

# **CALIFORNIA DEPARTMENT OF SOCIAL SERVICES**

Audit Report

## **ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS OVER ACCOUNTS RECEIVABLE**

*As of June 30, 2009*



**JOHN CHIANG**  
California State Controller

August 2010



**JOHN CHIANG**  
**California State Controller**

August 3, 2010

John A. Wagner, Director  
California Department of Social Services  
744 P Street  
Sacramento, CA 95814

Dear Mr. Wagner:

This report presents the results of the State Controller's Office (SCO) audit of the Department of Social Services' (CDSS) administrative and internal accounting controls over Accounts Receivable. We conducted our audit pursuant to Government Code section 12418, which stipulates that the State Controller shall direct and superintend the collection of money due the state.

Our review disclosed that the CDSS:

- Has delinquent accounts on the general ledger that have not been processed for consideration of discharge from accountability.
- Lacks strong internal controls to collect salary advances in a timely manner:
  - Did not consistently deduct the salary advance from the next payroll warrant in accordance with State Administrative Manual section 8776.
  - Did not consistently send collection letters for delinquent salary advances in a timely manner.
  - Did not consistently process delinquent salary advance for the Franchise Tax Board offset in a timely manner.
- Has had limited success in collecting fines from licensees providing day care or residential care to the elderly and children, as many licensees simply closed after fines were imposed.

We are pleased to note that current CDSS management acknowledges the problems identified in our audit report and is committed to take appropriate action to address them. We are particularly encouraged by the proactive action taken by your department since we had our exit conference on March 25, 2010, as described in your May 13, 2010 letter (attached). We will conduct a follow-up review in approximately six months to ensure that all of these issues have been appropriately resolved.

Throughout the course of the audit, we received excellent cooperation from various staff members of your department. Their effort and assistance is appreciated.

If you have any questions, please contact Cathleen Dinubilo, Manager, State Agency Audits Bureau, at (916) 327-3928.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/vb

# Contents

<b>Executive Summary .....</b>	<b>1</b>
<b>Audit Report</b>	
<b>Introduction .....</b>	<b>2</b>
<b>Organizational Structure of the California Department of Social Services .....</b>	<b>2</b>
<b>Objectives, Scope, and Methodology .....</b>	<b>4</b>
<b>Conclusion.....</b>	<b>5</b>
<b>Views of Responsible Officials .....</b>	<b>5</b>
<b>Restricted Use .....</b>	<b>5</b>
<b>Findings and Recommendations.....</b>	<b>6</b>
<b>Observation and Recommendation .....</b>	<b>9</b>
<b>Exhibit—Criteria for Findings .....</b>	<b>11</b>

# Executive Summary

This report presents the results of the State Controller's Office (SCO) audit of the California Department of Social Services (CDSS) to determine whether CDSS is maintaining effective systems of administrative and internal accounting controls over its Accounts Receivable.

Our review disclosed that the CDSS:

- Has delinquent accounts on the general ledger that have not been processed for consideration of discharge from accountability.
- Lacks strong internal controls to collect salary advances in a timely manner:
  - Did not consistently deduct the salary advances from the next payroll warrant in accordance with State Administrative Manual section 8776.
  - Did not consistently send collection letters for delinquent salary advances in a timely manner.
  - Did not consistently process delinquent salary advance for the Franchise Tax Board offset in a timely manner.
- Has had limited success in collecting fines from licensees providing day care or residential care to the elderly and children, as many licensees simply closed after fines were imposed.

# Audit Report

## Introduction

This report presents the results of the State Controller's Office (SCO) audit of California Department of Social Services (CDSS) to determine whether the CDSS is maintaining effective systems of administrative and internal accounting controls over its Accounts Receivable.

Our audit revealed that the CDSS lacks adequate internal controls to collect salary advances and has accounts on the general ledger that have not been processed for consideration of discharge from accountability.

By authority of the California Constitution, Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment." In addition, Government Code section 12411 stipulates that ". . . the Controller shall suggest plans for the improvement and management of revenues." Further, Government Code section 12418 states, "The Controller shall direct and superintend the collection of all money due the State. . . ."

