

Employment Development Department 2015 SLAA REPORT

December 28, 2015

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

Dear Mr. Lanier,

In accordance with the State Leadership Accountability Act (SLAA), the Employment Development Department submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Greg Williams, Deputy Director Admin. Branch, at (916) 654-7519, Greg.Williams@edd.ca.gov.

BACKGROUND

Due to the structure of the SLAA portal, the Employment Training Panel (ETP) and California Unemployment Insurance Appeals Board (CUIAB) have submitted their respective 2015 SLAA reports with the Employment Development Department's (EDD) report in this single report entry. The strategic goals, responsibilities, and authority for each of these entities are unique from one another and each entity is responsible for the accuracy and completeness of the information it provides in this report.

Where responses are combined, they are delineated with designations by entity. Risks identified in this report have first been grouped by entity in the following order (EDD, ETP, CUIAB) and then placed in order of importance by each entity.

As the head of ETP, Stewart C. Knox, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. The ETP has identified Stewart C. Knox, Executive Director, as the primary contact.

As the head of CUIAB, Elena Gonzales, Executive Director/Chief Administrative Law Judge, is responsible for the overall establishment and maintenance of the internal control system. The CUIAB has identified Elena Gonzales, Executive Director/Chief Administrative Law Judge, as the primary contact.

Questions about ETP or CUIAB components of this report will be directed by EDD to the corresponding entity.

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

The EDD is one of the most recognized state departments in California providing a variety of services to businesses, workers, and job seekers.

The EDD's strategic plan, "One Vision, One Team - EDD," includes five strategic goals:

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

- GOAL II: Skilled Workforce - Build a highly-skilled and responsive workforce with clear roles and responsibilities.
- GOAL III: Sustainable Operations - Align system operations, administration, resources, and business processes with strategic priorities and budgetary parameters.
- GOAL IV: Enabling Innovation - Invest in our future by supporting appropriate business and technology solutions.
- GOAL V: Responsible Service - Negotiate clear commitments with stakeholders and focus on priorities.

For more than 70 years, the EDD has connected millions of job seekers and employers in an effort to build the economy of the Golden State.

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ETP – The ETP is a business and labor-supported state agency that funds the costs of vocational training. It is governed by an eight-member panel to set its program goals and directions. The ETP is funded by a tax on employers, collected along with the Unemployment Insurance (UI) tax, and does not receive General Fund support.

- The program is funded by the Employment Training Tax, which is paid by California employers, and targets firms threatened by out-of-state competition or who compete in the global economy.
- The program is performance-based. Employers must provide proof that training hours have been completed and trainees have been retrained in well-paying jobs for a specific period of time at a specified wage before ETP reimburses payment.
- Since its inception in 1982, ETP has reimbursed employers well over \$1 billion for training workers in more than 80,000 California businesses.
- For Incumbent Worker training, employers contribute to the cost of training. The ETP also funds training for unemployed workers.
- The ETP provides additional incentives to assist small businesses and employers in high unemployment areas of the State.

ETP's mission is to provide financial assistance to California businesses to support customized worker training to:

- Attract and retain businesses that contribute to a healthy California economy;
- Provide workers with secure jobs that pay good wages and have opportunities for advancement;
- Assist employers to successfully compete in the global economy; and
- Promote the benefits and ongoing investment of training among employers.

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CUIAB – The California Unemployment Insurance Appeals Board (CUIAB) was established by the State Legislature in 1943 to provide due process for California's workers and employers who seek to dispute determinations of Unemployment Insurance (UI) and Disability Insurance (DI) benefit claims and employer payroll tax assessments and decisions made by the Employment Development Department (EDD). The California statutes governing the CUIAB begin with Unemployment Insurance Code Sections 401-413, and continue in numerous sections thereafter.

Our organizational goals include sustaining the timeliness and quality of CUIAB's services; continuously developing employees' skills and expertise; providing a secure, healthy, and environmentally responsible workplace for employees and the public; and, ensuring protection of information assets and continuity of business operations.

RISK ASSESSMENT PROCESS

EDD - To complete this risk assessment, the EDD held meetings to identify, refine, and ultimately finalize the most critical risks facing the department and mitigating controls. This process incorporated both the Executive Leadership Team (ELT), and Executive Business Team (EBT), which is comprised primarily of EDD's appointed managers, under the direction and guidance from the Enterprise Risk Management Officer.

