

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**FINANCIAL AUDIT REPORT
STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
YEAR ENDED JUNE 30, 1979**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

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FINANCIAL AUDIT REPORT
STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
YEAR ENDED JUNE 30, 1979

NOVEMBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits Arthur Young & Company's financial audit report of the Department of Industrial Relations, year ended June 30, 1979. The work was performed under contract with the Auditor General's Office.

The auditor is Curt I. Davis, CPA, Audit Manager.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

ARTHUR YOUNG & COMPANY

CROCKER PLAZA
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Joint Legislative Audit Committee
Office of the Auditor General
State of California

We have examined the accompanying combined balance sheet of the State of California Department of Industrial Relations at June 30, 1979 and the related statements of revenues, expenditures and changes in fund equity for the year then ended. Except as stated in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The scope of our examination was limited because of the following inadequacies which were found to exist in the accounting procedures and accounting records of the Department:

a. General Fund - Accounts Receivable

No detail listing is retained of the individual debtors from whom accounts receivable are owing and the Department had no data available to support the amount shown by its financial statements at the beginning and end of the fiscal year.

b. Special Deposit Funds

As described in Note 3 to the financial statements, records of these Funds were incomplete and a significant difference existed between cash and securities as reported by the Department and as confirmed to us by the State Treasurer and the State Controller. These differences have not been reconciled.

Because of these inadequacies we were unable to perform certain significant auditing procedures.

For the reason discussed in Note 1, a budget was not established for the Uninsured Employers' Fund as required for governmental fund types under generally accepted accounting principles.

Because of the limitations on the scope of our examination of the General Fund as referred to above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of the General Fund.

In our opinion, except for the absence of a budget in the case of the Uninsured Employers' Fund as discussed above, the accompanying financial statements of the Uninsured Employers' Fund and the Unpaid Wage Fund present fairly the financial position of the Funds at June 30, 1979 and the results of operations and changes in fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In our opinion, because of the matters relating to Special Deposit Funds discussed in subparagraph b. above, the accompanying financial statements of Special Deposit Funds do not present fairly in conformity with generally accepted accounting principles, the financial position of Special Deposit Funds at June 30, 1979 or the results of operations and changes in fund equity for the year then ended. Also, the accompanying financial statements of Special Deposit Funds are subject to the effects of such adjustments, if any, as might have been determined to be necessary had we been able to perform the auditing procedures referred to in the paragraph above relating to limitations on the scope of our examination.

The accompanying financial statements of the General Fixed Assets Account Group were not audited by us and, accordingly, we do not express an opinion on them.

Arthur Young & Company

October 6, 1980

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

June 30, 1979

	Governmental Fund Types		Fiduciary Fund Types		General Fixed Assets Account Group (Unaudited)	Totals (memorandum only)
	General Fund	Uninsured Employers' Fund	Special Deposit Funds (Note 3)	Unpaid Wage Fund		
<u>ASSETS</u>						
Cash and securities on deposit with State Treasurer	\$ 942,344	\$ 6,865,049	\$ 27,825,254	\$ 957,703	\$	\$ 36,590,350
Accounts receivable	1,150,047		7,329			1,157,376
Less allowance for deferred receivables	(566,612)					(566,612)
	583,435		7,329			590,764
Due from other State agencies	1,255,092					1,255,092
Due from Federal government	2,682,404					2,682,404
Expense advances to employees	161,855					161,855
Prepayments to other State agencies for services	183,575					183,575
Advance to State Architecture Revolving Fund	20,000					20,000
Equipment - at cost					2,168,019	2,168,019
Total assets	<u>\$5,828,705</u>	<u>\$6,865,049</u>	<u>\$27,832,583</u>	<u>\$957,703</u>	<u>\$2,168,019</u>	<u>\$43,652,059</u>

See accompanying notes.

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

June 30, 1979

	Governmental Fund Types		Fiduciary Fund Types		General Fixed Assets Account Group (Unaudited)	Totals (memorandum only)
	General Fund	Uninsured Employers' Fund	Special Deposit Funds (Note 3)	Unpaid Wage Fund		
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities:						
Accounts payable and encumbrances	\$3,721,463	\$ 103,657	\$	\$ 545	\$	\$ 3,825,665
Commitments and contingencies (Notes 5 and 6)						
Fund equity:						
Investment in general fixed assets					2,168,019	2,168,019
Designated for construction	20,000					20,000
Clearing account with State Controller	2,087,242	6,761,392				8,848,634
Designated for depositors			27,832,583			27,832,583
Property held in trust				957,158		957,158
Total fund equity	2,107,242	6,761,392	27,832,583	957,158	2,168,019	39,826,394
Total liabilities and fund equity	\$5,828,705	\$6,865,049	\$27,832,583	\$957,703	\$2,168,019	\$43,652,059

See accompanying notes.

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
ENCUMBRANCES AND CHANGES IN FUND EQUITY

