

**P00**  
**Department of Labor, Licensing, and Regulation**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$15,440	\$12,894	\$13,403	\$509	3.9%
Contingent & Back of Bill Reductions	0	0	-426	-426	
<b>Adjusted General Fund</b>	<b>\$15,440</b>	<b>\$12,894</b>	<b>\$12,977</b>	<b>\$82</b>	<b>0.6%</b>
Special Fund	39,024	38,809	33,442	-5,367	-13.8%
Contingent & Back of Bill Reductions	0	0	-113	-113	
<b>Adjusted Special Fund</b>	<b>\$39,024</b>	<b>\$38,809</b>	<b>\$33,329</b>	<b>-\$5,479</b>	<b>-14.1%</b>
Federal Fund	110,702	116,865	135,255	18,390	15.7%
Contingent & Back of Bill Reductions	0	0	-521	-521	
<b>Adjusted Federal Fund</b>	<b>\$110,702</b>	<b>\$116,865</b>	<b>\$134,734</b>	<b>\$17,869</b>	<b>15.3%</b>
Reimbursable Fund	7,789	8,082	11,726	3,643	45.1%
Contingent & Back of Bill Reductions	0	0	-52	-52	
<b>Adjusted Reimbursable Fund</b>	<b>\$7,789</b>	<b>\$8,082</b>	<b>\$11,673</b>	<b>\$3,591</b>	<b>44.4%</b>
<b>Adjusted Grand Total</b>	<b>\$172,955</b>	<b>\$176,650</b>	<b>\$192,713</b>	<b>\$16,063</b>	<b>9.1%</b>

- The fiscal 2010 allowance includes a fiscal 2009 deficiency of \$10.4 million in federal funds to supplement the unemployment insurance program.
- The fiscal 2010 allowance increases by \$16.0 million, or 9.1%. This increase is driven by increases in federal funds available under the unemployment insurance program and workforce development programs. The increase in available federal funds results in less reliance on special funds for the unemployment insurance program. Special funds decline by almost \$5.5 million in the fiscal 2010 allowance.
- Absent contingent reductions, general funds increase by \$509,000, largely due to an increase in administrative hearings. However, across-the-board reductions to personnel, contractual services, and the deferred compensation match decrease general funds by approximately \$426,000.

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

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- Reimbursable funds increase by \$3.6 million. Most of this increase is attributable to the interagency agreement with the Department of Human Resources with regard to the Temporary Assistance for Needy Families program.

***Personnel Data***

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	<b><u>FY 08 Actual</u></b>	<b><u>FY 09 Working</u></b>	<b><u>FY 10 Allowance</u></b>	<b><u>FY 09-10 Change</u></b>
Regular Positions	1,492.65	1,449.65	1,439.65	-10.00
Contractual FTEs	<u>139.96</u>	<u>169.26</u>	<u>159.23</u>	<u>-10.03</u>
<b>Total Personnel</b>	<b>1,632.61</b>	<b>1,618.91</b>	<b>1,598.88</b>	<b>-10.03</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	53.35	3.70%
Positions and Percentage Vacant as of 12/31/08	91.66	6.37%

- Absent across-the-board reductions, the department's staffing level remains constant at 1,449.65 regular positions. Contractual full-time equivalents decline by 10.03 in the fiscal 2010 allowance.
- Across-the-board reductions eliminate 9 positions as part of the abolition of 1,000 vacant positions and 1 position to consolidate personnel functions.
- The department reports over 91 vacant positions at the end of calendar 2008; a vacancy rate of 6.32%. This rate is well above the budgeted turnover rate set in the fiscal 2010 allowance.

## *Analysis in Brief*

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### Major Trends

***New Performance Measures for the Division of Financial Regulation:*** As the responsibilities of the Division of Financial Regulation evolve to meet the new regulatory standards in the financial industry, the division's performance measures must also evolve. Accordingly, the division adopted new objectives and measures with specific emphasis on mortgage related activities.

***Complaint Resolution Standards Continue to Fall within Occupational and Professional Licensing:*** For the second year, the division has failed to meet its complaint resolution standards regarding its professional licensees.

***New Crane Regulations Add to Already Busy Program:*** The Maryland Occupational Safety and Health Administration inspects work sites to ensure that any safety hazards are abated. New crane safety regulations will add to the unit's workload.

### Issues

***Department Implements New Mortgage Regulation Measures:*** In an effort to address the ailing housing and mortgage markets, the Administration introduced and the General Assembly passed a series of bills aimed at homeowner protections. The department has a prominent role in this effort, and its operations, staffing, and budget are impacted. **The Department of Legislative Services (DLS) recommends that the department brief the committees on its enhanced mortgage regulations and the extent its increased efforts have mitigated the foreclosure crisis.**

***Department to Assume Control of Adult Education Programs:*** Chapter 134 of 2008 transfers the oversight of adult education programs from the Maryland State Department of Education to the Department of Labor, Licensing, and Regulation beginning in fiscal 2010. This action puts emphasis on the workforce development component of adult education. However, this transfer is not evident in the fiscal 2010 allowance. **DLS recommends that the department comment on (1) the preparations it has made to accommodate the new program; (2) expected one-time costs of the transfer; and (3) why the program has not been transferred via the fiscal 2010 allowance as required by statute.**

***StateStat:*** Established by Chapter 7 of 2007, StateStat is an Administrative initiative designed for Executive Branch agencies to be a management accountability process that replaces the existing strategic planning process. The department was among the first in the Administration to participate in the initiative. **DLS recommends that the department brief the committees on the progress attained as a result of StateStat and the expectations of the program to yield additional improvements in the future.**

**Decline in Unemployment Insurance Trust Fund Balance Triggers Tax Change:** Legislation enacted in Maryland in 2005 (Chapter 169) altered the unemployment insurance charging and taxation system by creating a series of experience tax rate tables that are based on the balance in the Unemployment Insurance Trust Fund. The balance in the trust fund has decreased to a level that requires employers to pay from a higher tax table for calendar 2009. Despite this decline, Maryland’s trust fund remains relatively healthy, especially in comparison to many other states. **DLS recommends that the department comment on the current health of the trust fund and the long-term implications of the recent economic downturn.**

## Recommended Actions

	<u>Funds</u>	<u>Position</u>
1. Delete the increase in funds for office equipment replacement.	\$ 56,741	
2. Delete a long-term vacant position under the Division of Financial Regulation.	63,007	1.0
3. Reduce the increase in travel under the Division of Racing.	13,000	
4. Delete double budgeted funds for information technology upgrades.	526,198	
5. Adopt committee narrative requiring the submission of a report on the transfer of adult and correctional education programs.		
<b>Total Reductions</b>	<b>\$ 658,946</b>	<b>1.0</b>

## Updates

**Safety Inspection Salaries:** Committee narrative adopted in the 2008 *Joint Chairmen’s Report* requested an examination of the salaries in the department’s safety inspection unit. It has been noted that competitive pressures from the private sector exacerbate a persistent vacancy issue. A study conducted by the department has revealed significant pay disparities compared to similar positions in the private sector, in other states, and even within the department.

**Base Realignment and Closure:** The State is preparing for an influx of new residents as a result of base realignment and closure. In particular, the department is working to provide workforce development and training services to incoming residents and relocating companies.

**Living Wage Enforcement:** Chapter 284 of 2007 made Maryland the first state to require State service contractors to pay their employees a “living wage,” subject to exemptions for specified employers and employees. The department is responsible for the enforcement of the new provisions.

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***Operating Budget Analysis***

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**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 federally funded employment service programs. In addition to the Office of the Secretary, the department has six operating divisions:

- **Division of Labor and Industry** is responsible for safety inspections of boilers, elevators, amusement rides, and railroads. It also enforces certain protective labor laws and administers the Maryland Occupational Safety and Health Act.
- **Division of Workforce Development** operates workforce development programs including job services, Workforce Investment Act, and labor market information programs.
- **Division of Unemployment Insurance** operates the federally funded unemployment insurance programs.
- **Division of Occupational and Professional Licensing** licenses, regulates, and monitors 21 different professions and trades through boards and commissions. All but 7 boards are supported by the general fund.
- **Division of Racing** regulates thoroughbred and harness racing at tracks across the State. Responsibilities include assigning racing days, regulating wagering on races, collecting the wagering tax, licensing all racetrack employees, and operating a testing laboratory. The division also pays the salaries and stipends of all racetrack employees who are appointed by the State Racing Commission.
- **Division of Financial Regulation** regulates commercial banks, trust companies, credit unions, mortgage lenders and originators, collection agencies, and consumer loan companies.

Each division has its own set of goals and objectives based on its mission, but the department's general goals are to:

- provide a worker safety net, protect workers' rights, and foster work force development;
- improve workplace safety and worker health;
- prevent injuries and save lives of people using railroads, boilers, escalators, pressure vessels, and amusement rides;

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- assure the basic competence and regulation compliance of occupational and professional licensees;
- maintain the integrity of the horse racing industry; and
- protect consumers of financial services.

## **Performance Analysis: Managing for Results**

### **New Performance Measures for Division of Financial Regulation**

The Division of Financial Regulation strives to protect financial services customers, ensure appropriate licensing, and maintain soundness in the State's financial services industry. The recent mortgage crisis has changed the banking regulatory landscape. As such, the division's responsibilities have grown to address the crisis. It is therefore reasonable that the division would alter its performance measures to accurately reflect its current goals and activities.

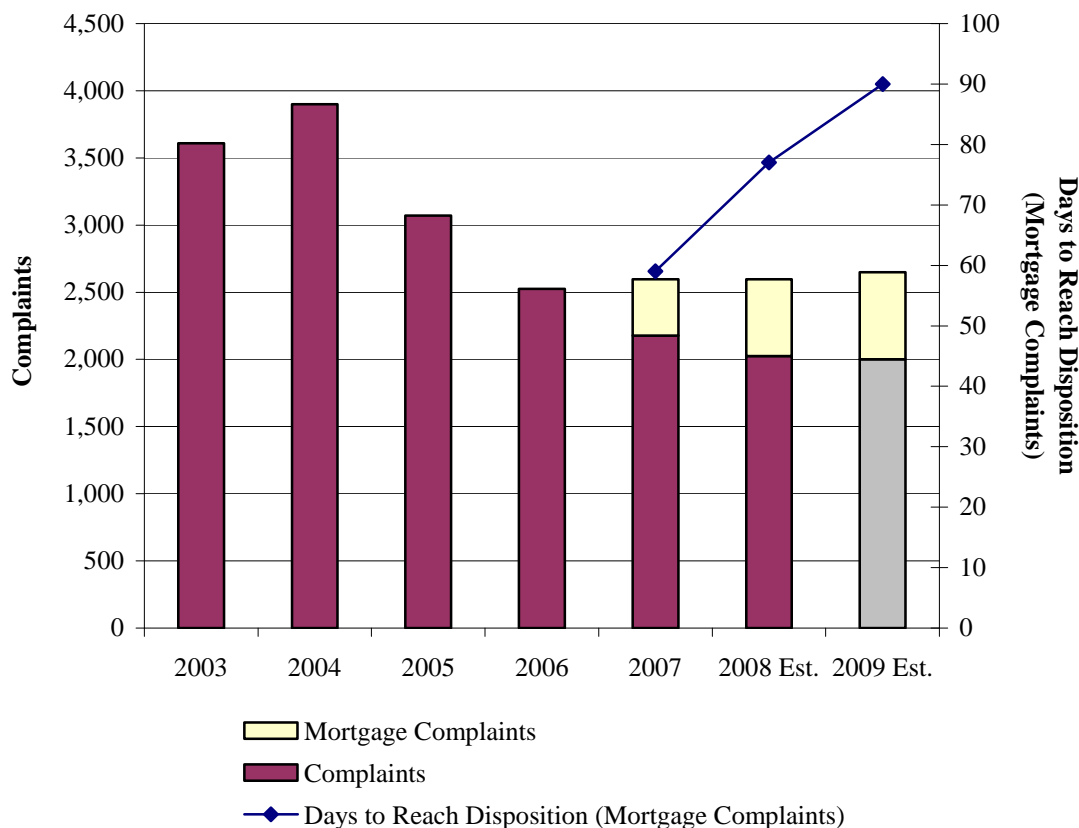
There is a focus in the division to ensure that mortgage companies are closely regulated. To that end, the division seeks to examine 100% of mortgage companies within 18 months of licensure, and after the first examination, within 36 months of the previous examination. There is no data to support this goal in the first years of measurement; however, the department expects to achieve 100% compliance in fiscal 2009 and beyond.

The division has also refined its measure on the number of complaints received. Beginning in fiscal 2007, the division will distinguish between mortgage and non-mortgage complaints. **Exhibit 1** shows the new measure as compared to total complaints prior to fiscal 2007.

Complaints associated with mortgage companies are usually more complex and more consuming of the staff's time. It is therefore useful to see what proportion of the work load is dedicated to this particular endeavor. The division also adopted a measure of days to reach disposition in complaint cases. The exhibit shows that the department expects to spend more time on mortgage cases in the future.

**The Department of Legislative Services (DLS) recommends that the department comment on the new performance measures for the Division of Financial Regulation and how the new measures will better support the goal of protecting consumers of financial services.**

**Exhibit 1  
Financial Regulation  
Complaint Resolution  
Fiscal 2003-2009**



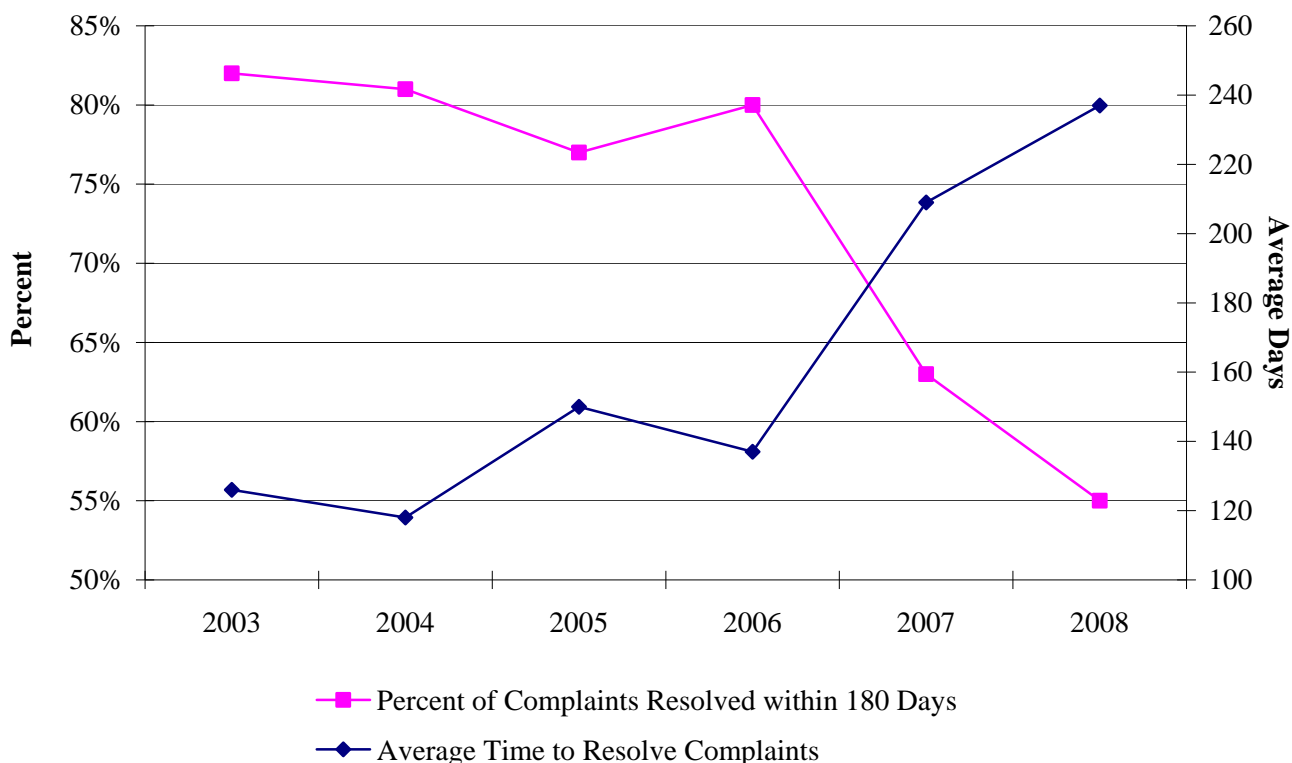
Note: Data for fiscal 2003-2006 includes both mortgage and non-mortgage complaints

Source: Department of Labor, Licensing, and Regulation

**Occupational and Professional Licensing Boards Continue to Miss Complaint Resolution Standards**

Similar to the Division of Financial Regulation, the Division of Occupational and Professional Licensing handles calls and complaints from consumers against those licensed by the department or against individuals or companies that should be licensed by the department. For the second year, the division failed to meet its goal of closing at least 70.0% of its complaints within 180 days of receipt. As shown in **Exhibit 2**, the division resolved only 54.8% of complaints within its desired time frame in fiscal 2008. This is more than a 31.0% decline from fiscal 2006, a year in which the division met all its goals. The exhibit also shows how the average number of days to resolve complaints has increased, reaching an average of almost 237 days in fiscal 2007, 100 days longer than in fiscal 2006.

**Exhibit 2**  
**Occupational and Professional Licensing**  
**Complaint Resolution**  
**Fiscal 2003-2008**



Source: Governor’s Budget Books, fiscal 2004 to 2010

The vast majority of complaints, approximately 75%, are related to activities regulated under the Home Improvement Commission. The number of home improvement complaints has increased significantly over the last several years. Further, vacancies and position reductions within the commission and within other boards have compounded the issue.

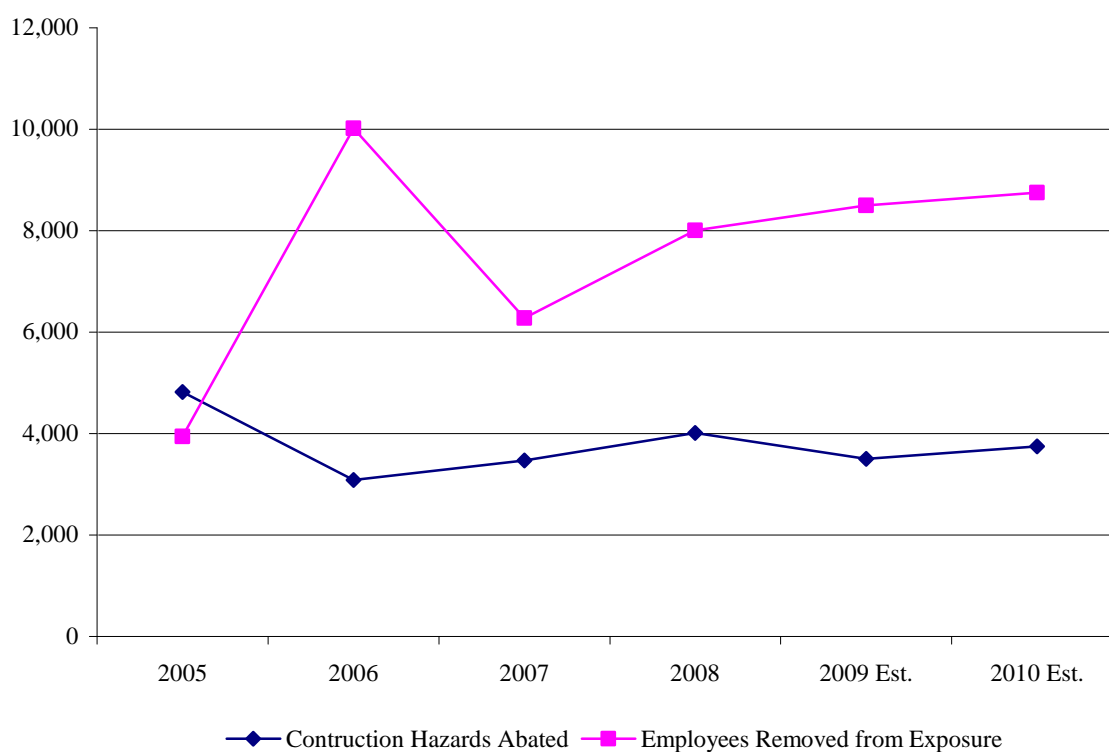
**Given the level of positions, the department should discuss how it will reverse the trend of diminished efficiency within the Division of Occupational and Professional Licensing, especially within the Home Improvement Commission.**

**New Crane Regulations Add to Already Busy Program**

*Analysis of the FY 2010 Maryland Executive Budget, 2009*

The Occupational Safety and Health Administration (MOSH) within the Division of Labor and Industry is charged with promoting workplace safety and health, and reducing workplace fatalities, injuries, and illnesses. It does this, in part, by inspecting places of work and issuing citations and penalties for violations of established occupational standards. **Exhibit 3** shows the number of construction hazards abated and the number of employees removed from exposure at construction sites as a result of the administration’s activities. The department expects these numbers to increase in the out-years.

**Exhibit 3**  
**Occupational Safety**  
**Fiscal 2005-2010**



Source: Governor’s Budget Books, Fiscal 2006-2010

In fiscal 2008, there was a much publicized fatality involving a crane accident at a Maryland construction site. The Maryland accident followed several other fatal crane accidents in New York and Florida. In response, the department formed the Crane Safety Task Force to address the safety issues related to cranes and hoisting equipment. The task force recommended new regulations that strengthen crane safety standards and require mandatory inspections. MOSH will be responsible for enforcing the new regulations. The unit currently has 98 employees. Given the steady current workload of the unit, it is unclear what burden the new responsibility will have on current resources.

**The department should be prepared to comment on the new crane safety regulations and how it will maintain safety at all construction sites given current resources.**

## **Fiscal 2009 Actions**

### **Proposed Deficiency**

The fiscal 2010 allowance includes a fiscal 2009 deficiency of \$10,417,300 in federal funds to supplement the Unemployment Insurance (UI) program. After several years of declining federal funds due to Maryland's comparatively healthy economy, the department is anticipating an increase in the funding available for the program. Funding is based, in part, on economic and workload indicators of the UI Division, which are increasing. Also, funds are provided due to extended benefits legislation enacted at the federal level.

The federal funds provided in the proposed deficiency will supplant previously appropriated special funds. Special funds, known as Reed Act funds, were appropriated from the UI Trust Fund to counter recent losses in federal funds. The department now expects to cancel the unused special funds at year-end.

### **Impact of Cost Containment**

Over two rounds of cost containment in fiscal 2009, the agency relinquished over \$1.8 million in general funds. Of this total, approximately \$729,000 is attributable to reducing various operating expenses including the elimination of 11 positions mostly within the department's print shop and within the Division of Occupational and Professional Licensing. The department reports that the elimination of these positions has led to slower application and licensing processing, complaint management, and responses to calls and e-mails. The professional boards most affected are the Home Improvement Commission and the Boards of Plumbing; Master Electricians; Stationary Engineers; and Heating, Ventilation, Air Conditioning and Refrigeration Contractors.

The department eliminated the Russian Immigrant Program and \$75,000 in annual general funds. This program provided grant funds to two charitable organizations that provide job training services to immigrants from Russia. Similarly, grant funds were reduced by \$89,400 for job training programs provided by the Baltimore Urban League and under the Foreign Trained Nursing Program.

Reflecting declining attendance at horse racing events, the Racing Commission also reduced the number of scheduled racing days in fiscal 2009. This saves \$168,500 in contractual staff and operating expenses. Additionally, by switching general funded programs and activities to special and federal funds where appropriate, the department saved over \$475,000 in general funds for the year.

The remaining general fund savings are derived from statewide reductions to health insurance and contributions to fund the retiree healthcare liability. The estimated general fund savings from the employee furlough is \$68,614 for fiscal 2009.

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Many of the activities of the department share funding sources. As such, reductions to general funds often necessitate reductions to special and federal funds. The fiscal 2009 cost containment, therefore, resulted in reductions in special funds of approximately \$110,000 and federal funds of approximately \$457,000.

## **Proposed Budget**

As shown in **Exhibit 4**, the fiscal 2010 allowance increases by \$16.0 million, or 9.1%, driven by increases in federal funds available under the unemployment insurance program and workforce development programs.

## **Impact of Cost Containment**

Contingent and across-the-board actions affecting the department's fiscal 2010 allowance reduce 9 positions and \$165,992 in general funds as part of the abolition of 1,000 positions, 1 position and \$12,003 in general funds to consolidate personnel classification functions, \$84,550 in general funds to reduce full-time-equivalent contractual positions, \$748,097 in all funds to delete the deferred compensation match, and \$102,003 in general funds in the expectation of savings in contracted services based on a favorable bidding climate. Additional personnel reductions may occur within the department as part of a statewide \$30 million unallocated across-the-board reduction.

## **Personnel**

The fiscal 2010 allowance includes \$958,541 in special and federal funds for the reclassification of positions within the department. The department has long struggled with vacancies caused by competition from higher paying positions in the private sector and in the federal government. The adjustment in the allowance primarily increases the salaries of banking examiners and safety inspectors.

**Exhibit 4**  
**Proposed Budget**  
**Department of Labor, Licensing, and Regulation**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Federal Fund</b>	<b>Reimb. Fund</b>	<b>Total</b>
2009 Working Appropriation	\$12,894	\$38,809	\$116,865	\$8,082	\$176,650
2010 Allowance	<u>13,403</u>	<u>33,442</u>	<u>135,255</u>	<u>11,726</u>	<u>193,826</u>
Amount Change	\$509	-\$5,367	\$18,390	\$3,644	\$17,176
Percent Change	3.9%	-13.8%	15.7%	45.1%	9.7%
 Contingent Reductions	 -426	 -113	 -521	 -52	 -1,112
Adjusted Change	83	-5,480	17,869	3,592	16,064
Adjusted Percent Change	0.6%	-14.1%	15.3%	44.4%	9.1%

**Where It Goes:**

**Personnel Expenses**

Reclassification .....	\$959
Increments and other compensation .....	1,562
Overtime .....	81
Employee and retiree health insurance .....	2,084
Health insurance – long-term Other Post Employment Benefits liability .....	-2,400
Workers’ compensation premium assessment .....	-37
Turnover adjustments .....	1,848
Employee retirement .....	913
Other fringe benefit adjustments .....	302

**Other Changes**

**Departmentwide**

Increase in rent to Department of General Services .....	539
Contingent reductions .....	-1,112

**Office of the Secretary and Administration**

Increase in equipment purchase and rental .....	127
Increase in janitorial services .....	102

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**Where It Goes:**

**Division of Financial Regulation**

Increase in postage and cell phone expenditures.....	57
Increase in in-state and out-of-state travel .....	115
Replacement of one-third of divisions' computer.....	57

**Division of Racing**

Increase in travel .....	15
Decrease in grants based in part on decline in racing days .....	-300
Increase in contractual payroll based on underfunding in prior years.....	65

**Division of Occupational and Professional Licensing**

Increase in licensee examinations .....	570
Increase in administrative hearings .....	382

**Division of Workforce Development**

Increase in postage based on new federal regulations.....	292
Increase in grants to Local Workforce Investment areas and other Employment Training recipients .....	2,495
Increase in grants to temporary cash assistance customers .....	2,898
Increase in equipment purchase and rental.....	100
Increase in contractual payroll to staff local area offices .....	123
Increase in rent .....	391

**Division of Unemployment Insurance**

Increase in contractual payroll based on expected workload .....	439
Increase in travel .....	64
Increase in federal funds for the Information Technology Support Center.....	2,564
Increase in grants under the Trade Adjustment Assistance Program .....	2,000
Increase in postage based on new federal regulations.....	1,233
Increase in fuel and motor vehicle costs .....	108
Increase in building maintenance, software upgrades, computer enhancement and other various contractual services .....	2,069
Increase in supplies and equipment.....	750
Increase in maintenance for the Maryland Image Data Access System.....	569
Reduced reliance on Reed Act special funds .....	-5,905

<b>Other Changes</b> .....	<b>-55</b>
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<b>Total</b>	<b>\$16,064</b>
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Note: Numbers may not sum to total due to rounding.

## **Division of Financial Regulation**

The Division of Financial Regulation's budgetary increases relate, in large measure, to the enhanced responsibilities in response to the mortgage and homeownership crisis. The division has increased training for new bank examiners and has increased the number of on-site bank examinations. As such, the division's travel expenses have increased by about \$115,000 in the fiscal 2010 allowance. Similarly, additional communication between the division and homeowners and regulated entities is required. Accordingly, the allowance reflects an increase in postage and cell phone expenditures of about \$57,000. The division is also seeking replacement of employee computers over a three-year replacement period. Approximately \$57,000 is budgeted in the allowance for the first year of this effort. A more thorough discussion of the activities of the Division of Financial Regulation may be found under Issue 1 in this analysis.

## **Division of Workforce Development**

An increase in federal fund and reimbursable fund grants drives the increase in the Division of Workforce Development. The division was awarded \$3.4 million in National Emergency Grant funds. These funds are to expand the division's service capacity in response to significant dislocation events. The State was awarded these funds based on the impact of Base Realignment and Closure (BRAC). The department's BRAC related activities are discussed in more detail under the Update section of this analysis.

Reimbursable grant funds increase by close to \$2.9 million in the fiscal 2010 allowance. The department partners with the Department of Human Resources (DHR) to develop job readiness, placement and retention programs for temporary cash assistance customers and for children aging out of the foster care system. DHR has provided these funds under the Temporary Assistance for Needy Families program.

## **Division of Unemployment Insurance**

The administration of the State's UI program is almost exclusively provided by the federal government through the Federal Unemployment Tax Act. Funding is based, in large part, on workload indicators of the UI division such as initial claims filed, appeals, and decisions rendered. As the economy falters, the increase in these indicators drives an increase in federal funds available. The fiscal 2010 allowance reflects an increase of approximately \$13 million in federal funds for the UI program.

The increase in federal funds will allow for less reliance on Reed Act special funds. Reed Act funds were provided by the federal government as an economic stimulus after September 11, 2001. The State used the funds initially to shore up the balance in the State's UI Trust Fund. However, in recent years, Reed Act funds were appropriated to replace a loss in federal funds for the UI program. The fiscal 2010 allowance no longer includes Reed Act funds. Accordingly, special funds decline by \$8.2 million.

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Grants are increasing significantly under the division. The allowance provides a \$2.0 million increase in federal funds under the Trade Adjustment Assistance program. This program provides reemployment and retraining services for individuals who have been adversely affected by foreign trade. The division is also responsible for the administration of the U.S. Department of Labor's funding for the Unemployment Insurance Information Technology Support Center, which is located in Maryland. The allowance includes an increase in federal funds of almost \$2.6 million for this purpose.

The increase in federal funds allows the department to increase spending on various contractual services largely related to information technology upgrades and facility maintenance. Significant upgrades are planned for the division's Maryland Imaging Data Access System. This system manages the division's collection of wage data and employer taxes. However, the department appears to have double budgeted funds for this upgrade by \$526,198.

### **Proposed Federal Stimulus**

Congress is currently considering the American Recovery and Reinvestment Bill of 2009. The federal legislation has many components that would impact the department and its services, most notably the Divisions of Workforce Development and Unemployment Insurance. For example, the legislation includes \$4 billion for job training including formula grants for adult, dislocated worker, and youth services.

There is an additional \$500 million to match unemployed individuals to job openings through state employment service agencies and allow states to provide customized services. Funds are targeted to states with the greatest need based on labor force, unemployment, and long-term unemployed rates. Any funds received by the department from the stimulus will, in large part, be passed through to local workforce investment boards.

Under the UI program, the federal legislation includes benefits extension provisions and increased benefits provisions. Also, it provides funds to states through a Reed Act distribution, tied to states' meeting specific reforms to increase unemployment insurance coverage for low-wage, part-time, and other jobless workers.

## ***Issues***

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### **1. Department Implements New Mortgage Regulation Measures**

The department encourages and preserves homeownership through its role as the State regulatory agency of the mortgage industry. It licenses and regulates mortgage brokers, lenders, and most recently, originators; and it investigates and pursues instances of fraud. In this role, the department has taken central stage in addressing the current mortgage and homeownership crisis.

#### **Background**

Since 2006, changes in the real estate market and the economy in general have led to a marked increase in foreclosure events both nationwide and in Maryland. Many such foreclosures have involved residential properties that have been financed through sub-prime loans and nonbank loan originators, leading to heightened concern regarding the lending practices that surround these nontraditional financing methods. In addition, the foreclosure process itself has come under increased scrutiny due to the speed at which most foreclosures take place. A number of related factors have combined to create what many refer to as a national “foreclosure crisis,” which has prompted many federal and State government entities to focus their attention on the issue.

