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Chiang Finds Massive Losses from Uncollected Fines and Penalties

SACRAMENTO – State Controller John Chiang today released the final of three audit reports that reveal the State loses millions of dollars each year because state agencies often fail to collect the fines and penalties they levy.

“The audits show these agencies do not place a high priority on collecting millions of dollars owed to cash-starved California, even though it is their legal responsibility,” Chiang said. “As a result, substandard accounting practices have left taxpayers to pick up the tab for drunk drivers and unscrupulous businesses and employers. Unfortunately, poor collection efforts are not unique to these three agencies, and likely are a systemic problem that plagues the State’s 170 departments, boards and commissions.”

Conducted over the past two years, the audits looked into collection efforts and rates at the California Highway Patrol, the Public Utilities Commission, and the Department of Industrial Relations. The reviews uncovered the loss of at least \$80 million, but the actual amount of funds that go uncollected is difficult to determine because the agencies failed to maintain accurate and reliable records of accounts receivable.

Under the law, agencies that receive revenues – whether from fines, penalties or the issuance of licenses – must make an effort to collect those funds. But the audits of the three agencies indicate that none adequately prioritize their debt collection responsibilities, fully document the amount owed or collected, and do not make sufficient efforts to collect the owed amounts.

The latest review revealed that over a two-year period, the [California Highway Patrol \(CHP\)](#) failed to record as “accounts receivable” at least \$9.6 million in delinquent billings for the costs of investigating Driving Under the Influence (DUI) incidents. That resulted in those debts being internally dismissed, or ignored, instead of being subjected to appropriate collection actions.

The audit also revealed that the CHP, for more than a year, delayed implementing a state law that increased from \$1,000 to \$12,000 the maximum amount the CHP could recover from convicted drunk drivers for the costs of investigating accidents caused by their criminal behavior. Due to the inadequate record-keeping at CHP, the Controller’s office was unable to determine how much that may have cost the State in under-billings. However, with an average of 21,000 DUI cases each year, these uncollected cost recoveries could total millions of dollars.

An audit completed in August 2007 showed the [California Public Utilities Commission \(PUC\)](#) failed to adequately record valid accounts receivable, which resulted in the PUC failing to collect \$20.6 million in fines over a 10-year period levied against telecommunications providers that defrauded consumers. An audit completed in August 2008 of the [Department of Industrial Relations \(DIR\)](#) showed that up to \$54 million in fines against businesses that abuse the rights of their workers were ignored over a three-year period.

The most common problem underlying the failure of these departments to effectively collect the debt owed to them is management’s disregard for the agencies’ collection functions. As a result, adequate internal oversight has not been installed, much less enforced.

Because these losses are ultimately shortchanging the State’s General Fund, the Controller will forward his report to the Department of Finance’s Accounts Receivable Workgroup, the Assembly Accountability and Administrative Review Committee and the Senate Office of Oversight and Outcomes for review and possible oversight hearings. He also will recommend those panels consider legislation to:

- 1 Require each State agency or entity with collection responsibilities to conduct a risk assessment of its collection functions and activities once every four years. Those assessments should encompass reviews of the agency’s:
 - Legal authority to impose fines and penalties, seek cost recoveries and identify new areas where collections are not, but should, be conducted;
 - Ability to accurately and timely collect and record valid debts and ensure they are properly reflected in financial statements;
 - Resources devoted to identifying and collecting amounts due the State and their effectiveness at collecting debts;
- 1 Require the Department of Finance to publish guidelines for conducting the risk assessments and provide technical assistance to State agencies;
- 1 Require the Department of Finance to work with the State entities to develop appropriate targets for collections for each type of accounts receivable;
- 1 Require the Department of Finance to impose a budget penalty on agencies that chronically fail to meet the target level, and;
- 1 Require the State Controller’s Office to conduct periodic audits of State agency collection systems.