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the CDSS's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## Organizational Structure of the California Department of Social Services

### Organization of the CDSS

The CDSS strives to carry out its mission of providing aid, services, and protection to needy children and adults. The CDSS also endeavors to strengthen and encourage individual responsibility and independence for families. The CDSS, by managing and funding its programs, carries out its objectives through the 4,200 employees located in 51 offices throughout the state, and through 58 county welfare departments and offices and a host of community-based organizations. The CDSS had an accounts receivable balance of approximately \$637,226,402 as of June 30, 2009, and an office revolving fund (ORF) balance of approximately \$1,610,112 for the same time period.

The CDSS has ten divisions within its organization:

- Administration Division
- Information Systems Division
- Legal Division

- Adult Programs Division—Provides oversight, policy, and systems functions for programs providing services to the aged, blind, and disabled.
- Children and Family Services Division—Provides assistance in adoptions, foster care, children's programs, and child welfare services.
- Community Care Licensing Division—Provides oversight and enforcement for more than 85,000 licensed facilities statewide serving children, parents, and the elderly.
- Disability Determination Service—Determines the medical eligibility of disabled California residents seeking benefits.
- Human Rights and Community Services—Ensures compliance with all state and federal civil rights mandates governing equal access to benefits and services.
- State Hearings Division—Resolves disputes of applicants and recipients of public social services throughout the hearings process.
- Welfare to Work—Provides oversight of CalWORKs, California's version of the federal Temporary Assistance for Needy Families program.

#### Overview of the CDSS's Accounts Receivable

Oversight of the accounts receivable is the responsibility of the Administrative Division. Within the Administrative Division is the Fiscal Systems and Accounting Branch, which oversees the Fund Accounting and Reporting Bureau, Fiscal Systems Bureau, and Financial Services Bureau. Most of the accounting for accounts receivable is performed in the Fund Accounting and Reporting Bureau, which consists of the Cash Management Section, General Ledger Section, and Cash and Special Fund Section. Within the Fiscal Systems Bureau is the CalSTARS Operations Section, which is responsible for processing and reporting.

The CDSS uses the State Administrative Manual (SAM) Chart of General Ledger (GL) Accounts. GL account number 13XX is used for accounts receivable; it includes: General (10), Abatements (11), Reimbursement (12), Revenue (13), Operating Revenue (14), Dishonored Checks (15), Cash Shortages (16), Other (19), and Audit Exceptions (40). Penalties and fees received from care providers are recorded in the GL account number 1313.

For collection purposes, the Accounting Branch uses the report of collections generated monthly. The Accounting Branch uses reports for aging, reconciling, and monthly/year-end reporting; the reports are generated monthly or as needed, and can be converted into electronic format.

## **Objectives, Scope, and Methodology**

The objectives of the audit were to determine whether the CDSS properly performed, in a timely manner and according to applicable state and departmental policies, the accounting and administrative processes and procedures necessary in order to promptly collect amounts owed to the CDSS. This included determining whether the CDSS submitted to the SCO any requests for discharge from accountability of uncollectable receivables balances with appropriate documentation and review.

The specific objectives of the audit were to determine whether the CDSS has internal controls in place to ensure that:

- Written policies and procedures are established for recording and collecting receivables;
- Adequate separation of duties exists over the receivables functions;
- Collection responsibilities are clearly defined;
- Collection procedures ensure appropriate action on outstanding accounts;
- Uncollectible accounts receive appropriate scrutiny prior to write-off and are accounted for;
- Fines and penalties imposed are accurate, consistent, monitored, and collected appropriately;
- Accounts receivables are billed in a timely manner; and
- Account adjustments are reviewed, approved, and supported by adequate description or documentation.

The scope of our audit included a review of CDSS policies, processes, procedures, and practices relative to its accounting for, and collection of, accounts receivable for the period of July 1, 2006, through June 30, 2009. Our review also included the office revolving fund (ORF) only as it relates to accounting for and collection of accounts receivable.

We performed the following procedures:

- Reviewed the California Government Code; State Administration Manual; and pertinent statutes, regulations, and written policies and procedures related to the CDSS accounts receivable process;
- Reviewed work performed by any external audit organization;
- Documented a description of the internal controls over the accounts receivable process encompassing the CDSS's policies and procedures;
- Analyzed and evaluated the internal controls for the accounts receivable process by evaluating their strengths and weaknesses;
- Reviewed and verified accounts receivable aging reports;
- Verified the reconciliation of accounts receivable; and
- Verified the revenues and the establishment of accounts receivables.

**Conclusion**

Our audit of the CDSS administrative and accounting controls over accounts receivable revealed that the CDSS lacks adequate internal controls to collect salary advances and has accounts on the general ledger that have not been processed for consideration of discharge from accountability.

