the dislocated workers showed fairly flat progress. Only the youth participant outcome met the federal standard.

Exhibit 4
Workforce Development Programs
Employment Outcomes
Fiscal 2004-2012



Source: Governor’s Budget Books, Fiscal 2005-2014

The Department of Legislative Services (DLS) recommends that the department discuss the proposed EARN program including how it would differ from the department’s current workforce development offerings and how the department would measure the success of the program.

2. Status of the UI 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. Funding for the program is provided by employers through UI taxes paid to both the federal government for administrative expenses and to the states for deposit in their respective UI trust funds.

Outlook for Employer Taxes in Calendar 2013

Legislation enacted in Maryland in 2005 altered Maryland's UI charging and taxation system by creating a series of experience tax rate tables that are based on the balance in the Maryland UI Trust Fund. An employer's unemployment experience determines the rate charged within each table.

If the balance of the UI Trust Fund exceeds 5.0% of total taxable wages in the State (as measured on September 30 of the current year), the lowest tax rate table (Table A) is used to calculate employer rates for the following calendar year. In Table A, employers pay a minimum of 0.3% (on the first \$8,500 of annual wages of each employee) and a maximum of 7.5% (\$25.50 to \$637.50 per employee).

The highest tax table (Table F) is used when the balance of the UI Trust Fund is not in excess of 3.0% of the total taxable wages. In Table F, employers pay a minimum of 2.2% and a maximum of 13.5% (\$187.00 to \$1,147.50 per employee).

Exhibit 5 shows the balance of the UI Trust Fund on September 30 of each year since 1999, the annual payout amounts since 1999, and Maryland's seasonally adjusted unemployment rate each year since 1999. Also shown in the exhibit are the tax tables employers paid from during calendar 2006 to 2012, and will pay from during calendar 2013. Due to the more favorable employment picture in the State, lower claims activity, and a healthier trust fund balance, employers will move from Table F to Table C in calendar 2013. The range of rates for Table C is 1.0 to 10.5% on the first \$8,500 in wages paid.

Exhibit 5
Maryland's Unemployment Rate, UI Trust Fund Balance,
and Annual Benefit Payouts
Calendar 1999-2013

Tax Calendar Year	Percentage Unemployment Rate at the End of Year¹	UI Trust Fund Balance as of Prior September 30 (\$ in Millions)²	Tax Rate Table in Effect	Annual Benefit Payouts³ (\$ in Millions)
1999	3.5	\$741.6		\$265.0
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	1,032.5	A	433.3
2008	5.8	1,057.8	A	785.2
2009	7.6	895.4	B	1,068.8
2010	7.4	301.7	F	900.7
2011	7.3	273.4	F	795.7
2012	6.6	460.2	F	778.5
2013	n/a	794.5	C	n/a

¹Data is from the U.S. Department of Labor (DOL): unemployment rate for 2012, as of July 2012.

²Data is from the Department of Labor, Licensing, and Regulations: 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.

Note: The historical high unemployment rate for Maryland was 8.3% in August 1982, and the historical low was 3.3% in March 2000.

UI: unemployment insurance

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

Eligible claimants may receive up to 26 weeks of regular UI benefits from the State UI Trust Fund. In addition to State UI benefits, in 2008, federal law established emergency unemployment compensation benefits (EUC) for 47 weeks for UI claimants who have exhausted regular UI benefits for a total of 73 weeks of regular and EUC. The EUC program was set to expire on December 29, 2012, meaning not all eligible claimants will be able to receive the extra 47 weeks of

benefits. However, late in 2012, Congress did extend the current provisions of the EUC until January 1, 2014. Congress did not, however, add any extra weeks of benefits.

DLS recommends that the department brief the budget committees on the status of the UI program and specifically, on what Table C will mean for Maryland businesses in 2013.

3. Department Is Cited for Repeat 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 the Division of Workforce Development and Adult Learning. Many of the findings found that the department's IT office did not adequately secure its data, including personal information of UI beneficiaries.

For example, auditors found that personal information on those making UI claims was often transmitted in plain text instead of encrypted text. Such information can be intercepted and read. When the data was encrypted, the auditors found that the code was relatively easy to interpret. Furthermore, the department's website was not monitored for suspicious activity, and web security software did not protect the department's database.

The department concurred with the audit findings, and further responded that it will improve its security and monitoring of its IT systems.

The Joint Audit Committee continues to be concerned with the number and frequency of repeat audit findings across State agencies as cited by OLA. In an effort to see these findings satisfactorily resolved, the committee has asked the budget committees to consider action in the agency budgets where such findings occur. The department's October 2011 audit found that five of the nine findings were repeated findings.

Appendix 2 details the findings of a subsequent legislative audit, released in September 2012 on the UI division. There were no repeat findings.

DLS recommends that the department confirm its resolve to address the findings. Further, DLS recommends withholding a portion of the department's appropriation until OLA has determined that the repeat findings have been corrected.