In response to the crisis, the department’s Division of Financial Regulation has increased its efforts in regulating the mortgage industry. The division reclassified many of its positions, increasing salaries in an effort to compete with the private sector and to retain more qualified examiners. Also, the division began licensing mortgage originators in fiscal 2007. This is meant to regulate the increasing number of employees who work for licensed mortgage lenders and who originate mortgage loans.

Also in response to the foreclosure crisis in the State, Governor Martin O’Malley established the Homeownership Preservation Task Force in June 2007, chaired by the Secretary of Housing and Community Development and the Secretary of Labor, Licensing, and Regulation. The task force met several times throughout the 2007 interim and the recommendations in the final report of the task force were the basis for the Administration’s package of major initiatives introduced and adopted during the 2008 session. The department has a central role in most of these initiatives.

#### **2008 Legislative Initiatives**

Prior to the adoption of the legislative package, Maryland’s foreclosure process had been among the shortest in the nation. This was one of the driving factors behind Chapters 1 and 2 of 2008. This emergency legislation affords homeowners more time and notice before and after a foreclosure action is filed right up until the time of sale. It also gives homeowners rights in the process that they did not have before and more time to assert those rights should the lender fail to comply with the law. It specifically requires a secured party to send a written notice of intent to foreclose to the mortgagor or grantor and the record owner at least 45 days before the filing of an action to foreclose a mortgage or deed of trust on residential property. A copy of the notice must also be sent to the Commissioner of Financial Regulation in the department.

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The task force also identified mortgage fraud as a contributing factor to the current crisis. Previously, mortgage fraud was prosecuted under the general theft statute which was cumbersome and difficult to explain to juries. Accordingly, Chapters 3 and 4 of 2008 created a comprehensive mortgage fraud statute with criminal penalties and authorized the Attorney General, a State’s Attorney, and the Commissioner of Financial Regulation to take action to enforce the statute. It defines mortgage fraud as any action by a person made with the intent to defraud that involves:

- knowingly making, using, or facilitating the use of any deliberate misstatement, misrepresentation, or omission during the mortgage lending process with the intent that it will be relied upon by a mortgage lender, borrower, or any other party to the lending process;
- receiving any proceeds or any other funds in connection with a mortgage closing that the person knows resulted from the aforementioned actions;
- conspiring to violate either of the preceding provisions; or
- filing or causing to be filed in the land records in the county where a residential real property is located any document relating to a mortgage loan that the person knows to contain a deliberate misstatement, misrepresentation, or omission.

In addition, the Acts authorize the Attorney General or the Commissioner of Financial Regulation to seek an injunction to prohibit a person from engaging or continuing to engage in violations.

Chapters 7 and 8 of 2008 made a number of other changes to the laws relating to mortgage lending and the regulation of mortgage lenders. The Acts prohibit lenders from requiring or authorizing the imposition of penalties, fees, premiums, or other charges for a mortgage loan in the event the loan is prepaid in whole or in part, except for reverse mortgage loans. The Acts further authorize the Commissioner of Financial Regulation to participate in a multistate automated licensing system for mortgage lenders and mortgage originators, and to adopt regulations that waive or modify licensing requirements in order to facilitate implementation of the multistate system.

With respect to mortgage originators, the Acts authorize the commissioner to adopt regulations defining the written test required of license applicants. For both mortgage lenders and mortgage originators, the Acts authorize the commissioner to set reasonable fees for licensing and investigations, and require the commissioner to deny an application or revoke the licenses of individuals or entities associated with individuals who have been convicted within the last 10 years, or while licensed, of a felony involving fraud, theft, or forgery.

**Additional Measures**

Outside of the legislative process, the department has further increased its work with homeownership and consumer protection. In December 2008, the department announced “Operation Repair,” an effort to protect Marylanders who deal with credit services businesses, often called

“credit repair businesses.” Some disreputable businesses within the industry have been targeting consumers with troubled credit with false claims of vanquishing their bad debt, bankruptcies, or bad credit.

The department is proactively investigating credit repair companies doing business in Maryland to ensure they are licensed and are abiding by the law. The office will take action against any companies found to be operating without a license, or violating the law by charging up front fees or through other practices.

The department will also join the Nationwide Mortgage Licensing System (NMLS) and Registry by mid 2009. This nationally mandated system provides one common, unique identifying license number and record for each mortgage originator and lender. The federal government is also mandating stricter licensing standards such as establishing a one-year licensure period. Maryland currently has a two-year license for mortgage lenders and originators.

### **Budgetary Implications**

Since fiscal 2007, the division’s budget has grown by over 26% largely due to additional positions and salary adjustments to allow for a more highly trained staff capable of addressing an increasingly complicated financial industry. Mortgage originators are now licensed, creating special fund revenues and expenditures for the division. Similarly, Chapter 293 of 2008 created a special fund for the regulation of banking institutions and credit unions. As such, the majority of the division’s activities are now special funded, derived directly from industry licensing fees. Any penalties assessed on licensees are still deposited into the general fund.

Growth in the division’s budget from fiscal 2009 to the fiscal 2010 allowance can be attributed, in large part, to the 2008 legislative initiatives. Mandated foreclosure notifications and related activities are increasing communication costs by about \$50,000. The department also reports increases in travel and training costs associated with the legislation totaling about \$115,000. Furthermore, the department expects some short-term increases in expenditures associated with compliance with the new federal standards under NMLS.

The division’s regulatory responsibilities serve a unique and crucial role in protecting homeownership in the State. The current state of the housing and mortgage industries will put further pressure on the department to expand its regulatory responsibilities.

**DLS recommends that the department brief the committees on its enhanced mortgage regulations and what extent its increased efforts have mitigated the foreclosure crisis.**

## **2. Department to Assume Control of Adult Education Programs**

In order to align adult education services with other workforce development skills training in the State, Chapter 134 of 2008 transfers adult education, literacy, and correctional education services from the Maryland State Department of Education to DLLR as of July 1, 2009. The specific programs that will transfer include the awarding of competitive grants for the provision of adult education and literacy services; the Adult External Diploma Program; the GED program; and education programs in adult correctional institutions.

### **Workforce Creation and Adult Education Transition Council**

In consideration of the complexities relating to the program, funding, and employee transfers, Chapter 134 also established a Workforce Creation and Adult Education Transition Council to facilitate the transfers and recommend a framework for a new State system of adult education and workforce development programs. Final recommendations and a report were made public in early January 2009.

The recommendations related to adult education include increasing access to adult education programs by expanding the populations served to include individuals with diplomas but lacking basic skills; aligning the State plan with the Governor's Workforce Investment Board Mission and Vision and ensuring that adult education providers are represented on local Workforce Investment Boards; and merging and improving current data tracking of adult learners (assigning unique student identifiers). An increase in State funding for adult education from \$6.8 million was also recommended to match the amount (approximately \$9.0 million annually) allocated to Maryland from Title II of the federal Workforce Investment Act.

With regard to correctional education, the recommendations include providing incentives to incarcerated individuals for completion of educational and occupational programs; establishing permanent correctional education staff in order to reduce reliance on contractual employees; and expanding employer engagement strategies to enhance the pool of job opportunities that may be filled by skilled individuals who have been incarcerated.

### **Transfer of Funding Not Evident in Budget**

Prior to enactment, Chapter 134 of 2008 was amended to delay the transfer of the adult education programs for one year. This was meant to give the council time to make recommendations and to give the agencies involved an appropriate time frame to manage the transfer without interruption.

However, the fiscal 2010 allowance, as introduced, does not transfer the funds as required by the legislation. Furthermore, it was estimated that there would be some one-time costs for physically moving the program to the department. These expected costs are also not apparent in the allowance. It is understood that the transfer may take place through a supplemental budget, however, that leaves the true budgetary impact of the transfer free from the scrutiny of the full budget committee process.

**DLS recommends that a supplemental budget be submitted that reflects the full transfer of adult and correctional education programs to the department in order to fulfill the requirements under Chapter 134 of 2008.**

**DLS recommends that the department comment on (1) the preparations it has made to accommodate the new program; (2) expected one-time costs of the transfer; and (3) why the program has not been transferred via the fiscal 2010 allowance as required by statute.**

**DLS also recommends the adoption of committee narrative requiring the department to submit a report on the transfer of adult and correctional education programs by December 1, 2009.**

### **3. StateStat**

Established by Chapter 7 of 2007, StateStat is an Administrative initiative designed for Executive Branch agencies to be a management accountability process that replaces the existing strategic planning process. The process relies on databases to track agency performance and redirect resources to areas in need.