**Views of  
Responsible  
Official**

The SCO issued a draft report to the CDSS on April 14, 2010. John A. Wagner, CDSS Director, responded by the attached letter dated May 13, 2010. Mr. Wagner agreed with the two findings and one observation.

**Restricted Use**

This report is intended solely for the information and use of California Department of Social Services, the Department of General Services, and the SCO; it is not intended to be and should not be used by anyone other than these specific parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

August 3, 2010

# Findings and Recommendations

**FINDING 1—  
CDSS has delinquent  
accounts on the general  
ledger that have not  
been processed for  
consideration of  
discharge from  
accountability.**

Based on our review of the Discharge of Accountability Report obtained from the State Controller's Office (SCO), Division of Collections, as of July 23, 2009, we noted that the California Department of Social Services (CDSS) did not submit any requests for discharge from accountability for Community Care Licensing or Foster Care within the last four years.

Based on our sample selection of four group-home providers we reviewed during the audit period of July 1, 2006, through June 30, 2009, we noted that Foster Care Audits and Rates Branch (FCARB) had not processed a request for discharge from accountability for the one group-home provider who had gone out of business on October 2, 2008. This group-home provider had an outstanding balance of \$77,876. Also, during our analysis of the entire individual general ledger (GL) accounts, we discovered additional "old" and uncollectible accounts from CDSS's GL from fiscal year (FY) 1999-2000 through FY 2005-06 that should be processed for discharge from accountability for the Community Care Licensing Division (CCLD) and FCARB. We included GL 1311 and GL 1714 in our analysis, as these accounts are part of accounts receivable. Our analysis is as follows:

GL 1319 (Accounts Receivable—Other) is used by the CDSS to re-classify GL 1311 and GL 1313 accounts resulting from reverted appropriations as follows:

- GL 1311 (Accounts Receivable—Abatements) is reclassified to GL 1319 after three years. Our analysis noted 260 accounts that were more than three years old, with a total delinquent amount of \$110,308.17.
- GL 1313 (Accounts Receivable—Revenue) is reclassified to GL 1319 after two years. Our analysis noted 3,012 accounts that were more than two years old, with a total delinquent amount of \$6,395,989.08.

GL 1340 (Accounts Receivable—Audit Exceptions) is used by CDSS for foster care. Our analysis noted 21 non-profit corporation group home operation accounts that were more than nine years old for the period of FY 1999-2000 through FY 2005-06. We estimate these accounts represented a delinquent value of \$1,042,646.84. However, the amounts from these non-profit corporations are uncollectible, as all 21 group home programs have ceased operations and have gone out of business.

GL 1714 (Salary Advances) is used by CDSS for Office Revolving Fund—Salary Advances. Our analysis showed 31 accounts that were older than 120 days, with a total delinquent amount of \$30,476.59.

Based on our analysis, the aggregate delinquent amount which should be processed for discharge is estimated to be \$7,579,420.

<u>GL Account Number</u>	<u>Amount</u>
1311	\$ 110,308.17
1313	6,395,989.08
1340	1,042,646.84
1714	<u>30,476.59</u>
Total	<u>\$ 7,579,420.68</u>

The criteria used for this finding is referenced in the Exhibit, Criteria 2.

**FINDING 2—  
CDSS lacks adequate  
internal controls to  
collect salary advances  
in a timely manner.**

The employees of the CDSS request salary advances using the Request for Salary Advance form (PS 276). Salary advances can be for late dock, hardship, missed payroll cut-off, promotional salary increase, adjustment, or separation from state service. Salary advances are approved by the unit supervisor and personnel supervisor or manager. Typically, funds are collected by Human Resources (HR) personnel during the next pay warrant cycle. If the warrant is not enough to cover the advance provided, the employee is requested to submit a check to cover the balance due. The original warrant is processed for re-deposit to the SCO. HR sends collection letters according to SAM guidelines. After 30 days, the first collection letter is sent; then, at 60 days, a second letter is sent and, finally, at 90 days, the third and final letter is sent. If no funds are received after 15 days from the final letter, the file should be sent for offset process.

During our audit testing, we discovered the following:

- The CDSS did not consistently deduct the salary advance from the next payroll warrant in accordance with SAM section 8776.

Of the 20 salary advances sampled, 15 salary advances (with an outstanding balance of \$18,514) should have been deducted from employees' following payroll warrants as part of the internal offset process.

- The CDSS did not consistently send collection letters for delinquent salary advances in a timely manner.

Based on the test we performed for the 20 samples selected, the CDSS did not send collection letters for salary advances to 5 of 20 employees (with an outstanding balance of \$2,222) and sent letters late to 8 of 20 employees (with an outstanding balance of \$12,288).

- The CDSS did not consistently process delinquent salary advances for Franchise Tax Board offset in a timely manner.

Of the 15 salary advances that should have been processed for offset, 8 salary advances (with an outstanding balance of \$10,207) were between two and three years delinquent.

The criteria used for this finding is referenced in the Exhibit, Criteria 3.

**RECOMMENDATIONS**

The SCO recommends that:

- The CDSS (CCLD and FCARB) work with the SCO's Division of Accounting and Reporting to ensure uncollectible accounts are appropriately discharged in accordance with SAM section 8776.6– Discharge from Accountability.
- The CDSS's HR should perform timely offset of salary advances by deducting amounts owed from the next warrant and ensure that collection letters are sent within 30 days from issuance of the salary advance.

## Observation and Recommendation

**OBSERVATION 1—  
CDSS has had limited  
success in collecting  
fines from licensees  
providing day care or  
residential care to the  
elderly and children, as  
many simply closed  
after fines were imposed**

The Community Care Licensing Division (CCLD) regulates facilities operated by sole proprietors, partnerships, limited liability corporations (LLCs), and corporations to provide day care or residential care to the elderly and children. To become a licensed facility, the applicant must attend an orientation at CCLD's regional office. The prospective applicant then must submit an application, including fingerprint clearances and First Aid/CPR certifications. A pre-license visit is then made to the facility by the regional office staff. If the applicant meets all of the Title 22 regulations, the Regional Office (RO) staff will visit the facility every five years, unless there is a complaint against the facility. If a complaint is made, then, by statute, RO staff must visit the facility within ten days.

If RO staff members identify health and safety or other violations, the CDSS may suspend, temporarily suspend, or revoke the facility's license. In addition, under California Health and Safety Code sections 1548 and 1568.0822, the CDSS may levy a civil penalty that ranges from \$25 to \$150 per day, depending on the seriousness of the violation in lieu of suspension or revocation. If the facility continues to have penalties assessed against it, eventually, the RO will review it as a "non-compliant" facility and hold a non-compliance conference.

Our analysis found that the CDSS has been making a concerted effort to collect penalties imposed by the CCLD. Despite this effort, the rate of collection is fairly low. As the CDSS records do not match the fines imposed against the amounts collected on a yearly basis, we could not determine the actual rate of collection. For fiscal year (FY) 2008-09, the CDSS's records reflected \$3,361,264 in fines imposed by CCLD and \$1,316,283 collected (includes amount collected for fines imposed in prior years). Therefore, the rate of collection is approximately 39%. The CDSS's records also show that, from 1996 to 2008, the uncollected total is approximately \$6.4 million.

We found that the low collection success is due to the difficulty inherent in trying to collect from corporations, LLCs, partnerships, or sole proprietors that have ceased operation. Many of the facilities simply ceased to operate after being assessed a significant penalty. As most of the facilities are incorporated as businesses, there is no individual to hold personally liable and the State is unable to perform an offset through the Franchise Tax Board in order to collect penalties owed. In addition, once a facility is closed, the CDSS often encounters difficulties in locating a valid address to which to send collection letters. As the facilities apparently can simply cease to operate without suffering any consequences, the prospect of facing civil penalties does not appear to be much of a deterrent.

The criteria used for this observation is referenced in the Exhibit, Criteria 1.

**RECOMMENDATION**

The SCO recognizes the challenges confronting the CDSS in trying to collect from businesses or individuals that are no longer in operation. To improve collection rates, the CDSS may wish to consider applying some of the tools made available in the Department of Finance (DOF) Budget Letter 09-37 to implement the recommendations of an accounts receivable workgroup that the DOF convened.

Some of the tools available for consideration include:

- Conducting a pilot project to retain private collection agencies to, on a contingency fee basis, collect debts that the CDSS is unable to collect. Several state departments are currently participating in this pilot project. The Legislature appropriated funds in the FY 2009-10 Budget Act (Budget Item 9655) to reimburse the state agencies for their costs of such efforts.
- Adding a fee to delinquent accounts receivable to encourage prompt payment and help the CDSS recover collection costs.

In addition, the CDSS should consider:

- Offering an incentive to businesses that make appropriate violation corrections within a specified timeframe, and either reducing or eliminating the penalty imposed as a result of the violation.
- Determining the viability of requiring all businesses under CCLD authority to be licensed as either sole proprietors or partnerships, so that owners will have personal liability for fines incurred on behalf of the business.

## **Exhibit— Criteria for Findings**

---

### CRITERIA 1

#### State Administrative Manual (SAM) Section 8776.6

Once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30 day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

#### Collection Actions Review

If the three collection letters are unsuccessful, departments will prepare an analysis to determine what additional collection efforts should be made. The analysis should include a cost/benefit analysis of the collection actions listed below. Departments should initiate one or more of the following actions:

1. Offset Procedures—An offset, as the term indicates, is the interception and collection from amounts owed by other State departments to the debtor. Possible departments are the Franchise Tax Board, Board of Equalization, Employment Development Department, Lottery Commission, and SCO.
2. Court Settlements—There may be instances where it would be cost effective for departments to seek court judgments against debtors. Departments should consider the possibility of filing actions in small claims courts. For larger sums, department counsel should be consulted for advice.
3. Collection Agencies—Departments may consider contracting with another department that has a collection unit or with an outside collection agency.

For the Community Care Licensing Division (CCLD), we referred to the Office Procedures Manual for Civil Penalties, which states:

A civil penalty is a fine levied against a licensed or unlicensed facility by the Licensing Program Analyst (LPA) in order to gain compliance. The LPA records on the Licensing Report that a civil penalty has been assessed, completes a Civil Penalty Assessment form, and leaves a copy of both forms at the facility. Upon returning to the Regional Office (RO), the LPA will give the appropriate form, with all pertinent documents, to their supervisor for review. Upon approval, the supervisor signs the review. The documents are given to the RO's civil penalty coordinator for processing. When the civil penalty coordinator is given the series form and associated documents, a civil penalty folder is created. Processing the billing must be done immediately.

### CRITERIA 2

#### SAM Section 8776.6, Nonemployee Accounts Receivable—Discharge from Accountability

If all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectable amounts due from private entities. Departments will review their accounts receivable no less than quarterly to identify receivables for discharge. If departments have identified receivables for discharge, departments will file an Application for Discharge From Accountability form, STD. 27, with the SCO, Division of Accounting and Reporting, no less than quarterly. Applications for discharge from accountability of uncollectable amounts of more than \$7,500 will be filed separately from applications for amounts of \$7,500 or less. The \$7,500 amount applies to the total of all amounts owed by the debtor, not to each invoice. The application for discharge shall include:

1. Statement of the nature of the amount due
2. Name(s) of the person(s) liable
3. Estimated cost of collection
4. Any other fact(s) supporting the request, including offset attempts (see SAM 8790)
5. If the discharge from accountability is due to bankruptcy, the supporting documentation must include a copy of the court's final discharge of the debtor and evidence that the specific debt is included in the petition for bankruptcy.
6. Signature, phone number, printed name, and title of person completing the STD. 27
7. Signature, printed name, and title of manager authorizing the STD. 27

The individual authorizing the Application for Discharge From Accountability should be at a level at least equivalent to that of manager of the accounting office.

### CRITERIA 3

1. In accordance with SAM section 8776.7, the CDSS's Accounts Receivable Procedures for Transaction Specialist at B.7.3 states:

If the employee does not respond to the Accounts Receivable notification letter by the afforded time, the Specialist will collect the overpayment made by installments through payroll deduction or from deductions from a green warrant to cover at least the same number of pay periods in which the overpayment occurred.

2. SAM section 8790, Offsets (Revised, Renumbered from 8790.1-.8 and Renamed 9/09), states:

Offsetting is the process where an amount owed to a debtor is used to pay an outstanding account of the debtor. Before offsetting, departments must ensure collection procedures have been followed in accordance with SAM Sections 8776.6. In addition, prior to offset, departments must notify the debtor and provide them with an opportunity to present any valid objection to use of the offset procedure.

The different types of offsets available to state departments are:

- Internal offsets within a department—Departments should collect outstanding advances from separating employees by offsetting their final paycheck from the department. Similarly, when a vendor has both a credit invoice and an overdue receivable, the credit invoice that may otherwise create a refund should be offset by the amount the vendor owes to the department.
- Franchise Tax Board (FTB) Intercept Program—Individuals who have outstanding debts to the State may also receive FTB refunds or California State Lottery winnings. FTB has an Interagency Intercept Collections Program to intercept or “offset” these funds and pay the individual’s debts to participating departments, if departments have a social security number for the debtor. This collection method should be used after three collection letters have not resulted in payment. For more information regarding this program, departments may contact the FTB Interagency Intercept Collections Unit at (916) 845-5344.
- Offsets against payments among departments—The taxing departments (FTB, Board of Equalization, and the Employment Development Department) regularly offset refunds for outstanding debts among taxing departments. Non-taxing departments that become aware that another state department will be issuing payment to a debtor that owes their department should contact the other department to initiate the offset of the payment. The issuing department’s payment should be reduced (offset) by the amount owed the debtor department when scheduling a direct payment through the claim schedule process. A separate, no-warrant claim schedule should be submitted for the offset amount to transfer that amount to the debtor department.

- Offsets against payments to local governments—The SCO allocates money to cities and counties. These payments may be offset in limited situations. The majority of these payments are for specific purposes (i.e., highway funds, public safety, etc.) and any request to offset these payments must be for the same purpose. One possible option is the ability to offset Motor Vehicle License Fee apportionments. Any department requesting an offset must provide documentation to the SCO demonstrating the department meets the provisions of SAM 8776.6. Each offset will be reviewed on a case-by-case basis by the SCO.”

3. Government Code section 19838 states:

. . . when the state determines an overpayment has been made to an employee, it shall notify the employee of the overpayment and afford the employee an opportunity to respond prior to commencing recoupment actions. . . .

**Attachment—  
Department's Response to  
Draft Audit Report**

---



JOHN A. WAGNER  
DIRECTOR

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY  
**DEPARTMENT OF SOCIAL SERVICES**  
744 P Street • Sacramento, CA 95814 • [www.cdss.ca.gov](http://www.cdss.ca.gov)



ARNOLD SCHWARZENEGGER  
GOVERNOR

May 13, 2010

John Chiang  
California State Controller  
300 Capitol Mall, Suite 1850  
Sacramento, CA 95814

Dear Mr. Chiang:

**SUBJECT: STATE CONTROLLER'S OFFICE REPORT: ADMINISTRATIVE AND  
INTERNAL ACCOUNTING CONTROLS OVER ACCOUNTS RECEIVABLE**

The California Department of Social Services (CDSS) appreciates the opportunity to respond to the State Controller's Office draft report entitled "Administrative and Internal Accounting Controls Over Accounts Receivable".

The enclosed response addresses CDSS efforts to resolve the deficiencies cited in this report. However, resolution of some deficiencies would require a change in statute.

If you have any questions concerning the enclosed CDSS response, please contact me at (916) 657-2598 or Cynthia Fair, Chief Information Security and Audits Office, at (916) 651-9923.

Sincerely,

JOHN A. WAGNER  
Director

Enclosure

**Recommendations for Social Services:**

**Finding #1:** *CDSS has delinquent accounts on the general ledger that have not been processed for consideration of discharge from accountability.*

**Recommendation:** *CDSS (Community Care Licensing Division and Foster Care Audits and Rates Branch) should work with the SCO's Division of Accounting and Reporting to ensure uncollectible accounts are appropriately discharged in accordance with SAM section 8776.6-Discharge from Accountability.*

**Response:** Currently, Community Care Licensing Division (CCLD) is working with State Controller's Office's (SCO) Division of Accounting and Reporting to appropriately discharge three groups of uncollectible accounts:

1. Corporations, Limited Liability Corporation (LLC), and partnerships that have officially dissolved and are noted as such with the Secretary of State's Office.
2. Individuals who are deceased and are noted as such with the Social Security Administration.
3. Individuals who were cited as unlicensed and we have no Social Security Number (SSN), therefore we cannot send the account to Franchise Tax Board (FTB) for intercept.

The estimated dollar amount for the three categories listed above is \$1,132,701.

Additionally, CCLD is exploring further write-off efforts for other groups.