Recommended Actions

1. Add the following language:

, provided that since the Department of Labor, Licensing, and Regulation (DLLR) has had four or more repeat findings in the most recent fiscal compliance audit issued by the Office of Legislative Audits (OLA), \$150,000 of this agency's administrative appropriation may not be expended unless:

- (1) DLLR has taken corrective action with respect to all repeat audit findings on or before January 1, 2014; and
- (2) a report is submitted to the budget committees by OLA listing each repeat audit finding along with a determination that each repeat finding was corrected. The budget committees shall have 45 days to review and comment to allow for funds to be released prior to the end of fiscal 2014.

Explanation: The Joint Audit Committee has requested that budget bill language be adopted for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each such agency is to have a portion of its administrative budget withheld pending the adoption of corrective action by the agency, and a determination by OLA that each finding was corrected. OLA shall submit reports to the budget committees on the status of repeat findings.

Information Request	Author	Due Date
Report on status of repeat audit findings	OLA	45 days prior to the expenditure of funds

2. Add the following language to the general fund appropriation:

, provided that \$2,500,000 of this appropriation is contingent on the enactment of legislation authorizing the Maryland Employment Advancement Right Now program.

Explanation: This language would eliminate funding for the Maryland Employment Advancement Right Now (EARN) program if the legislation that authorizes the grant program fails to be enacted.

Current and Prior Year Budgets

Current and Prior Year Budgets DLLR – Workforce Development (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$26,901	\$7,432	\$171,267	\$11,519	\$217,119
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-53	202	14,627	400	15,177
Reversions and Cancellations	-150	-373	-15,247	-2,089	-17,858
Actual Expenditures	\$26,699	\$7,261	\$170,647	\$9,830	\$214,437
Fiscal 2013					
Legislative Appropriation	\$27,195	\$7,848	\$158,805	\$9,876	\$203,724
Budget Amendments	160	5,007	666	75	5,908
Working Appropriation	\$27,355	\$12,855	\$159,471	\$9,951	\$209,633

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

Fiscal 2012

The original fiscal 2012 appropriation was increased by a total of \$929,218 in general, special, and federal funds. This is due to a one-time \$750 employee bonus that was distributed to each agency by budget amendment during the fiscal year. The general and special fund increases were more than offset by less than expected expenditures across most of the workforce development units that resulted in over \$523,000 in reverted and canceled funds.

Multiple changes to the original federal fund appropriation resulted in slightly lower final expenditures. In addition to the employee bonus budget amendment, other amendments added over \$13.7 million to the original appropriation for fiscal 2012. Specifically, one amendment provided \$150,000 in federal funds to GWIB. The source of funds was the U.S. Department of Health and Human Services under the authority of the Affordable Health Care Act of 2010. The grant enabled the board to complete comprehensive health care workforce development planning.

Additionally, an amendment appropriated \$3,822,199 in federal funds to the Assistant Secretary's Office of the Division of Workforce Development and Adult Learning. The funds were awarded under the National Emergency Grants of the federal Workforce Investment Act. These grants address any additional training needs related to BRAC. The amendment also provided \$384,776 in federal funds for the department's Adult Corrections Program to ensure that individuals make the transition from incarceration to the community safely and successfully. However, the department was unable to utilize this funding during fiscal 2012 and the funds have been canceled. The department expects to carry the funds forward to fiscal 2013.

Another amendment provided \$9.5 million in federal funds to the department's UI division. The division has an agreement with the U.S. Department of Labor to operate the national center (located in Maryland) that provides national data and technology support for state unemployment agencies. These funds supported the operations of that center.

These increases to the federal funds appropriation were offset by cancellation of funds. Specifically, UI canceled almost \$6.8 million in federal funds. The vast majority of these funds (\$6.4 million) were canceled due to lower than expected IT costs related to a system modernization. Unemployment IT modernization is being undertaken by a consortium of states. Because Maryland is not the lead state in this undertaking, the department's costs are significantly less than expected. The remaining funds were canceled due to a lower than expected contract cost for a new benefit management system.

The UI appeals divisions also canceled over \$2.2 million in federal funds for a new case tracking system. This upgrade was instead funded out of existing federal funds from the UI division.

Reimbursable funds increased during fiscal 2012 due to a budget amendment that allocated \$400,000 from the Department of Human Resources to help Temporary Cash Assistance users to obtain full-time employment. However, reimbursable funds related to the State Energy Sector Program were canceled due to the availability of federal funds to support job programs related to the energy sector.

P00 – DLLR – Workforce Development

Other changes to the original appropriation resulted from budget amendments that realigned funds, in part, between the workforce development divisions and the business regulation divisions of the department which are discussed in another analysis.

Fiscal 2013

The original fiscal 2013 appropriation was increased by \$772,921 across special and federal funds due to a budget amendment increasing funds for the cost-of-living and other salary adjustments.

