

December 30, 2019

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

Dear Ms. Julie Su,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Employment Development Department submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Gregory M. Riggs, Deputy Director, at (916) 654-7014, Greg.Riggs@edd.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Mission

The Employment Development Department (EDD) 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.

Control Environment

The EDD's director, chief deputy director, and eight deputy directors, also known as the Executive Leadership Team (ELT), serves as both the oversight body and executive management for EDD's operations and administrative activities, and is responsible for establishing and maintaining an effective control environment. The following describes how the ELT achieves and sustains an effective control environment at EDD.

Through their directives, attitudes, and behavior, the ELT sets the tone at the top regarding ethical values and integrity. Establishing a strong tone at the top regarding ethical behavior and integrity is fundamental to EDD's ability to create and sustain an effective internal control system. The ELT models through its behavior that doing what is right and not just maintaining a minimum level of performance is expected of EDD employees. In this way, EDD's managers at all levels are supported and encouraged to lead by example and demonstrate the organization's values, philosophy, and operating style. As a result, the tone set by the ELT permeates throughout the eight branches of the organization to all managers and staff and reinforces EDD's control environment.

The EDD supports and sustains ethical values and integrity in many ways. The EDD requires that all employees read and sign annually the Summary of Employee Standards of Conduct, which communicates expectations concerning integrity and ethical values. All employees who submit Statement of Economic Interest forms must complete ethics training. The Statement of Economic Interest form provides transparency and accountability for elected officials and public employees who make or influence governmental decisions to ensure they are making decisions in the best interest of the public and not enhancing their personal finances. The EDD has also established policies, operating principles, and guidelines which communicate standards of conduct to the organization. Additionally, EDD requires ongoing department-wide training such as sexual harassment and abusive conduct prevention, and workplace violence and bullying prevention training.

The EDD's management also supports and sustains ethical values and integrity in what they model. Management sets the tone at the top, in the middle, and at the bottom through their attitude and behavior. They set the tone in everything they do, including participation in meetings, directives, emails, phone calls, and field office visits. Often their support for integrity and ethical behavior is communicated from a personal point of view through displays of values-based behavior such as being receptive, honest, fair, personable, approachable, inclusive, supportive, encouraging, and open to suggestions and the reporting of concerns. Management also demonstrates ethical values and integrity in the way they lead, with commitment to professionalism and personal accountability, and in alignment with EDD's core values.

Management ensures adherence to standards of conduct through evaluations of performance and addressing deviations in a timely manner. To gain assurance that the EDD's standards of conduct are implemented effectively, management evaluates the directives, attitudes, and behaviors of individuals and teams.

Employees are provided multiple avenues for reporting issues. As a result, all levels of management and staff feel more comfortable reporting ineffectiveness, issues of waste or abuse, ethical concerns/risks, and potential risks. They can report issues through reporting lines at regular staff meetings, upward feedback processes, whistle-blower programs, and fraud hotlines. Some managers have "open door" policies which provide employees a welcome and safe environment that supports the ability to raise concerns. Some of EDD's staff, including auditors and investigators, are governed by professional standards which include an additional duty to report ethical concerns. Management also encourages staff to report concerns of unethical behavior and sets positive examples through their own behavior. When staff's actions are out of alignment with standards of conduct and values, remediation occurs. Once abuse, unethical behavior, or risks are identified, management steps in timely to respond accordingly and, where appropriate, make corrections.

The ELT understands the importance of aligning EDD's core values with those of its employees. To achieve this, the ELT has surveyed EDD employees department-wide to identify their most desired values and include them in the Department's strategic plan. The core values identified for EDD's 2017-2021 Strategic Plan were:

- Integrity and Accountability
- Care and Respect
- Teamwork and Service
- Communication and Trust

Management has also created branch-level vision statements, mission statements, and strategic goals which align with the ELT's department-level equivalents. Some branches have also identified branch-level core values which form the foundation upon which management and staff conduct themselves and perform work.

