December 21, 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
Employment Development Department 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 Gregory M. Riggs, Deputy Director, at (916) 654-7014,
Greg.Riggs@edd.ca.gov.

BACKGROUND

Department Overview

The Employment Development Department (EDD) is one of the State's largest and most recognizable
departments with employees at hundreds of service locations throughout the State. The EDD has the
statutory responsibility for administering a wide variety of programs that benefit millions of Californians
annually. These programs can be characterized into three broad categories such as benefit programs,
employment and training services, and tax collections. Below is a brief description of EDD's major
programs.

Benefit Programs

The EDD administers the State Disability Insurance program. This program has two distinct components
that includes Disability Insurance and Paid Family Leave benefits. The Disability Insurance program provides
up to 52 weeks of benefits to workers experiencing a non-work related injury or illness. The Paid Family
Leave program provides up to six weeks of benefits to workers to bond with a new child or care for a
seriously ill relative. These benefits are financed solely by withholdings from the employees' paychecks.
The EDD paid approximately $5.7 billion in Disability Insurance and Paid Family Leave benefits in calendar
year 2016.

The EDD also administers the Unemployment Insurance program, which provides benefits to workers who
are out of work due to no fault of their own, who are able and available to work, and actively seeking
employment. All states administer an unemployment insurance program under a federal-state partnership.
These benefits are financed solely by employers through a payroll tax. The EDD paid slightly more than $5.2
billion in Unemployment Insurance benefits in calendar year 2016.

Employment and Training Services

The EDD provides a variety of services through a network of America's Job Centers of California. These
services include assisting workers in finding gainful employment and employers in meeting the labor
needs. The EDD also oversees the State's labor exchange system called CalJOBS℠ which allows job
seekers to search for jobs, build résumés, and access career resources. This system also allows employers

to find qualified candidates for their labor force needs.

Additionally, EDD has dedicated staff to assist veterans and their eligible spouses with a variety of employment and training services including helping veterans with barriers to employment. The EDD staff participate at numerous job fairs and workshops to promote the hiring of our veteran community.

The EDD serves as the administrative entity responsible for overseeing the federal Workforce Innovation and Opportunity Act programs. These programs are financed by a federal grant which is allocated to key partners for the purpose of assisting adults, dislocated workers, and youth with enhancing their skills needed to find gainful employment.

Lastly, EDD is responsible for collecting, analyzing, and reporting the State's labor market information such as the number of individuals participating in the labor force, the unemployment rate, job gains and losses, etc. This information is used by policy makers, economists, and workforce professionals in making key decisions pertaining to economic development and workforce development needs.

Payroll Tax Collection

The EDD operates as the State's largest tax collection agency and is responsible for collecting Personal Income Tax and State Disability Insurance withholdings from workers' wages each year. In addition, EDD also collects Unemployment Insurance and Employment Training Taxes paid by California employers. The EDD collects over $70 billion in taxes each year.

Department's Mission, Vision, and Strategic Goals

Vision

The EDD strengthens the economic vitality of Californians and their communities.

Mission

The EDD's enhances California's economic growth and prosperity by collaboratively delivering valuable and innovative services to meet the evolving needs of employers, workers, and job seekers.

Strategic Goals

The EDD's Strategic Plan 2017-2021 includes the following five strategic goals:

    1. *Fiscal Stewardship* - Responsibly manage our public resources and align investments with strategic goals.

    2. *Skilled Workforce* - Build a highly-skilled and responsive workforce with clear roles and responsibilities.

    3. *Sustainable Business Operations* - Align system operations, administration, resources, and business processes with strategic priorities and budgetary parameters.

    4. *Technological Innovation* - Invest in our future by supporting appropriate technology solutions.

    5. *Responsible Service* - Negotiate clear commitments with stakeholders and focus on priorities.

Core Values

    - Integrity and Accountability – We lead with the highest standards of professionalism, ethics, and personal responsibility.

- Teamwork and Service – We work together as a team to provide efficient and responsive service to our customers.

- Care and Respect – We treat everyone with courtesy and dignity regardless of position or personal characteristics and foster an inclusive environment free of bias.

- Communication and Trust – We strive for an open flow of honest and accurate information with each other and our customers.

ONGOING MONITORING

As the head of Employment Development Department, Patrick W. Henning, 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 Employment Development Department internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to:
John Griffin, Enterprise Risk Management Officer, Audrey Traina, Chief, Audit and Evaluation Division,
Seth Jentzsch, Branch Risk Steward, Info. Sec. Office/Info. Tech. Branch,
Paul Perrin, Branch Risk Steward, Tax Branch, Jessica Cohagan, Branch Risk Steward, Disability Ins. Branch,
Norman Bevc, Branch Risk Steward, Unemployment Ins. Branch,
Susan Levitt, Branch Risk Steward, Administration Branch,
Karen Gow, Branch Risk Steward, Policy, Accountability and Compliance Branch,
Kevin Callori, Branch Risk Steward, Public Affairs Branch, and
Stephanie Dodge, Branch Risk Steward, Workforce Services Branch.

Monitoring Activities
The EDD performs routine monitoring activities entity-wide on various intervals (i.e., daily, weekly, quarterly, biannually, and annually) to ensure efficiency and effectiveness as well as the sustainability of our programs. We perform monitoring activities as part of EDD's systems of internal controls in both administrative and service delivery capacities to address both internal and external risks. Some of these activities include:

- Periodic, ongoing, on-site, and peer-to-peer objective reviews.

- Assessment of staff knowledge and building staff capacity to expectations.

- Individual Development Plans and Leadership Competency Development Plans.

- Probation reports.

- Risk-based internal audits based on two-year audit plan.

- Single audit conducted annually (Non-federal entities that receive $750,000 or more in federal awards in a single year are required to undergo an annual audit to ensure the accountability for federal awards. The California State Auditor conducts the State of California's single audit.)

- Benefit audits.

- Annual reconciliation of accounts.

- Unemployment Insurance Field Office Basic Evaluations.

- Unemployment Insurance and Disability Insurance quarterly reviews.

- The Improve EDD Electronic Mailbox for gathering improvement ideas, suggestions, and solutions from all levels of staff within EDD.

- Merit Award Board program for staff to make suggestions that save resources, generate revenues, or improve safety.

- Compliance monitoring reviews of Workforce Innovation and Opportunity Act programs.

- Field audits and compliance reviews for payroll taxes.

- Fraud hotline.

- Dedicated Business Process Improvement (BPI) Website.

- Department-wide BPI teams.

- Enterprise-level BPI coordinator.

- Three party validation of timesheets, purchases, travel, and contracts.

- Quality controls for Disability Insurance and Unemployment Insurance.

- Standing and ad hoc meetings.

- Reviews and approvals.

The EDD also conducts periodic detailed reviews which are performed by knowledgeable staff who are not directly involved with the day-to-day operations of the control system under review, and internal and external reviewers who compare results to expectations and determine if change is needed. Some of these reviews include:

- Peer-to-peer objective reviews.

- Branch Risk Steward peer reviews of each other's work.

- Internal Revenue Service Safeguard Review.

- California State Auditor's Single Audit.

- Department of Technology information security review.

- Biannual Department of Labor review.

Addressing Vulnerabilities
When vulnerabilities are identified, management evaluates them using various factors before taking action. Management considers the likelihood of occurrence, the possible impact, the resources available to address the risks, and the priority of other risks when determining an appropriate course of action.

Communication
The EDD communicates monitoring roles, activities, and results throughout the entity in various ways

and with various frequencies. This information is sent through EDD's various notices, emails, policies, circulars, news and event notifications, publications, directories, newsletters, memorandums, manuals, handbooks, catalogs, plans, project portfolios, strategic plans, dashboards, and reports. Additionally, this information is communicated by management to subordinate managers and staff.

The EDD has employees who serve as monitors in various capacities. Their monitoring roles are defined, explained, and documented through duty statements, policies and procedures, and organizational charts of responsibility.

To promote collaborative and efficient work between all branches at EDD, information regarding vulnerabilities and controls are regularly identified and discussed at standing Executive Leadership Team meetings. Branch Risk Stewards contribute to these discussions by leading, educating, and training their respective branches on creating sustainable systems of internal controls and by facilitating the identification and treatment of risk. Risks with potentially severe impact and those which either impact or require treatment from more than one branch are elevated to the Executive Leadership Team for review and consideration for treatment. Branch Risk Stewards help facilitate the mitigation of identified risks by ensuring communication both vertically and horizontally throughout the organization to develop and maintain effective systems of internal controls.

EDD employees have multiple avenues available for reporting vulnerabilities including the following:

   - To immediate supervisors.

   - To Branch Risk Stewards.

   - Through the Improve EDD Electronic Mailbox.

   - Through the Merit Award Board suggestions process.

   - Through the enterprise or branch-level BPI teams.

   - Through compliance monitoring reviews.

   - Through peer reviews.

   - Through managerial reviews.

   - Through audits, engagement memos, and entrance and exit conferences.

Ongoing Monitoring Compliance

The Employment Development Department 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 Employment Development Department systems of controls and monitoring.

RISK ASSESSMENT PROCESS

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

Risk Identification

The EDD's Enterprise Risk Identification efforts for 2017 emphasized a more structured approach and increased level of participation from all branches that administer programs and services as well as branches that provide supportive services (e.g., accounting, information technology, audits and surveys, etc.). The following are the key actions taken to identify significant risks at the enterprise level:

1. Branch Risk Stewards were enlisted to help facilitate discussions for identifying risks among their respective branch's executive staff and senior managers. Branch Risk Stewards were provided with an action plan, their roles and responsibilities, guidance on how to evaluate risks, appropriate criteria for identifying enterprise risks, and due dates from EDD's Enterprise Risk Management Officer.