The Foster Care Audits and Rates Branch (FCARB) agrees with SCO's recommendation. In February, 2010, FCARB staff met with SCO staff responsible for handling discharge from accountability of uncollectible accounts. The SCO's staff provided technical assistance which included instructions and clarification on what is necessary to prepare these uncollectible accounts for discharge. The FCARB is actively working on preparing the uncollectible accounts for discharge and plans to have all 22 non-profit corporations, as identified in SCO's audit as uncollectible accounts, submitted to SCO for discharge by December 31, 2010. The FCARB will ensure the timely submission of uncollectible accounts for consideration of discharge for any non-profit corporation for which FCARB has set a foster care rate and that ceases operation and has gone out of business.

**Finding #2:** *CDSS lacks adequate internal controls to collect salary advances in a timely manner.*

**Recommendation:** *CDSS's HR should perform timely offset of salary advances by deducting amounts owed from the next warrant and ensure that collection letters are sent within 30 days from issuance of the salary advance.*

**Response:** CDSS concurs with the above finding. Since this finding Human Resources (HR) has implemented processes to ensure that salary advances are collected in accordance with the State Administrative Manual section 8776. Below is a list of processes that has been implemented:

- Training was provided to all Transaction Specialists regarding timely collection of salary advances.
- A Special Project Unit analyst was assigned to oversee and review the outstanding salary advance listing on an ongoing basis to ensure timely collections. The analyst will also submit delinquent salary advances to the FTB for offset if the employee no longer works for the Department.
- Standardized desk procedures were established for all Specialists requiring outstanding salary advances be stored on their desk in clear view. This desk procedure reminds the primary Specialist to check for outstanding salary advances before releasing pay, as well as, their back-up if the primary Specialist is out.
- HR receives a monthly list of outstanding salary advances from the CDSS Accounting office. When this listing is received the review process is as follows:
  1. Transaction Specialist reviews listing and indicates what action is being taken on the salary advance and sends to their Supervisor.
  2. Supervisor reviews the listing to ensure all salary advances are being collected timely. Supervisor will question the Specialist when no action is being taken or if action taken is not timely. After the supervisory review, the report goes to the Transaction's manager for review.
  3. Transaction's manager reviews the report for timely collection. After the manager's review, the report goes to Special Projects Analyst for final review.

Since the implementation of the above steps, HR is now deducting amounts owed from employee's next warrant and

sending collection letters within 30 days from issuance of the salary advance. HR forwards outstanding salary advances that cannot be collected to FTB on a flow basis for offset after all attempts to collect have been exhausted.

**Observation and Recommendations for Social Services :**

**Observation #1:** *CDSS has limited success in collecting fines from licensees providing day care or residential care to elderly and children, as many simply closed after fines were imposed.*

**Recommendation:** *The SCO recognizes the challenges confronting the CDSS in trying to collect from businesses or individuals that are no longer in operation. To improve collection rates, the CDSS may wish to consider applying some of the tools made available in the Department of Finance (DOF) Budget Letter 09-37 to implement the recommendations of an accounts receivable workgroup that the DOF convened.*

*Some of the tools available for consideration include:*

- *Conducting a pilot project to retain private collection agencies to, on a contingency fee basis, collect debts that the CDSS is unable to collect. Several state departments are currently participating in this pilot project. The Legislature appropriated funds in the FY 2009-10 Budget Act (Budget Item 9655) to reimburse the state agencies for their costs of such efforts.*

**Response:** CDSS/CCLD is a participant in the DOF pilot. CCLD had a Request for Proposal (RFP) posted on the Department of General Services (DGS) website and received only one bid; this bid was subsequently disqualified for failure to meet the administrative review requirements. The RFP has again been posted on the DGS web site for new bids.

- *Adding a fee to delinquent accounts receivable to encourage prompt payment and help CDSS recover collection costs.*

**Response:** The idea of a late fee will be explored. However, institution of a late fee would require a change in statute.

*In addition, the CDSS should consider:*

- *Offering an incentive to business that makes appropriate violation corrections within a specified time frame and either reduce or eliminate the penalty imposed as a result of the violation.*

**Response:**

The purpose of imposing civil penalties is to achieve compliance when there is a pattern of non-compliance. To allow a reduction or elimination of the penalty would be counterproductive to the purpose of the civil penalty. Additionally, reduction or elimination of the penalty would require a change in statute.

- *Determining the viability of requiring all businesses under CCLD authority to be licensed as either sole proprietors or partnerships, so that owners will have personal liability for fines incurred on behalf of the business.*

**Response:**

California law requires that certain licensees only be issued to nonprofit corporations. This would require a change in statute which is unlikely.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**