The EDD's oversight body also contributes to the control environment by overseeing the Department's internal control system. In overseeing the internal control system, the oversight body fulfills its responsibilities as established by applicable laws and regulations, relevant government guidance, and feedback from key stakeholders. The oversight body oversees the entity's operations; provides constructive criticism to management; and, where appropriate, makes oversight decisions so that the Department achieves its full objectives with integrity and in alignment with its ethical values. Members of the oversight body also scrutinize and question management's activities, present alternative views, and act when faced with obvious suspected wrongdoing. The EDD also oversees its subrecipients, such as Local Workforce Development Areas and vendors, which operate, administer, and/or work in conjunction with EDD in the provision of services.

The EDD, in turn, is overseen by the Labor and Workforce Development Agency (LWDA) and multiple federal agencies. The LWDA provides leadership to protect and improve the well-being of California's current and future workforce. The LWDA simplifies, strengthens, and improves EDD's operation and management of programs that protect and provide services to California's workers and employers. The EDD and its subrecipients also operate under the administration and oversight of the U.S. Department of Labor - Employment and Training Administration, the U.S. Department of Labor - Veterans' Employment and Training Services, the U.S. Internal Revenue Service, and the U.S. Bureau of Labor Statistics.

The expertise needed by EDD's oversight body to oversee, question, and evaluate management is built into EDD's minimum and desirable qualifications for the positions that make up that body. Members of the ELT must understand and meet EDD's objectives, address their relatable risks, and meet the expectations of its stakeholders, if appropriate. Members of the oversight body are expected to behave with integrity and ethically, demonstrate leadership, think critically, and solve problems. Additionally, specialized skills are considered when selecting members of the oversight body such as enabling discussions, offering constructive criticism to management, and making appropriate oversight decisions.

As the oversight body, the ELT ensures the effective design, implementation, and operation of EDD's internal control system. As used in Leadership Accountability, "internal control" means a process, including a continuous built-in component of operations, effected by a state agency's oversight body, management, and other personnel that provide reasonable assurance that the state agency's

objectives will be achieved. The following five components of internal control, if effectively designed, implemented, and operated in an integrated manner, constitute an effective internal control system: control environment, risk assessment, control activities, information and communication, and monitoring.

As the head of the EDD, Patrick W. Henning, Director, is responsible for the overall establishment, maintenance, and monitoring of EDD's systems of internal control. Oversight begins with the top executive but also includes the ELT as the oversight body as well as all levels of management.

Oversight occurs throughout the Department in many ways. Some of these ways include:

- quality reviews,
- field office reviews,
- Individual Development Plans,
- Leadership Competency Development Plans,
- professional growth plans,
- management expectations documents,
- meetings,
- career development plans,
- attendance record keeping,
- budget encumbrance,
- expenditure tracking,
- training compliance,
- the review and verification of timely and accurate information capture and collection,
- meeting federal requirements, and
- the annual review and update of internal controls.

When deficiencies in the systems of internal control are identified, they are reported to the management responsible for the design, implementation, and operation of the controls. As necessary, the deficiencies are reported to higher and/or other management when they cross organizational boundaries or units, or when the interests of management may conflict with remediation efforts.

The EDD exists within an organizational structure in which management is assigned responsibility and delegated authority to achieve the Department's objectives. Authority for EDD to carry out its programs is established in statute and delegated by the LWDA. Under this authority, EDD management aligns organizational structure according to EDD's business needs to achieve its objectives and applicable requirements. Some of these requirements include the California Department of Human Resources' guidelines; EDD's Human Resources Services Division guidelines; California laws, regulations, and policies; and federal requirements.

Organizational structure at EDD is created to ensure that appropriate levels of responsibility and authority align with the achievement of its objectives. Responsibilities are assigned to specific areas to enable the Department to operate efficiently and effectively, comply with applicable laws and regulations, and reliably report quality information. Within each of these areas, each level and position of management is created to support planning, executing, controlling, and assessing the effective and efficient achievement of EDD's objectives.

The determination of scope of responsibility and authority begins with senior management in EDD's

eight branches and carries on down through successive layers of management. Senior management develops the branch's organizational structure with an understanding of its overall responsibilities, and assigns responsibilities to specific divisions, sections, and units. The overall responsibilities of divisions, sections, and units are considered when determining the key roles needed to fulfill assigned responsibilities and establishing those key roles. Management also determines the level of authority necessary for each key role to fulfill its responsibilities and delegates authority only to the extent required to achieve those responsibilities. Similarly, management considers the need to separate authority, duties, custody, and accounting to help prevent fraud, waste, and abuse. Managers in key roles retain ownership for fulfilling the overall responsibilities assigned to their respective work areas. As needed, management evaluates the organizational structure, and its designated responsibilities and authorities to ensure it functions effectively and efficiently toward the achievement of objectives, and in alignment with any changes in objectives, laws, or regulations.

The EDD maintains documentation of its internal control system to assist in its effective design, implementation, operation, and communication to Department management and staff. The EDD conducts regular assessments of its key internal controls to identify areas that require strengthening and documentation. This information is tracked through branch level inventories of internal controls. Similarly, the EDD maintains its policies and procedures and all related changes as a means of effectively and efficiently guiding management and staff. EDD management documents internal controls to meet operational needs, including the ability to communicate the controls to those responsible for their performance, and monitors and evaluates them.

Management at EDD is committed to establishing and maintaining a competent workforce. Currently, one of EDD's five strategic priorities is "Skilled Workforce – Build a highly-skilled and responsive workforce with clear roles and responsibilities." As part of EDD's recruitment efforts, management establishes minimum and desirable qualifications and expectations of competence for all of its advertised job vacancies. The EDD's management considers standards of conduct, assigned responsibility, and delegated authority when establishing expectations of competence. As an integral part of attracting, developing, and retaining individuals, management and staff's abilities are evaluated. Management is held accountable for meeting established policies; the minimum level of skills, knowledge, and abilities necessary for accomplishing their assigned responsibilities; and understanding the importance of effective internal controls.

The continued development of employees is a key component to EDD's success in maintaining a competent workforce. The EDD provides general and specialized training to staff and managers which helps them develop and further refine competencies appropriate for their responsibilities and authority. Similarly, EDD reinforces the control environment by providing mandatory ongoing training with regard to standards of conduct, ethics, diversity, safety, and risk prevention.

Additionally, on an ongoing basis, EDD management mentors other managers and staff on their performance. Mentoring aligns individual's skills and expertise with the Department's objectives and helps them adapt to an evolving environment. The EDD offers mentoring opportunities enterprise-wide through the Leadership Development Mentoring Program and Director's Office Internship Program. Some branches also administer their own branch-level mentoring programs.

The EDD values its employees and exercises a variety of efforts to incentivize them to continue their employment with the Department. Some of those efforts include:

- motivating employees by providing ongoing development and guidance regarding individuals' competencies,
- refresher training,
- mentoring,
- creating a safe work environment,
- offering training and development opportunities,
- job shadowing,
- cross-training,
- empowering staff,
- modeling the way,
- working one-on-one with staff,
- discussing staff's goals,
- identifying and supporting employees' core values,
- promoting and providing continuous training,
- communicating openly and on an ongoing basis with staff,
- offering assignments to increase skill sets and addressing staff interests,
- continuing professional training,
- ongoing leadership training and development,
- providing feedback from Leadership Competency Development Plans and performance appraisals,
- helping staff explore interests in pursuing careers in management,
- encouraging staff to participate in training based on changes and new roles within the Department,
- offering rotational assignments for staff development and succession planning, and
- allowing for flexible work schedules and telework opportunities.

Accountability functions as a cornerstone of EDD's control environment and begins with the ELT. The ELT sets the tone at the top with its commitment to ethical values and integrity, an organization which supports accountability, and expectations of competence for all positions. Management communicates EDD's organizational values, philosophy, and operating style through its directives, attitudes, and behaviors. The standards of conduct, policies, operating principles, and guidelines also define and communicate expectations of EDD's employees. Collectively, these create EDD's foundation for oversight, influence the control culture at EDD, and drive accountability in the internal control system.

At EDD, accountability for the performance of internal control responsibilities begins at the top but is maintained at all levels. The LWDA holds the ELT accountable for EDD's internal control responsibilities, EDD's oversight body holds management as well as the Department as a whole accountable for its internal control responsibilities, and management holds staff accountable for performing their assigned internal control responsibilities.

As a precursor to exercising accountability, EDD's management communicates job specific information to each employee. Each employee is informed of the role he/she plays in EDD's organizational structure, his/her assigned responsibilities and delegated authorities, and applicable expectations of competence that will enable EDD to perform its internal control responsibilities. This information is then reviewed with employees on an ongoing basis. Additionally, management empowers employees with the necessary skill development at the beginning of employment and continually thereafter to properly equip them for performing their assigned responsibilities.

EDD management hold staff accountable for performing their assigned responsibilities. When necessary, EDD management, with oversight from the oversight body, takes corrective action through an interactive process to enforce accountability for internal control in the Department. Actions taken range from direct supervisors providing informal feedback to the oversight body taking disciplinary action, depending on the significance of the deficiency to the internal control system. Accountability at EDD is exercised and sustained in many ways such as:

- onboarding (initial review and explanation of job requirements, signing job duty statements to acknowledge understanding of job expectations, guidelines, standards),
- communication in regular meetings,
- performance monitoring (tracking the timeliness, quality, and volume of completed assignments; assessing if expectations are being met),
- providing formal and informal feedback (appraisals, probation reports, leadership competency plans, one-on-one and staff meetings),
- periodic reviews (annual review of duty statement, expectations, standards, confidentiality agreements, and guidelines), and
- periodic and recurring training (technical, risk prevention, standards of conduct, sexual harassment and abusive conduct prevention training, workplace violence and bullying prevention training, and incompatible activities certification).

Information and Communication

The EDD is a service-based organization which relies on relevant and reliable data and communicating quality information to support its operations and system of internal controls. The EDD recognizes that the use of effective information and communication is vital to achieving its objectives. For this reason, EDD management ensures that quality information is made available for more informed decision making, evaluating performance toward the achievement of objectives, and addressing risks.

At the core of EDD's information and communication structure is the design of processes that use EDD's objectives and related risks to identify information requirements. Management defines information requirements considering its users (internal and external), the relevant level and amount of information needed, and the specificity of information needed. As changes in the Department and its objectives occur, management changes information requirements.

Once information requirements have been established, EDD ensures the data it receives is relevant and reliable. As part of its process for creating quality information and its timely communication, EDD ensures it uses relevant data which comes from reliable internal and external sources and, in many cases, has been validated. To be relevant, the data must have a logical connection with, or bearing upon, the information requirements. To be reliable, the data must be reasonable free from error and bias, and faithfully represent what it purports to represent.

The EDD receives data internally and externally from its stakeholders. These sources include EDD employees; federal, state, and local entities; LWDA; business partners and vendors; employers; workers; claimants; advocates; and Californians. Sources of data can be operational (programmatic or administrative), financial, or compliance related. Data that is determined to be relevant, reliable, and valid is first processed into information and then evaluated to produce quality information. Quality information is appropriate, current, complete, accurate, and accessible information which is provided on a timely basis. Quality information also enables personnel to achieve objectives, address risks, and

support the internal control system. The EDD's oversight body receives quality information about adherence to, changes in, and issues arising from the internal control system. This information allows the oversight body to effectively oversee EDD's systems of internal controls.