2. Branch Risk Stewards met with their branch executive staff and senior managers to identify and evaluate enterprise risks according to their instructions. Enterprise risks identified by each branch were presented to and finalized by the Deputy Director.

3. EDD's Deputy Directors presented their enterprise risks during an executive team meeting for discussion and approval.

4. Approved risks were submitted to the Enterprise Risk Management Officer to be incorporated into the State Leadership Accountability Act 2017 report.

Participants were asked to consider various factors including prior audit findings, risks to implementing EDD's Strategic Plan, and other areas of potential or likely risk.

Risk Ranking

After the branches identified their risks, they completed a risk intake process. The risk intake process created profiles for each of the risks with the purpose of identifying sufficient information for participants to make informed decisions.

Risk Intake

1. The first step in the risk intake process was for branches to identify the risk, cause, and effect. This information was then used to create three-part risk statements.

2. The second step in the risk intake process was to assess the risks according to various risk factors. The purpose of this step was to ensure that participants had a common understanding of the risks and to help create well-rounded profiles of the risks.

Branch managers completed the risk intake process by providing information in the following areas:

- Risk statement,

- Impacted areas per branch,

- Key indicators of risk activation,

- Description of acceptable level of risk tolerance,

- Resources dedicated or which can be dedicated to mitigate the risk,

- Outcome measures, and

- Current controls and current monitoring efforts.

Finally, other factors were considered such as the likelihood of a risk occurring, the impact to EDD's programs and operations, the velocity or speed in which a risk could occur, mitigation efforts and timeframes, etc.

Branches included as much information as they could during the meetings for the risk intake and sought additional information if necessary. The risk intake process allowed branch management to include the most commonly used ranking considerations (likelihood and impact) but also a myriad of other information that may be considered of value for ranking the importance, assigning the proper level of management to address the risks, and priorities in general.

Risk Ranking

3. The third step was to assess the risks using the following four criteria:

- Does the risk have the potential to severely impact EDD's operations?

- Would the risk diminish our reputation as being a reliable service provider?

- Is there a high probability that the risk could occur in the near future without some mitigation taken?

- Are the resources necessary to implement a mitigation plan within EDD's control or can resources be obtained?

As cited above, those risks that met these four criteria were then prepared in summary form by the sponsoring branches and presented during an executive team meeting attended by EDD's Chief Deputy Director and Deputy Directors.

RISKS AND CONTROLS

Risk: Operations -Internal-Staff—Key Person Dependence, Workforce Planning
The following describes what could go wrong, the cause, and possible adverse consequences of this risk:

The EDD is at risk of being unable to sustain a workforce with the appropriate competencies and institutional knowledge.

The increase in retirements over the next few years will create a massive need for effective transfer of knowledge and preparation of staff.

Possible adverse consequences to the quality of services provided to Californians may result.

Control A
This control serves to develop/establish and implement/launch the following Workforce and Succession Plan (WSP) components:

- WSP Marketing campaign.

- WSP Strategic Plan.

- WSP Steering Committee consisting of Executive Sponsors and the Project Lead.

- WSP Branch Champions.

- Ongoing WSP meetings.

- New WSP SharePoint site.

- Human Resources Services Division WSP Hot Topics training session.

- WSP marketing brochure.

- Succession Plan resource enhancements.

- User friendly WSP data resources that support data driven decision making.

- Formal Succession Plan.

This control operates under the guidance and direction of EDD's Skilled Workforce Strategic Goal and Strategic Objective of enhancing succession and workforce plans within all ranks. Additionally, it serves to satisfy the corresponding 2017 EDD Balanced Scorecard priority of deploying WSP strategies including the WSP strategy brochure, EDDNet site with new educational material, communications of ongoing work, and training.

Control B
This control serves to ensure the monitoring, review, and evaluation of the adoption and utilization of established WSP resources in all branches, as completed by:

- Management presentation and review of WSP with all staff.

- Every branch having an active WSP.

- Workforce Plan 2017-2018.

This control operates under the guidance and direction of EDD's Skilled Workforce Strategic Goal and Strategic Objective of enhancing succession and workforce plans within all ranks. Additionally, it serves to satisfy the corresponding 2017 EDD Balanced Scorecard priority of deploying WSP strategies including the WSP strategy brochure, EDDNet site with new educational material, communications of ongoing work, and training.

Risk: Operations -Internal-Technology—Support, Tools, Design, or Maintenance
The following describes what could go wrong, the cause, and possible adverse consequences of this risk:

The limitations of EDD's current information technology systems prevent the implementation of innovative, necessary, and well-designed business solutions which utilize the technologies and forms of communication our customers most use.