DLLR was among the first in the Administration to participate in the initiative, beginning in September 2007. Various statistics are examined on a periodic basis including vacancies, professional licenses issued, and number of job placements.

The department credits the StateStat process with some specific programmatic improvements. In addition to monthly meetings with the Governor’s staff, the department has created internal DLLR-Stat groups which meet periodically to discuss programmatic issues and to reach solutions. For example, as a result of the various meetings, the department has addressed overdue inspections in the Safety Inspection Unit by changing how it deploys personnel, adjusting salary discrepancies, and exploring risk based and third party options for inspections.

Another example of a StateStat driven quality control measure is the department’s “secret shopper” program. The Division of Workforce Development sends the secret shoppers into local one-stop shops to gauge the level of service a potential job seeker or employer receives. The department reports that the program has allowed it to address areas of concern regarding customer service.

### **Impact on Managing for Results**

The department reports that it used its Managing for Results (MFR) measurements as a beginning framework for its StateStat measures. As StateStat measures evolve, the department finds that its MFR measures should be adjusted as well. In fact, the department has adopted a new MFR goal under the Office of the Secretary: Ensure that the department meets MFR-specified outcome objectives and attains corrective actions pursuant to the StateStat/DLLR-Stat process. The department estimates that in fiscal 2009 and 2010 it will meet 88% of outcome objectives and that it will take 50 corrective actions as a result of StateStat.

**DLS recommends that the department brief the committees on the progress attained as a result of StateStat and if it expects the program to yield additional improvements in the future.**

#### **4. Decline in UI Trust Fund Balance Triggers Tax Change**

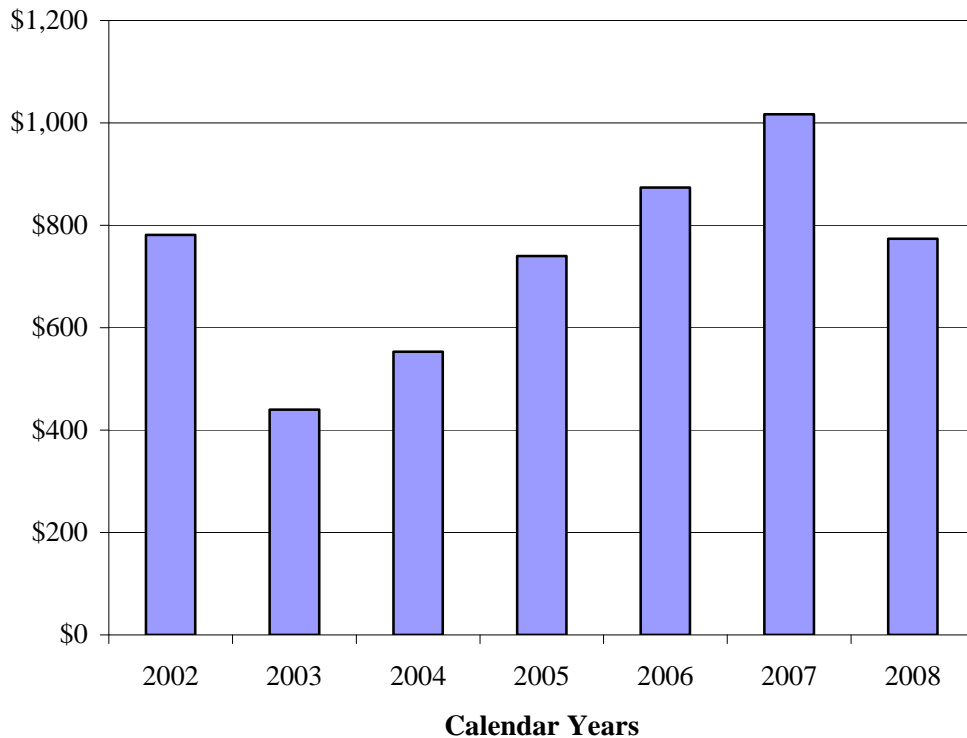
Legislation enacted in Maryland in 2005 (Chapter 169) altered the UI charging and taxation system by creating a series of experience tax rate tables that are based on the balance in the UI Trust Fund. Due to the economic downturn, benefit payouts in calendar 2008 are among the highest in recent years. Consequently, the balance in the UI Trust Fund has decreased to a level that requires employers to pay from a higher tax table for calendar 2009. **Exhibit 5** shows the year-end balance in the trust fund for calendar 2002 to 2008.

If the balance of the UI Trust Fund exceeds 5% of total taxable wages in the State (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. For calendar 2007 and 2008, employers have paid from Table A which imposes a minimum tax rate of 0.3% (on the first \$8,500 of annual wages of each employee), or \$25.50 per employee. However, the UI Trust Fund balance on September 30, 2008, \$895 million, fell short by \$53 million of the amount needed to remain in the lowest tax table. Accordingly, employers will pay a higher rate (Table B) in calendar 2009; the lowest tax rate in Table B is 0.6%, or \$51.00 per employee. If the trust fund balance had dipped an additional \$42 million by September, employers would be paying an even higher rate (Table C). It has since fallen to \$774 million by year-end.

The increase in the tax rate combined with a potential federal infusion to the trust fund will likely stem significant further declines in the trust fund. However, there is significant pressure on the fund to keep up with rising claims. Over 76,000 individuals are currently drawing benefits, compared to about 42,000 individuals at the same time last year. Each week, benefits total about \$21.5 million. This represents the highest weekly payout in the history of the program.

An additional pressure on the trust fund may be a proposed change in the law to allow part-time workers to be eligible for benefits. Senate Bill 270/House Bill 310 is an Administrative bill introduced in the 2009 session to make this change. A January 2009 report commissioned by the department has endorsed this policy decision and has estimated a total cost of \$11.1 million to the trust fund.

**Exhibit 5**  
**Unemployment Insurance Trust Fund**  
**Year-end Balance**  
**Calendar 2002-2008**  
**(\$ in Millions)**



Source: Department of Labor, Licensing, and Regulation

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Despite the decline in the fund balance, Maryland's trust fund remains relatively healthy. Other states are projected to deplete their UI funds during 2009 to cover the cost of benefit payouts. With an unemployment rate of 7.7%, California forecasts that its fund will hit bottom in March 2009. South Carolina has predicted a similar outcome, given its 7.6% unemployment rate. When funds are fully depleted, states may borrow from the federal government's unemployment trust fund. The department estimates that 10 states are in danger of depletion by mid-year and another 18 by the end of the year.

**DLS recommends that the department comment on the current health of the trust fund and the long-term implications of the recent economic downturn on the fund and the employer tax rate.**

## ***Recommended Actions***

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	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete the increase in funds for the replacement of computers and other office equipment. This action returns funding to the fiscal 2009 level.	\$ 56,741	SF	
2. Delete one financial examiner position within the Division of Financial Regulation that has been vacant for over one year.	63,007	SF	1.0
3. Reduce the increase in travel to out-of-state locations under the Division of Racing. This action returns funding to the fiscal 2009 levels.	13,000	GF	
4. Delete funds for maintenance of the Maryland Imaging Data Assess System. Funds were budgeted for this maintenance in both the Unemployment Insurance’s general operating expenses and in its major information technology budget.	526,198	FF	
5. Adopt the following narrative:			

**Report on Transfer of Adult and Correctional Education Programs:** The Department of Labor, Licensing, and Regulation (DLLR) shall submit a report to the committees by December 1, 2009, on the transfer of adult and correctional education programs from the Maryland State Department of Education. Because the transfer of funds is not evident in the fiscal 2010 allowance, the report shall include a discussion of the budgetary impact on the department including any realized costs to physically move the programs and costs to upgrade the necessary technology. The department should discuss the number of positions transferred to the department, the number of positions that did not transfer, and the extent to which existing personnel are required to fill personnel gaps. Further, the report should discuss any new performance measures adopted by the department to gauge progress of the program. Finally, the report should include any early achievements of the transferred program that demonstrate how the department’s emphasis on workforce development better serves adult education customers.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on transfer of adult education programs	DLLR	December 1, 2009

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<b>Total Reductions</b>	<b>\$ 658,946</b>	<b>1.0</b>
<b>Total General Fund Reductions</b>	<b>\$ 13,000</b>	
<b>Total Special Fund Reductions</b>	<b>\$ 119,748</b>	
<b>Total Federal Fund Reductions</b>	<b>\$ 526,198</b>	

## ***Updates***

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### **1. Safety Inspection Salaries**

Committee narrative adopted in the 2008 *Joint Chairmen’s Report* requested an examination of the salaries in the department’s safety inspection unit. It has been noted that competitive pressures from the private sector and at other levels of government exacerbate a persistent vacancy issue. In turn, the vacancies have led to backlogs in the department’s inspection schedule of elevators, boilers, amusement rides, and railroads.