Management communicates quality information up, down, across, and around reporting lines to all levels of the Department. Information is communicated up in many ways including through email, meetings, reports, and established reporting lines. Information is also communicated from the top down through email; meetings; reports; training; policies, procedures, manuals, and handbooks; program notices; organizational change management emails; Executive Notices; automation updates; branch specific notices; and systems updates. Information for cross-branch or cross-Department audiences is communicated in various ways including email, meetings, Internal Administrative Notices, EDD Administrator Mail, Information Technology Branch Notifications, and EDD's *The Scene* newsletter which is the official source for EDD news and developments. In some cases, information is communicated up, down, and across the Department such as through office and field visits. Depending on the audience and nature of the information, more than one form of communication may be used. Management considers the sender, receiver, content, timeliness, and intent when selecting the most appropriate medium for communicating information.

Management also communicates quality information externally to its stakeholders through various communication channels. The EDD routinely communicates with claimants and employers by telephone and in writing. Written correspondence may include emails, formal responses to claimant inquiries, system generated messages, and pamphlets/inserts in mailings. Quality information is also communicated externally through EDD's website, employer outreach efforts, legislative hearing testimony, news releases, and social media. Other types of external communication include educational and outreach activities, meetings with stakeholders, and notifications.

To ensure the delivery of quality information, EDD has created separate reporting lines that allow employees and customers to go around normal upward reporting lines when normal lines are compromised. Some of these separate reporting lines include whistleblower lines, the Equal Employment Opportunity Office, the Human Resources Services Division's Personnel Management Group, communicating to higher levels of management, and fraud reporting hotlines. EDD management informs employees and the public of these separate reporting lines, how they operate, how they are to be used, and how the information will remain confidential.

Information about risk which relates to or arises from the internal control system is communicated up the chain of command and, at times, to the oversight body. When risks involve significant matters regarding adherence to, changes in, or issues arising from the system of internal controls, the oversight body is informed. Significant matters also include enterprise risks. Enterprise risks impact more than one branch, require a response from more than one branch, or significantly impact EDD's core objectives or mission.

The EDD supports effective and efficient operations as well as a strong control environment which ensures proper conduct and accountability. To this end, EDD management has created and maintains work environments which invite and welcome the reporting of inefficiencies and inappropriate actions to management and other decision makers. Some of this occurs within the normal routine of business. Examples of this include, in no particular order:

- management's open door policies,

- one-on-one and team meetings,
- everyday discussions,
- brainstorming sessions,
- post event debriefs,
- ongoing process improvement efforts, and
- ongoing monitoring and strengthening of controls.

EDD management also provides additional avenues for reporting inefficiencies and inappropriate actions which include, in no particular order:

- whistleblower lines,
- fraud reporting lines,
- the Equal Employment Opportunity Office,
- business process and quality improvement referrals,
- reporting to an individual's direct supervisor,
- the annual review of internal controls,
- trouble tickets,
- incident reports,
- executive team and Director Office tours,
- emailing the Director's Office using Improve@edd.ca.gov,
- suggestion/comment/idea boxes,
- the formal complaint/grievance process, and
- cultural surveys.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Employment Development Department monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: John Griffin, Enterprise Risk Management Officer; Tad Allred, Administration Branch Deputy Director; Ronald Washington, Disability Insurance Branch Deputy Director; Gail Overhouse, Information Technology Branch Deputy Director; Sandra Clifton, Acting General Counsel; Loree Levy, Public Affairs Branch Deputy Director; Lisa Wheeler, Tax Branch Deputy Director; Greg Williams, Unemployment Insurance Branch Deputy Director; and Amy Faulkner, Workforce Services Branch Acting Deputy Director.