Special funds increased by an additional \$4.9 million within UI. Of this total, \$3.0 million was deposited into the State's UI Trust Fund from the federal government. It was transferred from the trust fund into the fiscal 2013 budget for efficiency upgrades and workload improvement initiatives. The remaining special funds were transferred into the budget because it was determined that federal funds may not be used to pursue UI penalty and interest monies.

Reimbursable funds increased by \$75,000 in fiscal 2013 due to a budget amendment that transferred funds from the Maryland Higher Education Commission to the department's Adult Learning program in order to provide activities and services to promote awareness of postsecondary education opportunities to low income individuals and families.

The remaining changes in the appropriation resulted from budget amendments that realigned funds, in part, between the workforce development divisions and the business regulation divisions of the department which are discussed in another analysis.

Audit Findings

Audit Period for Last Audit:	June 1, 2008 – January 31, 2011
Issue Date:	September 2012
Number of Findings:	5
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

These audit findings relate only to UI.

Finding 1: UI did not use available wage information to maximize its efforts to detect and identify claimants potentially receiving improper benefit payments.

Finding 2: UI did not maximize its use of certain targeted matching procedures to identify benefit payments with a higher likelihood of being improper.

Finding 3: UI did not have a process to ensure that its benefit records reflected the most current and accurate claimant addresses.

Finding 4: A system programming error allowed employers to be improperly certified to receive tax credits.

Finding 5: User access controls over critical production date files were inadequate.

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

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

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,292.49	1,290.39	1,290.39	0.00	0%
02 Contractual	216.39	252.72	212.42	-40.30	-15.9%
Total Positions	1,508.88	1,543.11	1,502.81	-40.30	-2.6%
Objects					
01 Salaries and Wages	\$ 92,873,395	\$ 99,179,628	\$ 98,863,684	-\$ 315,944	-0.3%
02 Technical and Spec. Fees	5,978,250	8,017,518	7,132,482	-885,036	-11.0%
03 Communication	4,755,321	5,540,295	5,084,298	-455,997	-8.2%
04 Travel	618,500	636,559	710,597	74,038	11.6%
06 Fuel and Utilities	608,104	886,568	626,077	-260,491	-29.4%
07 Motor Vehicles	358,818	333,500	342,224	8,724	2.6%
08 Contractual Services	21,086,373	18,032,264	19,809,823	1,777,559	9.9%
09 Supplies and Materials	2,383,731	2,043,294	1,868,319	-174,975	-8.6%
10 Equipment – Replacement	920,033	809,676	859,364	49,688	6.1%
11 Equipment – Additional	1,218,046	907,562	749,642	-157,920	-17.4%
12 Grants, Subsidies, and Contributions	81,081,075	69,667,051	71,523,380	1,856,329	2.7%
13 Fixed Charges	2,555,701	3,578,664	4,139,904	561,240	15.7%
Total Objects	\$ 214,437,347	\$ 209,632,579	\$ 211,709,794	\$ 2,077,215	1.0%
Funds					
01 General Fund	\$ 26,698,781	\$ 27,355,200	\$ 31,294,217	\$ 3,939,017	14.4%
03 Special Fund	7,261,195	12,855,003	10,378,391	-2,476,612	-19.3%
05 Federal Fund	170,647,039	159,470,969	158,494,303	-976,666	-0.6%
09 Reimbursable Fund	9,830,332	9,951,407	11,542,883	1,591,476	16.0%
Total Funds	\$ 214,437,347	\$ 209,632,579	\$ 211,709,794	\$ 2,077,215	1.0%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

**Fiscal Summary
DLLR – Workforce Development**

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
0A Department Of Labor, Licensing, and Regulation	\$ 14,163,952	\$ 16,013,797	\$ 18,624,018	\$ 2,610,221	16.3%
0B Division of Administration	17,635,069	18,645,054	19,341,949	696,895	3.7%
0G Division of Workforce Development and Adult Learning	98,104,263	98,798,362	100,034,399	1,236,037	1.3%
0H Division of Unemployment Insurance	84,534,063	76,175,366	73,709,428	-2,465,938	-3.2%
Total Expenditures	\$ 214,437,347	\$ 209,632,579	\$ 211,709,794	\$ 2,077,215	1.0%
General Fund	\$ 26,698,781	\$ 27,355,200	\$ 31,294,217	\$ 3,939,017	14.4%
Special Fund	7,261,195	12,855,003	10,378,391	-2,476,612	-19.3%
Federal Fund	170,647,039	159,470,969	158,494,303	-976,666	-0.6%
Total Appropriations	\$ 204,607,015	\$ 199,681,172	\$ 200,166,911	\$ 485,739	0.2%
Reimbursable Fund	\$ 9,830,332	\$ 9,951,407	\$ 11,542,883	\$ 1,591,476	16.0%
Total Funds	\$ 214,437,347	\$ 209,632,579	\$ 211,709,794	\$ 2,077,215	1.0%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.