Working from the EDD's 2012-16 Strategic Plan, the ELT met to identify risks which impact each strategic goal as well as on-going operations. The ELT then ranked these risks based on impact to the organization, probability of occurrence, and the amount of risk EDD is willing to accept to meet its business objectives.

Subsequently, the EBT met in focused breakout groups to identify risks using the SLAA risk categories, subcategories, and factors. The EBT then ranked these risks according to impact to the organization, probability of occurrence, and risk appetite.

The Chief Deputy Director, Administration Branch Deputy Director, and Enterprise Risk Management Officer selected and recommended two reportable risks to the Director who reviewed and approved them. Risk owners within EDD were also identified at this stage in the process.

The last step in the enterprise risk assessment process involved the risk owners assessing the adequacy of existing controls for each critical risk and, where needed, identifying new controls to mitigate each risk to an acceptable level.

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ETP – The State of California Employment Development Department (EDD) has been implementing, deploying and supporting systems as part of the California Workforce Services Network (CWSN) Project. These systems support the State's Workforce Services and Employment Training Panel (ETP) program needs. The new solutions are critical to replace legacy systems that are (1) at risk of failure; and (2) unable to meet the needs of California employers and job seeker customers. The new system, CWSN, will enable ETP to more efficiently provide its services. Through CWSN, ETP has begun the process of building a new Employment Training Management System (ETMS) to better meet the needs of the agency and its customers.

To complete a risk assessment, ETP assembled an ETMS project team consisting of Executive staff and ETP program managers. A Feasibility Study Report (FSR) for the ETMS project was completed and approved. A Request for Quote (RFQ) process was done and Geographic Solutions Inc. (GSI) was selected as the prime, fixed-priced contractor to provide the CWSN Project one-time development efforts and the ongoing operational support as an annual service. GSI proposed and implemented its Virtual OneStop application suite as the base for the solution.

ETP functionality was the focus of this assessment. The vendor and ETMS project team has evaluated and modified existing application modules to meet ETP's data collection and data reporting requirements, as well as developed new modules to meet unique ETP business functionality requirements for the new system implementation.

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CUIAB – The CUIAB's executive management team meets regularly to discuss organizational matters, which include organizational risks, and how to address them. In this venue, risks are discussed and control measures are developed and implemented. The results are reviewed with the management team and changes to the control measures are made if needed to ensure that the controls are adequate. This is an ongoing process.

CUIAB retains oversight responsibility of the administrative services outsourced to EDD, and CUIAB's

monitoring of those services is included in the risk assessment process described above. Services provided by EDD are monitored and assessed on at least a monthly basis, to ensure the work is being performed per the terms of the agreement and to assess any potential risks. If potential risks are identified, they are discussed and addressed with the appropriate EDD staff. If changes to the service agreement are needed to address a potential risk, the changes may either be made via an amendment to the agreement, or upon renewal of the service agreement.

The CUIAB audit team worked with CUIAB management to prioritize the high-level, enterprise-wide risks identified by the management team, and then to identify the mitigating controls. Some controls are already in place, while others are in the planning or early implementation stages.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Oversight, Monitoring, Internal Control Systems

Risk 1 (EDD) - Given the anticipated increase in retirements over the next few years, the EDD is at risk of being unable to sustain a workforce with the appropriate competencies and institutional knowledge, resulting in possible adverse consequences to the quality of services provided to Californians.

Each branch will continue to carry out the objectives and practices outlined in EDD's adopted workforce and succession planning policies and publications. Additionally, each branch will identify its corresponding monitoring interval needs (monthly, quarterly, etc.) and then perform regular monitoring, tracking, and reporting of its efforts.

Through its Workforce Planning Project, the EDD has created various workforce and succession planning processes, plans, and resources for use on both a regular basis as well as in preparation for anticipated significant increases in retirements between 2015 and 2018. The project completed four strategies for Knowledge Management and Recruitment in 2012 and three strategies for Retention, Staff, and Leadership Development in 2013. This control seeks to provide EDD the greatest assurance that it is utilizing these resources.