At EDD, management recognizes that what gets monitored gets done, and done right. The importance of monitoring operations and the ever changing and dynamic process which is internal control cannot be understated. Monitoring allows for the assessment of performance and prompt resolution of conditions which interfere with the full and efficient functionality of systems of internal controls. The following describes how EDD management monitors its operations and systems of internal controls.

Routine monitoring activities are one way in which EDD confirms the effectiveness of its internal control systems. These activities help management identify unwanted deviations in the performance of operations and misalignment between the design and function of internal controls. Routine monitoring activities are built into operations, performed continually, and responsive to change.

At EDD, routine activities for identifying problems are performed by staff and management, and occur daily, weekly, and monthly depending on the need. Some of these activities include compliance reviews, system testing, regular management and supervisory activities, meetings, comparisons, reconciliations, award determination volume and timeliness monitoring, checklist reviews, scheduling, timeliness tracking, call volume monitoring, portfolio and dashboard tracking, and observing key performance indicators.

Periodic detailed reviews are another way in which EDD management confirms the effectiveness of its internal control systems. Management uses periodic detailed reviews to monitor the design and operating effectiveness of the internal control system at a specific time, or a specific function or process. These may also provide feedback on the effectiveness of routine monitoring activities.

At EDD, periodic detailed reviews are performed by EDD staff and management, auditors, and other people who are knowledgeable but not directly involved with the day-to-day operations of the control system under review. Some of these activities include internal and external audits of internal controls, cross operating unit or cross functional evaluations, self-assessments, the annual internal review and updating of internal controls, the periodic evaluation of the effectiveness of routine activities for identifying problems, the review of control design, direct testing of internal controls, and peer reviews.

EDD management retains the responsibility for monitoring the effectiveness of internal control over its processes. They use ongoing monitoring, periodic detailed reviews, or a combination of the two to obtain reasonable assurance of the operating effectiveness of EDD's internal controls over assigned processes. The scope and frequency of periodic detailed reviews depend primarily on the assessment of risks, effectiveness of ongoing monitoring, and rate of change within EDD and its environment.

The EDD also monitors its internal control systems by comparing the results of operations to expectations of their performance. This method of monitoring uses the comparison of performance to expectations from one point in time to another. Differences in the two conditions reflect changes in the issues and deficiencies affecting EDD's internal control systems. Such information contributes to EDD management's ability to make more informed decisions and promptly address vulnerabilities.

Using the comparisons, EDD management can determine how to address differences between the intended function of internal controls and how they are actually working. Management can reduce the differences in one of two ways. It can either change the design of the internal control system to better address EDD's objectives and risks, or improve the operating effectiveness of the internal control system.

Internal control issues and deficiencies reported to management are evaluated and, where necessary, documented. From the results of an evaluation, management determines appropriate and timely corrective actions.

Depending on the nature of the deficiency, either the oversight body or management oversees the prompt remediation of deficiencies by communicating the corrective actions to the appropriate level of management, which in turn delegates authority for completing corrective actions to appropriate personnel. Corrective actions include the resolution of compliance and audit findings.

With oversight from the oversight body, management throughout the department monitors the status of remediation efforts to ensure they are completed timely and internal controls are functioning as

intended, or the vulnerabilities have been reduced to an acceptable level. Management monitors progress to reduce identified vulnerabilities through ongoing meetings, tracking time-bound periods for implementing corrections, reports, status updates, and challenges with the efforts. It also monitors immediate efforts to be undertaken, short and long term milestones, and follow-ups with EDD staff, management, and external entities.

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.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, performance metrics, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, tolerance level for the type of risk, and other.

RISKS AND CONTROLS

Risk: Workforce and Succession Planning

The EDD is not operating with maximum efficiency and effectiveness due to various workforce and succession components which have either not been implemented or not been fully implemented. Failure to resolve these issues could reduce the Department's ability to sustain a robust workforce and meet its mandate, vision, mission, and objectives.

Control: A - Workforce and Succession Master Plan

This control establishes objectives and ongoing monitoring for the effective design, implementation, and function of all components of EDD's workforce and succession master plan. The EDD's workforce and succession master plan consists of a holistic set of components for creating and sustaining a responsive high-performing workforce that meets the Department's needs. The primary components of the master plan consist of: Knowledge Management, Leadership Development, Recruitment, Retention, and Staff Development.

Risk: Benefit Systems

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 use most.

Prior EDD projects provided partial system modernization and some relief in terms of new customer self-service capabilities; however, the resulting systems are now overly complex and not sustainable from both technology and staffing standpoints. The EDD possesses three independent, non-integrated benefit systems that all rely to varying degrees on an aging mainframe, Common Business Oriented

Language (COBOL)-based system, as well as legacy external sub-systems and components.

Maintaining viable system interfaces and data integrity between disparate benefit system databases that reside on different technological platforms is very complex, expensive, and difficult to maintain. In addition, recruitment and retention of staff with the COBOL skillset is increasingly difficult.

As a result, the existing benefit systems are not fiscally sustainable and costs will continue to rise at an increasing rate to support basic maintenance and operation. The EDD's customers experience a lack of consistency when utilizing the various benefit systems resulting in certain customer groups being unable to utilize online services and having to submit information in hard-copy paper format or by contacting an EDD representative. Certain workloads require staff to utilize multiple applications, enter data into multiple systems, and manually consolidate information for reporting purposes. This results in an inefficient use of staff time to manually enter data into multiple systems which creates a risk of staff erroneously entering information that may result in data integrity or data synchronization issues.

Excess staff resources must also be expended addressing general data synchronization/integrity issues caused by disparate applications, in addition to staff-created data issues, all of which may result in a delay of payment and/or improper payments to customers.

Control: A - Project Approval Lifecycle

This control establishes the State of California's Project Approval Lifecycle process for ensuring efficiency and effectiveness during the initial stages of the Benefit Systems Modernization Project. This process consists of the following four stages:

- Stage One - Business Analysis.
- Stage Two - Analyzing Alternatives.
- Stage Three - Solution Development (detailed solution requirements and development of the solicitation).
- Stage Four - Project Readiness and Approval (releasing the procurement and selecting a vendor).

Risk: FI\$Cal Usability

The design and implementation of FI\$Cal are creating inefficiencies with EDD's ability to generate timely and accurate procurement and financial data necessary for EDD's administration of programs. As a result, the EDD may be unable to regularly provide timely and accurate procurement and financial information for effective program administration.

Causes for this risk include the complexity of FI\$Cal which requires a significant learning curve; non-existent documented guidance; missed understanding of necessary components of design; often slow responses from Department of FI\$Cal regarding EDD business needs; inefficient operations as a result of the system; complexities with operating FI\$Cal; identifying, resolving, and documenting solutions or workarounds to FI\$Cal; operating inefficiently as a result of the system's issues and complexities; reduced availability of staff time due to staff spending time learning FI\$Cal; and applying temporary fixes for unexpected challenges of implementation.

Control: A - Additional Staffing

This control establishes the ongoing monitoring of staffing needs and submittal of funding requests for performing FI\$Cal processes.

Additional EDD resources have been approved via a Budget Change Proposal (BCP) dedicated to additional and/or more complex FI\$Cal processes. It is anticipated that additional resources may be required in order to address the permanent need.

Control: B - Communications

This control establishes the following communication mechanisms for enhancing the quality, timeliness, and documentation of information necessary to address usability issues:

- Internal meetings are held regularly and on an ad hoc basis between the Fiscal Programs Division, Business Operations Planning and Support Division, and EDD's hired consultants (M Corp) to discuss ongoing and newly identified issues requiring attention.
- External communication protocols have been established with the Department of FI\$Cal, Department of Finance, and State Controller's Office. Some of these are formal (via meeting in person) and others are accomplished electronically via email.
- Documentation efforts (including the identification of work-around processes to address FI\$Cal shortcomings).