The study compared the salaries of all classes of safety inspectors to comparable positions in the private sector, in other state governments, and in other levels of government. It revealed some significant discrepancies. For example, the federal government pays an average of \$14,000 more for a new railroad inspector than the department can pay an experienced inspector. As a result, the State often serves as a training ground for the Federal Rail Administration as it recruits experienced inspectors from the State. This finding held true for other classifications of inspectors as well.

To address this issue, the fiscal 2010 allowance contains funds to reclassify safety inspection positions. The department will monitor the effect that the increased salaries has on retention and on reducing the backlog of safety inspections.

### **2. Base Realignment and Closure**

In order to address an excess capacity of military facilities, the U.S. Congress created a process in 1990 known as Base Realignment and Closure. The final plans regarding military installations nationwide became effective in November 2005.

The 2005 BRAC plans impact a number of federal military installations in Maryland, resulting in an estimated 27,379 direct new jobs through 2011 and placing the State among the largest beneficiaries nationally. These changes will affect Fort Meade, National Naval Medical Center, Andrews Air Force Base, Aberdeen Proving Ground, and Fort Detrick. Thousands more indirect jobs are expected to be created through contractors and related services, for an estimated total of more than 45,000 federal and private-sector jobs. It is further estimated that Maryland will gain more than 28,000 households by the time the BRAC process is complete.

Chapter 6 of 2007 created a 10-member BRAC Subcabinet in State government chaired by the Lieutenant Governor. The subcabinet, composed of eight State secretaries of cabinet departments and the State Superintendent of Schools, is charged with a number of tasks. The Department of Labor, Licensing, and Regulation has been engaged in a number of activities to maximize the percentage of people who transfer to Maryland with their jobs and to ensure that once the jobs are here they are filled by Marylanders.

*P00 – Department of Labor, Licensing, and Regulation*

Specifically, the department has held a series of special events to highlight federal job opportunities with the Defense Information Systems Agency (DISA). DISA is preparing to move to Fort Meade by 2011. The events provided information so that citizens can learn about future employment and career opportunities with DISA. The events focused on how attendees can build their federal résumés, how they can qualify for security clearances, and what job services are offered by the department.

The department is also awarding grants under the federal Workforce One program for BRAC-related workforce development efforts. This first round of grants totaled around \$400,000 and were awarded to Cecil College, Chesapeake Bay Region Technical Center of Excellence, Fort Meade Alliance, Frederick Community College, and Harford County Public Schools. The funds are part of a \$4 million grant awarded to DLLR last year by the U.S. Department of Labor to assist in the State’s planning and implementation of initiatives that address the workforce challenges created by the BRAC process. The majority of the \$4 million will fund innovative workforce projects designed to address workforce development, training, and education needs in Maryland's BRAC-impacted regions.

Finally, the department has established its first out-of-state One-Stop center at Fort Monmouth, New Jersey. Several programs, employees, and related contractors are expected to be transferred to Maryland bases from Fort Monmouth over the next several years. The One-Stop center is designed to provide transitional services for BRAC impacted personnel. Resources available at the center include job search and training information, tools for professionals who will need to be registered or licensed to work in Maryland, community and housing resources, and other resources to help prepare for the move.

### **3. Living Wage Enforcement**

Chapter 284 of 2007 made Maryland the first state to require State service contractors to pay their employees a “living wage,” subject to exemptions for specified employers and employees. For Tier 1, consisting of Montgomery, Prince George’s, Howard, Anne Arundel, and Baltimore counties and Baltimore City, the fiscal 2008 living wage was set at \$11.30 per hour. For Tier 2, consisting of all other counties in the State, the living wage was set at \$8.50 per hour. By contrast, Maryland’s minimum wage at the time Chapter 284 was enacted was \$6.15, and the federal minimum wage was \$5.15. For fiscal 2009, using authority granted by Chapter 284, the Commissioner of Labor and Industry adjusted the two living wage rates for inflation. The federal minimum wage is scheduled to increase beginning July 24, 2009. **Exhibit 6** compares the various wage rates.

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**Exhibit 6**  
**Federal and State Minimum and Living Wage Rates**  
**Fiscal 2007-2009**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
State Minimum	\$6.15	\$6.55	\$7.25
State Tier 1	n/a	11.30	11.72
State Tier 2	n/a	8.50	8.81
Federal Minimum	5.15	6.55	7.25

Source: Department of Labor, Licensing, and Regulation; Bureau of Labor Statistics

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The law requires the commissioner to adopt regulations, investigate wage complaints, issue orders for hearings, issue determinations, serve each interested party, and determine the amount of restitution for violations. Every three years, the commissioner must assess the appropriateness of the inflation measure used to recalculate the living wage rate on an annual basis (the Consumer Price Index for all Urban Consumers in the Washington-Baltimore metropolitan area). The commissioner must also assess whether Maryland counties are subject to the appropriate living wage rates, given labor costs in their jurisdictions. Employees may sue for damages when employers fail to pay the living wage, regardless of whether the State has required the employers to pay restitution.

Employers who violate the living wage requirements must pay the affected employees the amount determined by the commissioner and pay the State \$20 per day per employee in liquidated damages. They must also post a notice of the living wage rate, the employees' rights under the bill, and contact information for the commissioner in English, Spanish, and any other language commonly used at the work site; the commissioner is responsible for providing these notices to employers.

The fiscal note for Chapter 284 suggested that a full-time wage and hour investigator would be needed to investigate complaints of living wage violations, but that new position was not included in the fiscal 2009 budget. Instead, DLLR designated one of its four existing wage and hour investigators as its sole living wage investigator. For each living wage contract referred to DLLR, the agency collects and monitors wage reports from the contractor to ensure compliance with the law. As of December 2008, the department reports that it is responsible for monitoring 356 contracts eligible for living wage standards with a total value of about \$25 million. To date, DLLR had obtained restitution for two employees who were improperly denied the living wage, totaling \$324.

In its report entitled "Impact of the Maryland Living Wage", DLS concluded that the living wage law appears to be affecting the contracts for which it was designed: service contracts employing low-skilled, low-wage laborers. For the DLS case study contracts, the living wage has resulted in increased labor costs of between 13 and 25.6%. Further, the report concludes that the living wage mandate has not had a negative effect on the competitiveness of State procurements and may have increased vendor participation by leveling the playing field. Finally, the report recommends that consideration should be given to awarding DLLR at least one regular full-time position to serve as the State's living wage investigator.

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets Department of Labor, Licensing, and Regulation (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2008</b>					
Legislative Appropriation	\$15,917	\$37,913	\$107,409	\$6,717	\$167,956
Deficiency Appropriation	173	0	5,500	0	5,673
Budget Amendments	198	3,186	0	1,352	4,736
Cost Containment	-408	-134	-865	0	-1,407
Reversions and Cancellations	-440	-1,593	-1,342	-280	-3,655
<b>Actual Expenditures</b>	<b>\$15,440</b>	<b>\$39,372</b>	<b>\$110,702</b>	<b>\$7,789</b>	<b>\$173,303</b>
<b>Fiscal 2009</b>					
Legislative Appropriation	\$0	\$0	\$0	\$0	\$0
Cost Containment	-1,845	-110	-457	0	-2,412
Budget Amendments	189	586	0	15	790
<b>Working Appropriation</b>	<b>-\$1,656</b>	<b>\$476</b>	<b>-\$457</b>	<b>\$15</b>	<b>-\$1,622</b>

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

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## **Fiscal 2008**

In total, the department's fiscal 2008 appropriation was increased by approximately \$5.4 million over original funding levels. This was largely due to a significant federal fund deficiency combined with offsetting budget amendments, reversions, and cancellations.

There was a fiscal 2008 deficiency of \$5.5 million in federal funds under the Workforce Investment Act. The funds were to address workforce development issues associated with the expected influx of jobs related to the Base Realignment and Closure process. An additional general fund deficiency was included in the fiscal 2009 allowance in the amount of \$173,132 to increase salaries of financial examiners within the Division of Financial Regulation. Departmentwide, salaries increased by \$198,037 in general funds and \$468,421 in special funds due to the cost-of-living adjustment budget amendment.

Cost containment efforts in fiscal 2008 reduced the original appropriation by about \$1.4 million in total funds, largely in federal funds.

Reimbursable funds increased by \$1,352,000 from the original appropriation. In an effort to identify the real costs associated with the administrative support of the professional boards, the department reallocated certain expenses across the boards, which will in turn, reimburse the general administration office.

The department reverted or canceled over \$3.6 million in total funds in fiscal 2008. Of this, approximately \$440,000 in general funds was reverted due to a change in the manner in which costs are allocated among the special funded professional boards. The Division of Labor and Industry canceled over \$500,000 in special funds due to persistent long-term vacancies within its Safety Inspection Unit. A decline in the number of racing days resulted in the cancellation of about \$698,000 in special funds within the Division of Racing. Fewer racing days translated to less impact aid collected and paid, less money for bred funds, and fewer laboratory tests.

The department also canceled over \$1.3 million in federal funds. The department attributes this cancellation to significant vacancies within programs funded by federal workforce development grants. Additionally, the department's communication expenses were lower than expected.

The department's consistent vacancy issue also impacted its internal reimbursable budgets. Approximately \$280,000 in reimbursable funds was reverted due to higher than expected vacancies within the Division of Occupational and Professional Licensing and the Office of Information Technology.

## **Fiscal 2009**

Budget amendments increased salaries departmentwide through the cost-of-living adjustment and the annual salary review. General funds increased \$188,610, and special funds increased by \$512,217 based on this amendment.

Special fund increased by \$73,907 in fiscal 2009 due to legislation that special funded the Elevator Safety Review Board.

A budget amendment increased reimbursable funds by \$14,925 in fiscal 2009. These funds represent a grant from the Judiciary to assist the department in establishing an Alternative Dispute Resolution (ADR) office that will incorporate ADR into departmental programs. As previously described, cost containment by the Board of Public Works results in over 2.4 million in savings departmentwide.

## ***Audit Findings***

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Audit Period for Last Audit:	August 1, 2004 – August 31, 2007
Issue Date:	November 2008
Number of Findings:	9
Number of Repeat Findings:	1
% of Repeat Findings:	11%
Rating: (if applicable)	n/a

This audit relates only to the Office of the Secretary and Division of Administration.

- Finding 1:*** Security over DLLR’s computer network was not adequate.
- Finding 2:*** Sensitive information relating to initial unemployment insurance claims was not adequately protected.
- Finding 3:*** Security measures over the electronic licensing application were inadequate.
- Finding 4:*** DLLR did not adequately log security events, monitor security reports, and document security reviews and investigations.
- Finding 5:*** Access controls, segregation of critical functions, and account and password controls were not adequate.
- Finding 6:*** Proper internal controls were not established over the processing of purchasing and disbursement transactions.
- Finding 7:*** DLLR did not have adequate procedures to ensure all federal expenditures were recovered timely, resulting in lost investment income of \$18,000. In addition, \$10.4 million in accrued federal fund revenues were not supported.
- Finding 8:*** DLLR did not independently investigate and resolve certain deposit adjustments and did not record certain collections in the State’s accounting system in a timely manner.
- Finding 9:*** **DLLR did not adequately maintain equipment records and did not comply with various provisions of the Department of General Services’ *Inventory Control Manual*.**

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

**Object/Fund Difference Report  
Department of Labor, Licensing, and Regulation**

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	1492.65	1449.65	1449.65	0	0%
02 Contractual	139.96	169.26	159.23	-10.03	-5.9%
<b>Total Positions</b>	<b>1632.61</b>	<b>1618.91</b>	<b>1608.88</b>	<b>-10.03</b>	<b>-0.6%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 93,224,345	\$ 104,491,089	\$ 103,898,518	-\$ 592,571	-0.6%
02 Technical and Spec. Fees	5,051,866	5,105,591	5,705,262	599,671	11.7%
03 Communication	4,287,303	3,846,443	5,336,080	1,489,637	38.7%
04 Travel	1,332,404	1,171,179	1,383,532	212,353	18.1%
06 Fuel and Utilities	815,069	1,001,636	1,111,130	109,494	10.9%
07 Motor Vehicles	415,716	436,741	463,983	27,242	6.2%
08 Contractual Services	18,177,044	15,350,010	19,013,479	3,663,469	23.9%
09 Supplies and Materials	1,649,436	1,342,056	1,435,830	93,774	7.0%
10 Equipment – Replacement	1,097,174	432,049	905,793	473,744	109.7%
11 Equipment – Additional	277,085	391,966	798,875	406,909	103.8%
12 Grants, Subsidies, and Contributions	43,491,540	40,071,436	49,728,916	9,657,480	24.1%
13 Fixed Charges	3,136,174	3,009,712	4,044,372	1,034,660	34.4%
<b>Total Objects</b>	<b>\$ 172,955,156</b>	<b>\$ 176,649,908</b>	<b>\$ 193,825,770</b>	<b>\$ 17,175,862</b>	<b>9.7%</b>
<b>Funds</b>					
01 General Fund	\$ 15,440,003	\$ 12,894,109	\$ 13,403,010	\$ 508,901	3.9%
03 Special Fund	39,024,418	38,808,706	33,442,182	-5,366,524	-13.8%
05 Federal Fund	110,701,718	116,864,655	135,254,971	18,390,316	15.7%
09 Reimbursable Fund	7,789,017	8,082,438	11,725,607	3,643,169	45.1%
<b>Total Funds</b>	<b>\$ 172,955,156</b>	<b>\$ 176,649,908</b>	<b>\$ 193,825,770</b>	<b>\$ 17,175,862</b>	<b>9.7%</b>

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary  
Department of Labor, Licensing, and Regulation**

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
0A Department of Labor, Licensing, and Regulation	\$ 10,530,793	\$ 10,085,395	\$ 11,485,173	\$ 1,399,778	13.9%
0B Division of Administration	16,520,878	17,239,296	17,615,367	376,071	2.2%
0C Division of Financial Regulation	7,886,075	8,389,743	9,429,157	1,039,414	12.4%
0D Division of Labor and Industry	13,840,432	15,025,274	15,647,033	621,759	4.1%
0E Division of Racing	5,765,436	5,376,739	5,103,544	-273,195	-5.1%
0F Division of Occupational and Professional Licensing	9,991,305	10,055,813	11,380,309	1,324,496	13.2%
0G Division of Employment and Training	50,810,295	49,839,473	57,610,681	7,771,208	15.6%
0H Division of Unemployment Insurance	57,609,942	60,638,175	65,554,506	4,916,331	8.1%
<b>Total Expenditures</b>	<b>\$ 172,955,156</b>	<b>\$ 176,649,908</b>	<b>\$ 193,825,770</b>	<b>\$ 17,175,862</b>	<b>9.7%</b>
General Fund	\$ 15,440,003	\$ 12,894,109	\$ 13,403,010	\$ 508,901	3.9%
Special Fund	39,024,418	38,808,706	33,442,182	-5,366,524	-13.8%
Federal Fund	110,701,718	116,864,655	135,254,971	18,390,316	15.7%
<b>Total Appropriations</b>	<b>\$ 165,166,139</b>	<b>\$ 168,567,470</b>	<b>\$ 182,100,163</b>	<b>\$ 13,532,693</b>	<b>8.0%</b>
Reimbursable Fund	\$ 7,789,017	\$ 8,082,438	\$ 11,725,607	\$ 3,643,169	45.1%
<b>Total Funds</b>	<b>\$ 172,955,156</b>	<b>\$ 176,649,908</b>	<b>\$ 193,825,770</b>	<b>\$ 17,175,862</b>	<b>9.7%</b>

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.