Some of the EDD publications to be monitored include:

- Framework for Formal Mentoring Programs
- Knowledge Management Process
- Leadership Competency Process
- EDD Recruitment Plan and Guidance for Branch Recruitment Plans
- 2014-2017 Strategic Learning Plan

Identify a person/unit responsible for monitoring and tracking the implementation of EDD's workforce and succession planning processes and resources, and create and implement a tracking mechanism.

The EDD acknowledges the benefit of identifying a responsible person/party to ensure the implementation and ongoing utilization of its workforce and succession planning processes. This control is intended to provide EDD the greatest likelihood that it benefits from the processes and resources it has developed by monitoring and tracking their implementation and utilization.

Operations- Internal- Technology—Outdated, Incompatible

Risk 2 (EDD) - The EDD is at risk of inefficiently serving its customers and insufficiently preventing against system failures if there are no changes made to its obsolete benefit payment systems. The current systems prevent EDD from implementing innovative, necessary, and well-designed business solutions which also utilize the technologies and forms of communication our customers most use.

Additionally, the addition of ad-hoc extensions and components over decades has created systems of such complexity that reliability cannot be ensured.

Document Costs of Current Legacy Benefit Payment Systems – Create a baseline of existing activities and resources required to support the current legacy benefit payment systems, identify all costs associated for resources and activities, and create a current state process flow.

Calculate Costs of Future State Changes to Benefit Payment Systems – Define critical business requirements and objectives, develop a future state process model for each system/process targeted, and identify benefits and risks in financial, personnel, and operational terms.

Identify Opportunity Costs – Calculate cost differences between the current and future state of each system/process targeted, measure against department objectives, provide recommendation to executive management, and develop business case for system/process changes.

Operations- Internal- New System Implementation (Other Than FI\$Cal)

Risk 3 (ETP) - The ETMS that is being implemented will achieve improved access, service delivery, and financial management by providing:

- Improved application processes for both the State and customers through online submittal and data retrieval.
- Electronic access for customers to check agreement status including invoicing and payments.
- Full, online tracking ability of ETP's orientations and agreement processes by both the State and employers.
- Controlled access and processing with (1) secure electronic communications using web-based intelligent forms, direct e-interface, and security encryption; and (2) identity management for internal users and external customers.
- Ability to consolidate and control contracts.
- Automated workflow to manage routing of program documents.
- Decision support technologies to gather, store, and analyze program data.
- Provide internal users the ability to perform agreement revisions (amendment, modification, and technical corrections) and track contract invoicing.
- Extended printing and query capabilities for internal and external users.
- Standardization of contract language and correspondence using template technologies.
- Reduced application process errors with use of data validation on controlled data fields.

The risk ETP is confronted with is that the ETMS system development and implementation will not meet all of ETP's needs in its entirety, or the system deployment will have adverse impacts for external users, or the stability of existing legacy systems will impact the ability to support business requirements.

Design and Development: The design and development efforts are specifically geared to the ETP 13 defined business processes and other directly relevant mandatory requirements. As part of the new baseline, a requirements tractability matrix has been developed and will be kept current and used to trace fulfillment of GSI contract requirements. It also ensures tracking of necessary online training content and testing processes. To meet the requirements, GSI and ETP had developed a series of specifications to define the necessary modules to support the 13 business processes and necessary standardized reporting needs.

Data Conversion: The ETP currently maintains its business data in multiple, disparate applications and spreadsheets. These data repositories have been consolidated, standardized, and uploaded into the application. The GSI provided the experts and staff to complete the data conversion efforts. The ETP had normalized the data prior, during, and after the upload

process to ensure successful migration. A key delivery for this phase was a documented plan for the data conversion including documentation on the key business decisions for the sequencing and timing of the data conversion.

Testing: The GSI is the primary executioner of unit integration and system testing. The GSI developed a testing plan that provided the necessary scenarios and scripts used to test ETP business processes. The ETP developed a Final System and Acceptance Testing Plan based on GSI's testing plans. The GSI will remain an active participant in these testing processes as the user acceptance testing will directly impact overall acceptance of the system and the launch date. Specific testing guidelines for defect rating and acceptance criteria will be key components of the State's Final System and Acceptance Testing Plan. The ongoing management of testing materials is critical for the state as these will be needed for testing operational release versions that are provided by GSI.