Control: C - Targeted Redirection Efforts

This control redirects staff to areas of greatest need.

As needed, staff have been deployed to areas outside of their normal scope of responsibility. The deployments allow for completion of the most time-sensitive tasks required for closing out financial reports and/or reconciling those reports with State Controller's Office reports.

Risk: Future Permanent Funding for FI\$Cal

The EDD requires additional permanent staffing to maintain baseline performance levels (the status quo), yet a corresponding permanent funding mechanism to facilitate adequate ongoing staffing levels has not yet been established.

Limited staffing could:

- hinder EDD's ability to generate timely and accurate financial data in FI\$Cal in the future,
- cause EDD management to rely on incomplete and/or inaccurate and untimely information for administering programs, and
- result in backlogs in processing contracts, purchase orders, vendor payments, employee travel claims, and other processes.

Limited staffing could also increase existing risks to:

- addressing the complexities of operating FI\$Cal,
- identifying, resolving, and documenting solutions to FI\$Cal,
- operating inefficiently as a result of the system's issues and complexities,

- staff work availability due to staff spending time learning FI\$Cal, and
- applying temporary fixes for unexpected challenges of implementation.

The lack of permanent funding is causing this risk.

Control: A - Requests for Additional Resources

This control establishes the ongoing monitoring of staffing needs and submittal of funding requests for performing FI\$Cal processes.

Prior and current Budget Change Proposal (BCP) efforts:

- The EDD submitted a BCP requesting resources to cover additional staff and vendor needs for State Fiscal Year (SFY) 2018-19 and SFY 2019-20. The BCP was approved.
- At the time of this report, EDD is currently seeking additional resources through the normal budget process.

Risk: FI\$Cal Reporting Timeliness

There may be future funding repercussions if EDD continues the untimely reporting and reconciliation of its finances as a result of FI\$Cal implementation. Other repercussions may include EDD's operations being subjected to increased scrutiny as well as the application of penalties such as limitations in program funding due to prolonged, past due, required, financial reporting to the State and Federal Government.

Causes of this risk include inadequate levels of staffing to address: the complexity of operating FI\$Cal; non-existent documented guidance; missed understanding of necessary components of design; often slow responses from the Department of FI\$Cal and/or State Controller's Office regarding financial reporting issues; inefficient operations as a result of the system; learning the new system; identifying, resolving, and documenting solutions to FI\$Cal; operating inefficiently as a result of the system's issues and complexities; reduced availability of staff time due to staff spending time learning FI\$Cal; and applying temporary fixes for unexpected challenges of implementation.

Control: A - Internal Staffing Redirections

This control redirects staff to the areas of greatest need.

Additional staffing resources have been redirected within the Fiscal Programs Division of EDD in order to ensure issues preventing the closure of month-end financial reports are resolved as quickly as possible.

Control: B - Meetings with State-Level Partners

This control establishes effective communications with State-level partners for FI\$Cal.

The EDD has engaged in regularly-scheduled meetings with Department of Finance consultant staff, Department of FI\$Cal staff, and project system integrator (Accenture) staff to obtain technical assistance on issues presenting difficulties for EDD. Additionally, these meetings serve to update Department of Finance staff on EDD's progress in closing out monthly financial reports throughout

the year.

Control: C - Communication with Federal Partners

This control establishes ongoing communication with EDD's Federal partners regarding the status of EDD's efforts to provide timely and accurate financial reports.

The EDD has engaged in ongoing communications with our federal partners at the U.S. Department of Labor regarding the status of EDD's efforts to provide timely and accurate financial reports to them, as required. As of the time of this report, our federal partners have been understanding of our difficulties in implementing FISCAL, but they have expressed that the required financial reports will need to be submitted as soon as possible.

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 risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Sharon Hilliard, 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