The current benefit payment system is obsolete.

The result is EDD's inability to efficiently serve its customers and sufficiently prevent against system failures.

Control A
The Benefit Systems Modernization Project was initiated and is now in Stage 2 of the Project Approval Lifecycle process. In this stage, EDD will be developing business and technical requirements, documenting and analyzing the business process workflows, and performing market research on the

various options available to meet our requirements.

Risk: Operations -Internal-FI$Cal Implementation, Maintenance, or Functionality

The following describes what could go wrong, the cause, and possible adverse consequences of this risk:

Enterprise risks associated with the implementation of the FI$Cal project include usability issues such as the inability to create contracts/purchase orders and track assets, the inability to produce and pay invoices in a timely manner, the inability to enter large volumes of data on a daily basis, and the additional licensing costs, per user, to EDD.

The cause is the implementation of the FI$Cal project.

The implementation of the FI$Cal project may result in vendor invoices not being paid on time resulting in a loss of trust with our customers, one of EDD's Core Values.

Control A

Establish communication controls to ensure any issues are elevated and addressed:

- With FI$Cal Project Team staff (weekly).

- With EDD Senior Management (monthly or as needed).

- With FI$Cal Customer Impact Committee (project management) monthly.

- Document key points from the above for future reference if needed.

Control B

Implement change management controls to prepare staff to implement system:

- Ensure prospective end users are taking online FI$Cal courses.

- Ensure prospective end users are aware of new coding structure(s).

- Provide crosswalks as appropriate to assist end users once we go "live."

- Respond to feedback from end users.

Control C

Update EDD-specific data to be utilized in FI$Cal:

- Configuration values (how our data is accessed and displayed in FI$Cal).

- Data conversions (transferring data from our existing systems to FI$Cal).

- Interfaces (enabling ongoing transfers of our data after we go "live" in FI$Cal).

- Periodically review the above to ensure relevancy – update as needed.

Risk: Operations -External-FI$Cal Implementation, Maintenance, Functionality, or Support

The following describes what could go wrong, the cause, and possible adverse consequences of this risk:

Enterprise risks associated with the implementation of the FI$Cal project include usability issues such as the inability to provide timely funding to Local Workforce Investment Areas.

The cause is the implementation of the FI$Cal project.

The implementation of the FI$Cal project may result in delays in entities receiving funds appropriated by the federal government for the Workforce Innovation and Opportunity Act program.

Control A
Establish communication controls to ensure any issues are elevated and addressed:

- With FI$Cal Project Team staff (weekly).

- With EDD Senior Management (monthly or as needed).

- With FI$Cal Customer Impact Committee (project management) monthly.

- Document key points from the above for future reference if needed.

Control B
Implement change management controls to prepare staff to implement system:

- Ensure prospective end users are taking online FI$Cal courses.

- Ensure prospective end users are aware of new coding structure(s).

- Provide cross-walks as appropriate to assist end users once we go "live."

- Respond to feedback from end users.

Control C
Update EDD-specific data to be utilized in FI$Cal:

- Configuration values (how our data is accessed and displayed in FI$Cal).

- Data conversions (transferring data from our existing systems to FI$Cal).

- Interfaces (enabling ongoing transfers of our data after we go "live" in FI$Cal).

- Periodically review the above to ensure relevancy – update as needed.

Risk: Reporting -Internal-FI$Cal Implementation, Maintenance, or Functionality
The following describes what could go wrong, the cause, and possible adverse consequences of this risk:

Enterprise risks associated with the implementation of the FI$Cal project include usability issues such as the unavailability of federally-required financial reports and the inability to meet procurement reporting requirements.

The cause is the implementation of the FI$Cal project.

The implementation of the FI$Cal project may result in delays in submitting federally-required financial reports and the possible loss of procurement delegation authority.

Control A

Establish communication controls to ensure any issues are elevated and addressed:

- With FI$Cal Project Team staff (weekly).

- With EDD Senior Management (monthly or as needed).

- With FI$Cal Customer Impact Committee (project management) monthly.

- Document key points from the above for future reference if needed.

Control B

Implement change management controls to prepare staff to implement system:

- Ensure prospective end users are taking online FI$Cal courses.

- Ensure prospective end users are aware of new coding structure(s).

- Provide cross-walks as appropriate to assist end users once we go "live."

- Respond to feedback from end users.

Control C

Update EDD-specific data to be utilized in FI$Cal:

- Configuration values (how our data is accessed and displayed in FI$Cal).

- Data conversions (transferring data from our existing systems to FI$Cal).

- Interfaces (enabling ongoing transfers of our data after we go "live" in FI$Cal).

- Periodically review the above to ensure relevancy – update as needed.

CONCLUSION

The Employment Development Department 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.

Patrick W. Henning, 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