Training: Training for the ETMS has been in the form of both hands-on training and computer-based training. The GSI has developed a training plan and provided modifications to its existing online training to accommodate the new functionality that has been developed for ETP. The hands-on training developed by GSI was geared to "train the trainer" and included in-person sessions with focused training materials. The overall approach and effort was defined in the training plan that had been developed and approved by the State.

Implementation: To ensure a successful internal and external Go Live, time was spent on the development of an Implementation Plan. The GSI assisted the State in the development of this approach and associated plan; however, the State retains primary responsibility for the launch process. Decisions on the Go Live were proposed by the project team, but ultimate responsibility for final Go Live decisions will remain with the Executive Steering Committee of the project.

Transition to Maintenance Support: Per the current contract, maintenance and operational support will be provided by the prime contractor. To ensure a smooth transition, key components for operational activities have been further defined in regard to the support for the customized components of the ETMS that have been provided for the ETP. These components have been detailed in the ETMS Operational and Maintenance Support Plan that has been developed and approved.

Ongoing Data Uploads: A key requirement of the application service provider solution being provided by GSI is the ongoing transfer of data to a targeted ETP repository at EDD. Planning for this process has been part of the one-time project guideline and testing of this functionality has been part of the overall system acceptance process.

Operations- Internal- Staff—Key Person Dependence, Succession Planning

Risk 4 (CUIAB) - The CUIAB is at risk of not having enough experienced judges when the next economic downturn occurs and increases CUIAB's workload levels.

As the State's economy improves, the demand for UI benefit appeals has declined significantly, as has federal funding for administration of the UI program, which makes up 93 percent to 95 percent of CUIAB's total workload and budget. The CUIAB is faced with having to downsize its staffing to match the lower workload levels and reduced funding, and has implemented a layoff process to achieve the reductions that have not been attained through normal attrition.

Through this process, the CUIAB is losing experienced judges who would otherwise likely stay at CUIAB for many years. The nature of a layoff means the least senior staff are impacted. This leaves more senior staff on CUIAB's roster. Many of these more senior staff are in a position to retire at any time, if they choose to do so. This leaves the CUIAB vulnerable with regard to experienced judicial staffing.

When UI appeal workload levels increase again in the future, the CUIAB will need to increase its judicial

staffing to meet that demand. During and after the last recession, it took the CUIAB two years to fully staff up to meet the historically high demand. It takes six months or more to train judges who are new to CUIAB.

The CUIAB provides on-the-job training to its judges for specialized areas, such as the more complex benefit appeals and employer tax assessment petitions. This helps to mitigate loss of institutional knowledge in these areas when experienced judges retire.

When workload increases in the future to a level that warrants increasing staffing, the CUIAB will first use retired annuitant judges to address the increased workload. There are a number of experienced judges who have retired in recent years and have expressed a desire to work as retired annuitants for the CUIAB.

When future workload increases are projected to last long enough to warrant an increase in permanent staffing, whether full time or intermittent, the CUIAB will increase staffing by first hiring experienced judges from reemployment lists.

Operations- Internal- Technology—Outdated, Incompatible

Risk 5 (CUIAB) - The CUIAB needs to modernize its IT systems and applications that support the appeal processing, managing, tracking and reporting functions. However, there is no funding available for this, and there will not likely be any funding available in the near future.

The CUIAB's appeal process is predominantly a paper-based process, with some document imaging for second level appeals. This process is currently supported by independent applications that do not provide the functionality or integration needed. The CUIAB needs modernized IT systems and applications for first and second level appeals, with components that are integrated, offer document imaging and electronic workflow across the enterprise, and that provide comprehensive case management, management information and reporting tools, and that may readily share electronic information with the EDD's benefit and tax program applications. Modernization will provide the CUIAB with a number of efficiencies, including automation of portions of the appeal process, reducing the staff time associated with processing and maintenance of paper files, and minimizing or eliminating the need to mail paper documents. It will also allow the CUIAB to provide web-based services, including some self-service functions, for parties to the appeals. This will improve services for the parties and will reduce staff time spent on responding to parties' inquiries.

The CUIAB will work with the EDD to identify opportunities to expand the amount of electronic information that is currently shared between our organizations. The CUIAB will also look for opportunities to leverage EDD's systems/applications where possible.

The CUIAB is researching the feasibility of building components of a modernized system in-house, in stages over time, with existing staff resources.

The CUIAB will continue to monitor funding availability, should funding become available that would support modernization of its systems/applications.

ONGOING MONITORING

Through our ongoing monitoring processes, the Employment Development Department reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Employment Development Department is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Employment Development Department, Patrick W. Henning, Jr., Director, is responsible

for the overall establishment and maintenance of the internal control system. We have identified Greg Williams, Deputy Director Admin. Branch, as our designated agency monitor(s).

Frequency of Monitoring Activities

EDD - The EDD actively monitors the control activities for all critical enterprise risks on scheduled and ad hoc bases, depending on necessity. The controls as well as the criticality, likelihood of occurrence, and impact of each risk contribute to the frequency of monitoring activities. EDD's Executive Leadership Team meets no less often than monthly to discuss and monitor the status of enterprise risks.

ETP – The ETP's Executive staff and program managers meet weekly to actively monitor the control activities for risks. The controls as well as the criticality, likelihood of occurrence, and impact of each risk contribute to the frequency of monitoring activities. Monitoring activities occur on both a weekly and as needed basis.

CUIAB – The CUIAB holds weekly executive staff meetings where senior managers discuss operational matters including workload production, staffing, support activities, events, and issues that come up that could impact the organization. When an issue comes up, the managers have the opportunity to discuss the steps being taken to address the issue, to receive regular updates on the status, and to discuss the outcomes.

Reporting and Documenting Monitoring Activities

EDD – Monthly, the Executive Leadership Team (ELT) reviews and discusses the status of EDD's critical enterprise risks. Quarterly and as necessary, the ELT assesses the internal control measures and monitoring of its critical enterprise risks. Where necessary, the ELT develops/modifies, implements, and documents internal control measures and monitoring activities established to mitigate these risks.

ETP – The ETP will conduct weekly progress meetings with Executive staff and program managers to monitor project performance. These activities include executing a developed project plan to track project scope, schedule, and available resources to ensure timely delivery of project deliverables. The ETP will report and document on-going risk management, cost and schedule management, and scope and change management processes to ensure timely project progress.

CUIAB – Division leaders provide regular updates on any outstanding critical issues at weekly executive staff meetings, and maintain documentation of the issues and corrective actions. This allows senior management to monitor control measures and how they are working and/or revised. Also, senior management provides monthly oral and written reports to the Board at its public meetings, which document the monitoring activities and are captured in the meeting minutes posted on CUIAB's website. Sensitive risks related to personnel matters are reported during closed sessions and are captured in closed session minutes, which are not posted.

Procedure for Addressing Identified Internal Control Deficiencies

EDD - When an internal control deficiency is identified, the risk owner evaluates and addresses the control weakness within a timeframe adequate for mitigating the risk. During this time, the risk owner notifies EDD executive management of the progress of mitigation efforts. Notifications are provided as frequently as necessary and are provided until the deficiency is adequately addressed.

ETP – When an internal control deficiency is identified, the risk's owner evaluates and addresses the control weakness within a timeframe adequate to mitigate the risk. During this time, the risk owner notifies ETP executive management of the progress of mitigation efforts. Notifications are provided as frequently as necessary and are provided until the deficiency is adequately addressed.

CUIAB – Monthly, the division managers hold regular meetings with staff to review issues and controls, to identify any deficiencies and modify the control strategies as needed. Staff members implement any changes needed to ensure adequate controls are in place. If these changes require new policies, the

executive management team will take action to establish the new policies, and will obtain CUIAB approval when needed.

CONCLUSION

The Employment Development Department strives to reduce the risks inherent in our work through ongoing monitoring. The Employment Development Department accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Ongoing Monitoring Compliance Statements (EDD, ETP, CUIAB) - Through our ongoing monitoring processes, the EDD, ETP, and CUIAB routinely review, continuously evaluate, and where necessary, improve our systems of internal controls and monitoring processes. As such, we at EDD, ETP, and CUIAB have determined we comply with California Government Code sections 13400-13407.

Patrick W. Henning, Jr., Director

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations