

December 28, 2017

David Lanier, Secretary  
California Labor and Workforce Development Agency  
800 Capitol Mall, Suite 5000  
Sacramento, CA 95814

Dear Mr. David Lanier,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Industrial Relations submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Cliff Okamoto, Chief of Administration, at (415) 703-4282, [cokamoto@dir.ca.gov](mailto:cokamoto@dir.ca.gov).

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## BACKGROUND

The DIR was established in 1927. Its mission is to improve working conditions for California's wage earners and to advance opportunities for profitable employment in California. DIR administers and enforces laws governing wages, hours and breaks, overtime, retaliation, workplace safety and health, apprenticeship training programs, medical care and other benefits for injured workers.

The goal of the department is to serve as the state entity to improve day-to-day workforce functionality throughout California by ensuring compliance with labor laws and regulations established to protect wage earners in their workplace environment. The objectives of the division programs described below outline the core values of employees in the entities under the responsibility of the DIR:

### DIVISION OF WORKERS' COMPENSATION

In addition to monitoring the administration of workers' compensation claims, the Division of Workers' Compensation (DWC) attempts to minimize disputes through outreach to employers and injured workers by providing program information and assistance. When disputes do arise over claims for workers' compensation benefits, DWC provides administrative and judicial services to resolve them. DWC performs a variety of services related to delivery of medical benefits in the workers' compensation system. For instance, the division conducts audits of workers' compensation claims administrators to ensure compliance with the benefit delivery system required by the Labor Code. DWC also authorizes payment of workers' compensation benefits to injured workers from the Uninsured Employers Benefit Trust Fund and the Subsequent Injuries Benefit Trust Fund. Finally, DWC administers a workers' compensation information system that helps policymakers evaluate the effectiveness and efficiency of the benefit delivery system.

### DIVISION OF OCCUPATIONAL SAFETY AND HEALTH

The Division of Occupational Safety and Health (DOSH) promotes and implements various measures to protect and improve the health and safety of workers on the job, and the safety of passengers riding on elevators, amusement rides, and tramways. DOSH enforces workplace safety and health standards and orders. DOSH also investigates the causes of workplace deaths and serious injuries and illnesses, and helps employers to maintain safe and healthful working conditions.

DOSH conducts inspections of, and issues permits to operate elevators and other conveyances, amusement rides, aerial passenger tramways, and pressure vessels. The inspection and permitting process is the primary method used to enforce standards governing the safe operation of these devices. Under the administrative direction of the DIR's Office of the Director, DOSH also obtains and maintains job safety records, reports, and statistics, as well as measuring the effectiveness of accident and illness prevention efforts in the workplace.

#### DIVISION OF LABOR STANDARDS ENFORCEMENT

The Division of Labor Standards Enforcement (DLSE) enforces state minimum wage and hour laws, prevailing wage laws, and Industrial Welfare Commission (IWC) wage orders. The division investigates and works toward resolving wage claim disputes and discrimination complaints. DLSE also does the following: (1) registers garment manufacturers and contractors; (2) licenses farm labor contractors, industrial home-workers and talent agents; (3) issues special licenses to non-profit organizations employing disabled workers; and (4) certifies studio teachers and issues entertainment work permits for minors and permits to employ to their employers.

DLSE consists of Bureau of Field Enforcement (BOFE), Public Works (PW), Discrimination Complaint Investigations (DCI), Licensing & Registration (L & R), Wage Claim Adjudication (WCA), Retaliation Complaint Investigations (RCI), Economic Employment Enforcement Coalition (EEEC), and Legal Services.

#### DIVISION OF APPRENTICESHIP STANDARDS

The Division of Apprenticeship Standards (DAS) administers apprenticeship laws and standards to create opportunities for Californians to gain employable lifetime skills and to provide employers with a highly skilled and experienced workforce. The division promotes apprenticeship training, creates partnerships, consults with program sponsors and monitors programs to ensure high standards for apprentice on-the-job training and supplemental classroom instruction. In doing so, DAS strengthens the apprenticeship alliance among industry, labor, education, and government to recruit workers and teach them the skills they and their employers need.

DAS also handles the Apprenticeship Training Grant Program. This program collects contributions from employers on public works projects that do not employ apprentices in the required ratios. DAS then re-distributes those funds to approved apprentice training programs in the same trades and geographic areas. The annual grant distribution is currently \$3 million.

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### ONGOING MONITORING

As the head of Department of Industrial Relations, Christine Baker, Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

#### EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Department of Industrial Relations internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Cliff Okamoto, Chief of Administration, Tess Gormley, Manager of the Return-to-Work Program, and Janet Tsao, Chief of Staff.

#### MONITORING ACTIVITIES

DIR generates a number of reports on a regular and as needed basis to assist division management

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and the Director in monitoring the activities within the divisions. These prepared reports support organizations that are critical to the achievement of DIR goals and objectives. A DIR activities dashboard is being developed for the Director to quickly review key operational metrics for all divisions and supporting functions. The dashboards will be shared with division leaders so all parties can quickly assess progress on key deliverables and identify potential risks.

#### **ADDRESSING VULNERABILITIES**

Every two months, the Director meets with the DIR leadership team to review risks to the department's mission and goals and conducts an evaluation of the controls. If corrective action is required due to the ineffectiveness or delay in implementing any of the controls, a member of the leadership team is assigned to address the control deficiency and report back to the Director prior to the next review meeting. If policy or procedural changes are required to correct a control deficiency, the DIR will issue a corrective communication to all affected staff.

#### **COMMUNICATION**

On a regular basis, the Director holds meetings with members of the DIR management team to establish updates and project plans in a timely fashion within the department. The Director holds weekly meetings with each of the key divisions to address operational issues including the risks and control measures identified in the SLAA Report. Key non-divisional staff may also be invited to attend these meetings as the agenda and subject matter require. Additionally, the Chief of Administration and the Director meet at least weekly to discuss issues and progress around the following topics: DIR staffing, training and development, other HR issues; Accounting and Cashiering; procurement and contracts; and facilities and office space.

Monthly meetings between the IT staff and the Director are held to determine status and prioritization of projects as well as issues and risks relating to the projects. These IT projects may also be addressed in the regular division meetings.

Regular DIR-wide communications, including during new employee orientations, will be sent to remind and encourage all staff of their obligations to notify their immediate supervisor or manager of any vulnerabilities or control inefficiencies in any of their work processes.

Along with the posting of the SLAA Report, regular updates on monitoring activities and progress will also be posted on the department intranet. Managers and supervisors will be encouraged to discuss this report and the monitoring and control activities during regular staff meetings.

#### **ONGOING MONITORING COMPLIANCE**

The Department of Industrial Relations is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Department of Industrial Relations systems of controls and monitoring.

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#### **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Department of Industrial Relations risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

### **RISK IDENTIFICATION**

The DIR Director meets regularly with her leadership team to discuss mission and operational issues. The DIR leadership team includes the division chiefs for DOSH, DAS and Administration, as well as the Labor Commissioner for DLSE, the Administrator for DWC and the CFO and the Chief Legal Counsel of the DIR. In discussing operational issues, the team identifies risks to each division's goals and objectives, steps taken to mitigate these risks, and risk mitigation which may be outside the control of the division or unit.

The department requested that each division and program under the jurisdiction of the DIR participate in identifying the key risks to accomplishing their mission and goals. As part of the SLAA process, each leadership team member, the Chief of Accounting, and the CIO utilized the SLAA Risk Catalog provided by the Department of Finance (Revised 8/2017) to uncover apparent risks. The consolidated response generated from a compilation of the input from each division indicated that the main risks to the overall departmental mission and goals were issues in staffing, technology, and access to necessary resources. The responses were aggregated, put into a draft SLAA formatted document, and then reviewed in several one-on-one meetings held with the division heads and the DIR SLAA team.

The DIR Director reviewed the draft SLAA document and selected the highest priority risks to the overall mission of the department, which were then sent back to the DIR leadership team for final review and comment. The DIR SLAA submittal is the consensus view of the key mission critical risks facing the department.

### **RISK RANKING**

Each leadership team member along with the Chief of Accounting, Chief of HR, and the CIO were asked to identify and prioritize the key risks to accomplishing their unit's mission and goals.

The consolidated responses were compiled and a preliminary ranking was assigned to each risk. The DIR Director then reviewed the consolidated responses and ranking and selected the highest priority risks to the overall mission of the department.

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## **RISKS AND CONTROLS**

### **RISK: OPERATIONS -EXTERNAL-STAFF—RECRUITMENT, RETENTION, STAFFING LEVELS**

All of the DIR's operating divisions (DOSH, DWC, DLSE, and DAS) and the Division of Administration are experiencing difficulties in filling existing vacancies which may affect their ability to meet program objectives. The lengthy civil service hiring process and increased competition for qualified candidates are two reasons for the department's hiring difficulties.

#### **CONTROL A**

Use process improvement techniques (Lean Six Sigma) to streamline the certification process of applicants applying for DIR positions and the entire DIR hiring process. Establish and adhere to service level agreements between HR and divisions to ensure consistent turnaround times from all parties.

#### **CONTROL B**

Engage and collaborate with CalHR to streamline State hiring processes and policies. This change will allow for higher and more competitive starting salaries, more flexibility in establishing candidate hiring pools, and broader use of existing job classifications.

Engage and collaborate with the CalHR Exam Unit to put several of our departmental exams online and to streamline and expedite the exam process for specific departmental exam classifications.

Reduce the use of Qualified Appraisal Panel (QAP) exams in favor of Training and Experience (T&E) exams.

**CONTROL C**

Improve the outreach and recruitment process to better position the benefits of State employment versus those of the private sector and other public sector agencies.

**CONTROL D**

Provide hiring managers with training on how to hire, screen and interview candidates.

**RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING**

As with most organizations today, the DIR relies heavily upon experienced leadership and knowledgeable, expert staff. The well documented “aging workforce” problem that is currently plaguing many organizations makes the DIR vulnerable. The heavy reliance upon long tenured, experienced and knowledgeable staff coupled with the likelihood of retirements over the next two to five years in key technical and managerial positions, could create a gap in DIR's institutional knowledge base and experienced managerial talent.

**CONTROL A**

Establish a workforce/succession planning effort to identify key positions, staff with leadership potential, and gaps where no replacements have been identified. The DIR leadership team will commit to the development of a robust workforce plan to identify planned vacancies, as well as potential and real gaps. Succession planning should also include technical specialists.

**CONTROL B**

Establish a mentor program in which the transfer of key technical knowledge is encouraged and monitored. Department technical specialists should be recognized for their contributions as well as their efforts to mentor and transfer knowledge to other staff.

**CONTROL C**

Establish a leadership development program to train and develop current and future staff.

**RISK: OPERATIONS -INTERNAL-TECHNOLOGY—COMPATIBILITY**

The work performed by the division staff is dependent upon accurate and timely data. Several of the systems in use by our staff are outdated and/or incompatible with other systems. This state of affairs leads to a lack of data integrity and/or the ability to share data, which in turn impedes the generation of management reports that could affect management decision making.

The incompatibility of our older systems with our newer technology could hinder our ability to provide more accurate and efficient services.

**CONTROL A**

In order to resolve the issue of inadequate tools and outdated materials, the department will allocate funds to improve technology solutions and resources.

**CONTROL B**

Ensure that the department leadership reviews the progress of the department's IT project for progress and prioritizes new projects accordingly. This review will ensure that sufficient resources are available for key IT projects.

**CONTROL C**

Continue to work with the California Department of Technology to ensure that DIR has the systems and IT infrastructure to build or acquire the software solutions needed to operate and manage effectively and efficiently within the overall State IT network.

**RISK: OPERATIONS -INTERNAL-STAFF—TRAINING, KNOWLEDGE, COMPETENCE**

New employee training and onboarding is critical to the success of new staff members. With proper implementation of training/onboarding, new employees are better able to progress and become successful and productive employees. Ongoing staff training is also important to continue efficient and effective operations within the department.

Management and leadership training and development are important for teams to perform at their potential and highest levels. Leadership development has also been shown to reduce turnover and increase overall efficiency and productivity.

The DIR's ability to fulfill its mission and goals could be adversely impacted by the failure to make progress in training existing employees and improving the knowledge and competence of our leaders and staff and the inability to quickly and effectively onboard new staff.

**CONTROL A**

Further develop and establish a department-wide onboarding program for use by all divisions and units. Provide division liaisons proper training on how to onboard new staff with tools such as checklists for administrative staff, supervisors and managers, and new employees. This initiative will provide a consistent and comprehensive program to improve effectiveness and the timely onboarding of new staff.

**CONTROL B**

Divisions and units working with the DIR budget office will establish a budget and plan for training and development activities.

**CONTROL C**

Continue to build the training unit within the DIR's Human Resources unit to develop training programs primarily focused on nontechnical employee and supervisory development. This will not only help to mitigate supervisory–employee relations issues, but also increase productivity of staff, improve staff retention and enhance recruitment of staff from outside of the department.

**RISK: OPERATIONS -INTERNAL-OVERSIGHT, MONITORING, INTERNAL CONTROL SYSTEMS**

While the DIR has a centralized accounting function, certain groups within the department continue to perform some separate accounting operations. This partially decentralized accounting organization could lead to a lack of organizational accountability and inefficient operations.

**CONTROL A**

Initiate a review of the separate accounting operations with the intent to centralize all DIR accounting operations.

**CONTROL B**

Establish a project team to review the current work processes and systems involved in the separate accounting operations to identify areas of improvement.

**RISK: OPERATIONS -INTERNAL-PHYSICAL RESOURCES—MAINTENANCE, UPGRADES, REPLACEMENTS, SECURITY**

As the DIR continues to increase its workforce, adequate space is becoming an issue in many office locations.

With limited working space in certain locations, the DIR may be unable to optimally situate staff in several areas of the state which could impact the efficiency of division operations.

**CONTROL A**

The DIR facilities management group working with the Department of General Services will continue looking at both private and public buildings to secure adequate space for the additional staff being hired by all the operating divisions and administrative services functions.

**CONTROL B**

A regular statewide facilities update plan will be made available to executive staff to monitor the DIR's ongoing space requirements.

**RISK: COMPLIANCE-INTERNAL-STAFF ADHERENCE TO POLICIES, PROCEDURES, OR STANDARDS**

It is important for DIR to closely follow CalHR personnel policies. This is especially true when it comes to providing required Probationary Reports, Annual Performance Appraisals, and/or developing Individual Development Plans.

By following established policies, procedures and standards, individual performance expectations will be effectively communicated and excellent performance levels may be achieved.

**CONTROL A**

Establish a better tracking system maintained by the Training unit to ensure that all records are kept in a central location. By utilizing Salesforce to track data, we can run reports to identify individuals and due/received dates for their evaluations.

**CONTROL B**

Provide managers and supervisors with better training on how to complete Probationary Reports and performance appraisals. With the assistance of the Performance Management unit, the training will focus on providing tools and resources to complete evaluations that are timely and meaningful.

**CONTROL C**

Establish a multi-division working group to create division and department best practices and performance metrics. Quarterly meetings of the work group will provide a platform for divisions to collaborate and share resources.

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## CONCLUSION

The Department of Industrial Relations strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Christine Baker, Director**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency