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When Risk Management Cannot Demonstrate Results

Lessons from California's Labor Commissioner's Office

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EXECUTIVE READ

The California State Auditor's May 2024 examination of the Labor Commissioner's Office (LCO) found significant wage-claim backlogs, prolonged processing times, and weaknesses in management oversight and operational controls. Since then, the Department of Industrial Relations (DIR) has documented governance activities and corrective initiatives, and public follow-up records show meaningful progress: of the 20 recommendations directed to LCO, the Auditor currently assesses 13 as fully implemented.

But for three recommendations that LCO reported as fully implemented in May 2026, the Auditor's assessment remains pending, citing insufficient substantiation. That gap between reported and validated implementation is the subject of this analysis. Drawing on established internal auditing and risk management principles, it examines how reliable operational data, continuous risk indicators, management accountability, and independent assurance can help organizations show that corrective measures work, not merely that they were taken.

ABOUT THIS ANALYSIS

This article examines publicly available information concerning California's Labor Commissioner's Office, a division of DIR. Principal sources include the California State Auditor's May 2024 Report 2023-104, the Auditor's published follow-up assessments, DIR's December 22, 2025 Leadership Accountability Report, and public corrective-action updates through May 2026. Information reflects public records available as of November 1, 2026.

The observations and recommendations represent the author's independent professional assessment, and the procedures described are illustrative rather than findings. Examples drawn from the author's prior audit work are anonymized and described in general terms. INTELL RISK & ADVISORY GROUP was not engaged by DIR or LCO and did not conduct an independent audit, attestation engagement, or investigation of either organization. No confidential agency records were obtained, and this analysis does not express an audit opinion or make findings concerning individual officials.

When Controls Exist but Outcomes Tell a Different Story

According to LCO's own data, approximately 47,000 wage claims were backlogged at the end of fiscal year 2022-23. The median time to issue a decision was 854 days, against a statutory maximum of 135 days. As of November 2023, more than 2,800 claims had remained open for at least five years, involving more than $63.9 million in wages associated with those claims. Behind each claim is a worker waiting on wages they say they are owed.

These figures come from Report 2023-104, *The California Labor Commissioner's Office: Inadequate Staffing and Poor Oversight Have Weakened Protections for Workers*, published by the State Auditor in May 2024. The Auditor also identified weaknesses in case-management information, staff training, supervisory oversight, recruitment, and judgment enforcement, conditions that affected the timely enforcement of labor laws and workers' ability to pursue recovery.

What happened next is instructive. Of the 20 recommendations directed to LCO, the Auditor's most recent assessments list 13 as fully implemented and 7 as pending. For four of the pending items, LCO itself reports that implementation is not yet complete. For three others, LCO reported full implementation in May 2026, yet the Auditor kept them pending. On the two training-records recommendations, LCO's documentation did not demonstrate that all training records were centrally tracked or regularly reviewed. On the recommendation concerning judgment-collection methods, LCO's own response described continuing evaluation rather than completed implementation.

Approximately 19 months after the audit, DIR issued its December 2025 Leadership Accountability Report under California's State Leadership Accountability Act (SLAA), describing enterprise risk management, internal control evaluations, monitoring processes, and corrective initiatives. Those measures are relevant. The question this analysis raises is whether public reporting shows that they achieved their intended results.

> ***The distinction is fundamental: corrective action is a management activity; corrective-action effectiveness is a result that must be demonstrated.***

Executive Certification and Management Accountability

The SLAA establishes management responsibility for maintaining systems of internal control and monitoring. DIR's December 22, 2025 Leadership Accountability Report includes the Director's certification regarding the adequacy of those systems, and describes an enterprise risk assessment, ongoing monitoring activities, and an internal control evaluation based on federal internal control standards.

These are relevant elements of DIR's governance framework. However, the published report does not present detailed testing results specifically demonstrating the operating effectiveness of LCO's wage-claim corrective measures, so an external reader cannot independently assess whether those measures have produced sustained improvement in adjudication performance. This limitation concerns the information publicly reported, not a determination that DIR failed to conduct appropriate evaluations or that the Director's certification was inaccurate or improper. Supporting evidence may exist in underlying risk assessments, internal control evaluations, audit workpapers, or other records not examined for this article.

Corrective Actions: What Has Changed?

A balanced assessment must recognize real progress. The Auditor's recommendation-tracking records show completed work on case-management data requirements, recruitment procedures, supervisory staffing, and workload assessment, and LCO reports that its program-wide vacancy rate had declined to approximately 20.4 percent as of April 2026.

In its May 2026 follow-up, LCO reported that a centralized intake pilot conducted between August 2025 and January 2026 reduced an intake backlog from approximately 30,000 to 10,000 cases. According to LCO, the process has since been adopted statewide, and LCO projects that it will be able to docket claims within the 30-day statutory deadline by year-end. LCO also reports having reviewed processing times by claim type, complexity, and procedural stage, finding that operational inefficiencies contributed significantly to delays while certain complex claim categories require substantially more time. These are meaningful reported improvements. However, the intake backlog is not necessarily equivalent to the entire population of unresolved wage claims, and reducing cases awaiting intake does not by itself demonstrate that adjudication delays, long-aged claims, judgment enforcement deficiencies, or statutory compliance problems have been resolved.

Separately, one recommendation was directed to the Legislature, not LCO: that it require LCO to report annually on backlog and vacancy progress. The Auditor lists it as no action taken, and it depends on legislative action.

The public record therefore supports neither the conclusion that nothing has changed nor the conclusion that LCO's problems have been comprehensively corrected. It shows meaningful reported progress alongside open recommendations, which is why reporting should separate activities completed, controls implemented, and results independently validated.

Internal Accountability and Independent Assurance

From an internal audit perspective, the central issue is not simply the existence of a substantial backlog, but whether management has an effective process for identifying risks, determining root causes, implementing corrective measures, and evaluating whether those measures achieve their objectives. Organizations commonly respond to deficiencies by adding staff, revising procedures, conducting training, establishing committees, or introducing technology. These measures may be necessary, but they are management activities, not independently sufficient evidence of effective controls.

DIR's 2025 Leadership Accountability Report describes an Enterprise Risk Management function, a Risk Committee, an Audit Committee, and an Internal Audit Unit, and states that DIR's Chief Auditor monitors external audit findings and corrective-action plans. These are important governance activities, but their existence does not, by itself, establish that risk management, corrective-action monitoring, or internal audit assurance is operating effectively.

The State Auditor provides essential independent oversight, but responsibility for managing operational risks, implementing corrective actions, and evaluating their effectiveness remains with DIR management. DIR's Internal Audit function has a distinct assurance role: within its approved mandate and audit plan, it can independently evaluate whether management's corrective actions

address identified weaknesses and whether implemented controls are designed appropriately and operating as intended.

One reasonable approach for DIR's Internal Audit function and its oversight body to consider would be a targeted, risk-based performance audit of LCO's corrective-action program, subject to established priorities and resources. It could evaluate the reliability of case-management information, supervisory oversight, implementation of corrective measures, and trends in statutory compliance. This suggestion does not presume that DIR has not already performed comparable work. External findings should inform an organization's own risk assessment and audit planning, so that it can determine whether significant deficiencies have been corrected without waiting for its external auditor to return.

How I Would Approach the Problem Differently

My approach would begin with the underlying operational data, so that policies, procedures, and organizational structures can be evaluated against actual results. The objective is an evidence-based operating model that identifies the sources of deficiencies, connects risks to specific controls, assigns accountability, and continuously measures whether corrective actions work.

1. Establish a Reliable Operational Baseline

Using audit analytics software, I would profile the complete population of wage-claim records, including filing dates, processing milestones, hearing dates, decisions, assigned personnel, and case status, testing every record rather than a sample for completeness, accuracy, and consistency before any analysis, because missing dates, duplicates, and inconsistent classifications can distort performance measures. Given the Auditor's findings on case-management reliability, the baseline would separately identify claims awaiting intake, in adjudication, past statutory deadlines, and referred for judgment enforcement. Combining these into a single backlog figure without clear definitions can hide the actual sources of delay.

2. Identify the Underlying Sources of Delay

Once the data is validated, case-level analytics, including process-mining techniques that reconstruct each claim's path from system timestamps, can show where claims accumulate and how long they remain at each stage, by office, claim category, workload, and age. While the Auditor identified staffing shortfalls as a significant contributing factor, this analysis would help management determine what additional factors, if any, contribute to delay and which corrective measures address them. LCO's reported review by claim type, complexity, and stage points in this direction.

> **FROM MY AUDIT EXPERIENCE**
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> At two European subsidiaries of a software company, more than a third of receivables were over 30 days past due. It looked like a collections problem, and partly it was. But tracing why invoices were aging showed that the largest single cause, about four in ten, was incorrect customer names and addresses. Errors in the same customer database had also forced reissued invoices and credit memos. More collectors alone would not have fixed that portion. That is why I separate backlog categories and trace each one to its cause before recommending a fix.

3. Introduce Continuous Risk Indicators and Predictive Analytics

I would monitor case aging, statutory compliance, processing times, unresolved exceptions, workload concentrations, and claim volumes continuously. Automated alerts could flag cases approaching critical thresholds and trigger supervisory review before delays become prolonged, and where reliable history exists, machine-learning methods could help identify combinations of factors associated with extended processing so management can prioritize higher-risk claims. This moves management from periodic retrospective reporting toward earlier intervention. I have applied the same principle before: in a payroll review for a technology company, I tested every disbursement over a 15-month period using first-digit (Benford's Law) analysis and checked every employee identification number against an external database, rather than relying on a sample.

4. Connect Monitoring to Management Accountability

Monitoring creates value only when it produces management action. A dashboard, standing alone, is not an effective internal control. Each significant exception should have an assigned owner, a defined response, documented follow-up, escalation requirements, and verification of resolution. I would also track corrective actions in four distinct stages: planned, implemented, controls tested, and improvement independently validated.

> **FROM MY AUDIT EXPERIENCE**
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> At a medical-device manufacturer, the ERP system could produce a report of every vendor added or edited, a built-in check on duplicate or fictitious vendors. No one printed or reviewed it. The control existed in the system but did not operate, because no one owned it. Management's response was to assign a named senior finance officer to review it on a regular schedule.

5. Independently Validate Corrective-Action Effectiveness

DIR's Internal Audit function could provide independent assurance over the design, implementation, and operating effectiveness of management's corrective measures, including evaluating data reliability, testing selected controls, and examining unresolved exceptions. For example, the reported reduction in the intake backlog could be reconciled to underlying case-management records and assessed to determine whether delays have simply shifted to later adjudication stages rather than been eliminated. Internal Audit should not assume responsibility for operating management's controls or implementing corrective actions. Its role is to assess independently whether they are properly designed, functioning, and producing results, which preserves audit independence while reinforcing management accountability.

FOUR TESTS I WOULD RUN FIRST AT LCO

LCO reports that it now requires mandatory data fields, operates management dashboards, and conducts supervisory review. These controls are testable with data LCO already holds. The tests below are illustrative and do not imply that any control is failing.

1. **The 30-day hearing determination.** Compare each claim's filing date to the date the hearing determination and notice to the parties were recorded, and report the share exceeding the 30-day statutory requirement.
2. **Settlement conference records.** Confirm that claims with multiple conferences carry one record with a conference history, not duplicate records that distort counts and aging.
3. **The enforcement handoff.** Reconcile claims referred to the Enforcement Unit to claims with a recorded referral date and an enforcement case file, then to claims with a recorded full-payment closure date.
4. **The intake reduction.** Trace the reported drop from about 30,000 to 10,000 intake cases through docketing, to see where those claims went and how long they have since waited.

Measuring What Matters

An effective monitoring framework concentrates on a limited number of reliable, decision-useful indicators.

Key performance or risk indicator	Management purpose
Total unresolved wage claims	Measure backlog volume and trends
Claims exceeding statutory deadlines	Identify compliance exceptions
Median and 90th-percentile processing times	Measure typical and extreme delays
Case aging by processing stage	Identify operational bottlenecks
Claims closed versus new claims received	Determine whether backlog is declining
Unresolved supervisory exceptions	Evaluate escalation and follow-up
Data completeness and accuracy	Assess reliability of management information
Corrective actions independently validated	Measure remediation effectiveness

These indicators should be evaluated over time and segmented, where appropriate, by operating unit, location, processing stage, and responsible manager. Thresholds should reflect statutory requirements, validated baselines, and management-approved risk tolerances, and such tolerances should never be used to excuse statutory noncompliance.

From Reactive Auditing to Continuous Assurance

The challenge illustrated by LCO is not unique to government. Organizations across industries can maintain extensive policies, reporting structures, formal risk-management processes, and dedicated internal audit functions while still experiencing significant operational deficiencies. The opportunity is to move beyond periodic, retrospective examinations toward continuous risk indicators, predictive analytics, clear management accountability, and risk-based internal auditing.

Under this model, management continuously evaluates critical risks and measures corrective-action results; Internal Audit independently assesses those processes and reports to executive leadership and the oversight body; and external auditors remain an essential source of independent scrutiny that complements, rather than replaces, the organization's own responsibility. Effective internal control is not demonstrated by the number of policies, committees, or corrective initiatives an organization announces. It is demonstrated through the reliable operation of controls, timely identification of deficiencies, independent validation of corrective actions, and measurable improvement in results.

That is where modern internal auditing can deliver its greatest value.

A QUESTION WORTH ASKING

If your organization tracks corrective actions but cannot yet show which have been tested, which have been independently validated, and which have changed results, a short conversation about assurance over remediation may be worthwhile. Learn more at intellriskadvisory.com.

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Editorial disclosure: The proposed audit procedures, analytical approaches, and recommendations are illustrative professional perspectives. They do not represent an engagement conducted by INTELL RISK & ADVISORY GROUP for DIR or the Labor Commissioner's Office.

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