STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
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December 12, 2008

Mike Spalj, Audit Manager
California State Controller's Office
Division of Audits
300 Capital Mall, Suite 518
Sacramento, CA 95814

Dear Mr. Spalj:

This report is the Department of Industrial Relations' (DIR) six-month follow-up report to the State Controller's Office (SCO) review of the DIR collections and accounts receivables administrative practices, procedures and processes for accounting and collection of debt due the State dated August 2008. Pursuant to the findings and recommendations listed in your report, the following actions have been completed or are in progress:

- The DIR Division of Labor Standards Enforcement's (DLSE) accounts receivables for FY 2008/2009 is being entered into Calstars.
- The DLSE is in the completion phase of a new electronic database to help insure accurate monitoring of citations, appeals, and payments.
- The DIR has streamlined its collection process resulting in reduced collection processing time and improved revenue collection. A desk manual is under development reflecting the changes.
- The DIR is in the process of restructuring the Division of Administration to include a Chief Financial Officer (CFO) in order to better manage the money flow.
- In coordination with the Department of Finance, Fiscal Systems & Consulting Unit, the DIR is in the process of reinforcing its fiscal staff's knowledge base through a DOF-conducted training sessions on state fund accounting.

DIR's actions taken and further plan of action are detailed in the enclosed matrix.

If you have any questions or need additional information, please contact Skip Close, Chief, Division of Administration, 455 Golden Gate Avenue, San Francisco, CA 94102 or call 415-703-5064.

Sincerely,

JOHN C. DUNCAN, Director
Department of Industrial Relations

Enclosure

DEPARTMENT OF INDUSTRIAL RELATIONS' SIX-MONTH FOLLOW-UP RESPONSE TO
SCO REVIEW OF ACCOUNTING FOR AND COLLECTING OF DEBT DUE THE STATE - Report Date August 2008

Finding #	Finding	Finding Details	Initial Response	Action Taken/In Progress	Further Action Required
1	The DIR is able to collect only a fraction of fines imposed.	• Failure to act in a timely manner by failing to file judgment against employers within a one-year period. •Significant delays in referring cases to the DLSE Collections Unit. •The DLSE does not have a formal manual documenting each step of the collections process and/or the roles and responsibilities of DLSE staff working to resolve the case. • DIR management does not have current, accurate, and reliable data to effectively monitor the progress of the collection efforts in DLSE.	•The Bureau of Field Enforcement (BoFE) has developed a policy manual that establishes procedures for staff and what is required, as well as a memorandum issued to staff providing instructions for referrals of cases. •The Collections Unit has developed a manual that describes its procedures and the specific duties the individual staff within that Unit are responsible for performing.	•DLSE is reviewing open cases to ensure that judgments are filed timely. •DLSE has been working with the DIR Accounting and Information Systems staff to develop a software program to provide accurate and reliable data. This software program development is currently in its testing phase.	•Continue review of open cases to ensure judgments are filed timely. •Complete the testing phase of the software development project; provide hands-on training to all affected staff. Target go-live date is December 15, 2008.
2	The DIR is circumventing state control requirements by not establishing accounts receivable in its formal accounting records.	•When a citation is issued and a fine is assessed by DLSE, the DIR accounting office is not notified so that it can set up an accounts receivables to record and track the transaction in the accounting records. By neglecting to records fines and penalties as accounts receivables, the DIR, in effect, bypassed the review by outside state control agencies relative to writing off receivables. •The DLSE does not have a formal process in place to ensure the accuracy of data in the Filemaker Pro system after the initial data entry. •The DLSE lacks system controls to prevent unauthorized or inappropriate changes to system data. • Some cases referred to the DLSE Collection Unit were not on its listing of cases.	•There was and is no deliberate attempt to circumvent the state requirements. •The DLSE has an electronic database but the information entered into the system is not always reliable. •The Division does maintain a record of citation books issued and to which deputy the book is issued. The Division is requiring that its supervisors review the citation books to ensure that all of the citations are accounted for in its current database.	•DLSE developed a spreadsheet to track all citations issued during the current fiscal year (08/09), along with written instructions to the staff concerning how to complete the spreadsheet. The first report was submitted to DIR Accounting on October 31st. Since that date, DLSE has been submitting updated reports each Friday which summarize new citations issued since the previous report, appeals filed by employers, citations administratively dismissed and payments received on all citations. •DIR Accounting has entered the information into the CALSTARS system.	•Institute the establishment of DLSE receivables into CALSTARS. •Complete the development of DLSE accounts receivable software with a go-live target of December 15, 2008.

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Finding #	Finding	Finding Details	Initial Response	Action Taken/In Progress	Further Action Required
3	The DIR's internal control over collection is weak because collection duties are not clearly defined and adequately segregated.	•The DLSE collection duties are inadequately segregated representing a serious internal control weakness as it does not provide the adequate checks and balances that would prevent errors and irregularities.	•The DLSE will be assessing whether a Budget Change Proposal (BCP) would be required in order to implement process enhancements.	•DLSE has moved forward with its plans to centralize the Bureau cashiering function in the Sacramento Office. The affected staff have been reassigned to other programs within the Division and positions are being transferred to the Sacramento Cashiering Unit. All penalties collected after November 15th will be handled through the Sacramento office. Wage payments will continue to be paid through the Los Angeles Cashiering Unit until the necessary files are moved and the process to grant access to the Los Angeles data to the Sacramento staff has been completed. The centralized Bureau Cashiering Unit will be fully functional by January 1, 2009.	•Complete the centralization of BoFE's cashiering functions. Estimated completion date is January 1, 2009. •Restructure the Division of Administration to include a Chief Financial Officer (CFO) in order to better manage the money flow. •In coordination with the Department of Finance, Fiscal Systems & Consulting Unit, the DIR is in the process of reinforcing its fiscal staff's knowledge base through a DOF-conducted training sessions on state fund accounting.
4	The accuracy and completeness of the DIR's accounts receivable balance resulting from DOSH-imposed fines is questionable.	•Discrepancies were noted between DOSH's Integrated Management System (IMIS), used for federal reporting purposes, and Oracle, used by DIR accounting as an accounts receivable subsidiary system. •DIR accounting does not receive updated information from DOSH regarding any cases that have been appealed via internal hearings and/or the court system.	•The DIR is evaluating the effectiveness of the DLSE's Collections Unit to determine if it could be used as a model for DOSH collections. •The DIR is considering establishing a departmental-wide collections unit for all its units' debts. This action would require a Budget Change Proposal and would be implemented over a period of time.	•The DIR reconciles the IMIS and Oracle data on a monthly basis. •The DIR streamlined its Cal/OSHA penalty collection process resulting in shorter collection processing time. •DIR Accounting and the Occupational Safety and Health Appeals Board (OSHAB) are now reconciling open cases.	•Accounting to update policy and procedures manual to include monthly reconciliation of IMIS and Oracle data as well as the streamlined and improved collection process. •DIR to look into enhancing or revamping the current Cal/OSHA Oracle database. •Restructure the Division of Administration to include a Chief Financial Officer (CFO) in order to better manage the money flow. • In coordination with the Department of Finance, Fiscal Systems & Consulting Unit, the DIR is in the process of reinforcing its fiscal staff's knowledge base through a DOF-conducted training sessions on state fund accounting.