GOVERNMENTAL FUND TYPES

Year ended June 30, 1979

	General Fund			Uninsured Employers' Fund (Note 1) actual	Totals actual (memorandum only)
	Budget as adjusted	Actual	Variance		
Revenues:					
Fees and licenses	\$ 1,562,100	\$ 2,036,454	\$ 474,354	\$ 706,906	\$ 2,036,454
Fines, penalties and recoveries	1,100,000	1,194,156	94,156		1,901,062
From Federal government	13,838,295	12,893,722	(944,573)		12,893,722
Other miscellaneous revenues	192,000	325,626	133,626		325,626
Transfer of accountability to the State Controller	(2,854,100)	(3,068,305)	(214,205)		(3,068,305)
Appropriations received	13,838,295	13,381,653	(456,642)	706,906	14,088,559
Total revenues and appropriations	54,189,140	53,791,810	(397,330)	6,090,202	59,882,012
Expenditures and encumbrances:					
Personal services	68,027,435	67,173,463	(853,972)	6,797,108	73,970,571
Other operating expenses	54,161,665	53,415,072	(746,593)		53,415,072
Equipment	15,948,504	13,439,556	(2,508,948)		13,439,556
Payments to claimants	1,344,122	1,344,122		2,487,593	1,344,122
Net expenditures charged to prior years' appropriations (Note 4)		1,517,832	1,517,832		1,517,832
Reimbursements from other State departments	(3,426,856)	(4,190,762)	(763,906)		(4,190,762)
Total expenditures and encumbrances	68,027,435	65,525,820	(2,501,615)	2,487,593	68,013,413
Excess of revenues and appropriations over expenditures and encumbrances	\$ -	1,647,643	\$ 1,647,643	4,309,515	5,957,158
Fund equity, July 1, 1978		459,599		2,451,877	2,911,476
Fund equity, June 30, 1979		<u>\$ 2,107,242</u>		<u>\$6,761,392</u>	<u>\$ 8,868,634</u>

See accompanying notes.

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS

COMBINED STATEMENT OF CHANGES IN FUND EQUITY
FIDUCIARY FUND TYPES

Year ended June 30, 1979

	<u>Fiduciary Fund Types</u>		<u>Totals (memorandum only)</u>
	<u>Special Deposit Funds (Note 3)</u>	<u>Unpaid Wage Fund</u>	
Fund equity - July 1, 1978	\$ 12,652,337	\$483,451	\$ 13,135,788
Receipts - from depositors	29,391,708	491,150	29,882,858
Disbursements - payments to and for depositors	<u>(14,211,462)</u>	<u>(17,443)</u>	<u>(14,228,905)</u>
Fund equity - June 30, 1979	<u>\$ 27,832,583</u>	<u>\$957,158</u>	<u>\$ 28,789,741</u>

See accompanying notes.

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies

The accompanying financial statements have been prepared using the modified accrual basis of accounting for governmental fund types and the cash receipts and disbursements basis for fiduciary fund types (since these funds have no significant transactions subject to accrual).

Governmental fund types

All significant revenues are recognized when earned. Contracted goods and services are recorded when related expenditures are encumbered. Other goods and services are recorded when liability is incurred. Benefit payments are recorded when disbursed. Significant reimbursements from other State departments are recorded when earned.

Vacation and sick leave are recorded when these benefits are used. Some employees have accrued benefits which are in excess of a normal year's accumulation. The amount of benefits earned but unused has not been computed.

Only the funds of the Department of Industrial Relations are included in the accompanying financial statements. The State Controller maintains the central accounts for all State funds.

General Fund

This fund is used to account for all activities not accounted for by other funds.

Uninsured Employers' Fund

This fund provides benefit payments to claimants when employers fail to provide workers' compensation insurance coverage. Since State appropriations are the major source of funding these benefits, the Fund has been classified in the accompanying financial statements as a governmental fund type. Internally in the State, it is classified as an enterprise fund type and for this reason, no budget is established for the Fund as is required for governmental fund types under generally accepted accounting principles.

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Special Deposit Funds

These funds are used primarily to account for deposits received from employers who are self insured for workers' compensation claims. See Note 3 relating to incomplete records of these Funds.

Unpaid Wage Fund

This fund is used to account for unclaimed wages and benefits remitted to the Department in accordance with State laws and regulations.

2. Retirement plan

Regular employees of the Department are members of the Public Employees' Retirement System which is a defined benefit, contributory retirement plan covering most State employees. The Department's share of retirement contributions for the year was \$7,082,842, which includes amortization of prior service cost over thirty years. Pension costs are funded as accrued. For the System as a whole, the excess of the present value of total projected benefits over future employee contributions and employer normal costs was 178% of the net assets of the pension fund at June 30, 1979.

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

3. Incomplete records of Special Deposit Funds

During the audit by Arthur Young & Company, it was determined that the amounts of cash and securities on deposit with the State Treasurer as reported in the accompanying financial statements at June 30, 1979 and as shown by the Funds' records at June 30, 1978 are significantly less than the amounts confirmed to Arthur Young & Company by the State Treasurer and the State Controller as being held for the Department, as follows:

	Millions	
	June 30, 1979	June 30, 1978
As confirmed by State Treasurer and Controller	\$34.0	\$25.6
As shown by records of the Funds	27.8	12.6
Excess confirmed	\$ 6.2	\$13.0

These differences have not been reconciled.

It has been ascertained that the Department does not have complete data for these deposits at its San Francisco accounting office. It is believed that a communication problem with Department operational personnel in Sacramento is the cause of the incomplete records.

4. Prior year adjustments

The following amounts related to prior years are included in the statement of revenues, expenditures and encumbrances:

Expenditures:

Personal services	\$ 248,465
Operating expenses and equipment	416,909
	665,374
Adjustments to previously recorded revenues	852,458
Net	\$1,517,832

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

5. Commitments

At June 30, 1979 commitments under operating leases aggregated \$2,808,000. Annual payments under these leases for the next five fiscal years are due as follows:

1979-1980	\$1,174,000
1980-1981	761,000
1981-1982	388,000
1982-1983	283,000
1983-1984	202,000

Rental expense for the year ended June 30, 1979 was \$3,806,000.

6. Contingencies

Revenues from federal government programs and reimbursements from other State departments (some of which are funded by federal government programs) are subject to audit by representatives of the federal and State governments to determine if amounts received were appropriate under terms of the programs.

The Department is involved in litigation related to its operations.

Management believes that the outcome of these audits and litigation will not have a material effect on the financial statements.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps