December 29, 2021

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Labor and Workforce Development submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Jay Sturges, Associate Secretary, at (916) 653-9900, Jay.Sturges@labor.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Labor and Workforce Development Agency (Agency) was established in 2002 (see Government Code Sections 15550 – 15562) with the mission to provide leadership to protect and improve the well-being of California's current and future workforce. As the leader of an executive branch Agency, the Secretary is a member of the Governor's Cabinet. The Secretary oversees seven departments, boards and panels that serve California businesses and workers. These include:

- Employment Development Department (EDD)
- Employment Training Panel (ETP)
- California Unemployment Insurance Appeals Board (CUIAB)
- Department of Industrial Relations (DIR)
- Agricultural Labor Relations Board (ALRB)
- Public Employment Relations Board (PERB)
- California Workforce Development Board (CWDB)

The work of the Agency covers seven main areas:

- Administering the collective bargaining statutes covering many of California's public-sector employees.
- Benefit administration, including workers' compensation, unemployment, disability and family leave insurance.
- Enforcement of California's labor laws to protect workers and create an even playing field for employers.
- Appellate functions related to employee benefits, regulations and enforcement in the workplace.
- Workforce development activities, including grant making for job training and coordination with

other workforce development partners.
- Collection of employer-paid taxes.
- Economic development activities that lead to job creation and improved economic competitiveness.

The goals of the Agency are:

- Improve the operations, maintenance, and access to programs that protect and provide services to workers and employers.
- Improve the coordination of employment-related services.

Control Environment

As the head of the Labor and Workforce Development Agency, Natalie Palugyai, Secretary, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

The executive monitoring sponsor responsibilities include facilitating and verifying that the Labor and Workforce Development Agency internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to Stewart Knox, Undersecretary.

The Agency sets the tone regarding ethical values and integrity to its seven departments, boards and panels that serve the State's businesses and workers. The Agency's overall structure encourages its staff to act independently and ethically in their interactions with all internal and external stakeholders to the State.

The Agency convenes regular meetings to review and discuss operational issues, risks, and mitigation strategies. This includes monthly meetings and ad hoc meetings for Agency executives, departmental leadership, middle management, and business unit staff. The Agency also reviews regular reports and performance metrics as part of its monitoring process.

All Agency business unit and executive staff are responsible for identifying new risks that fall within their area of expertise (legal, operational, administrative, policy, etc.) and reporting them to executive management. Executive staff are the "risk owners" of each assigned risk and are responsible for providing updates on potential/emerging risks, any ongoing monitoring efforts, and the effectiveness of controls in their areas.

The Agency requires its staff sign the Statement of Economic Interest form and 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, as well as, avoid any conflict of interests.

The Agency actively works with its staff and the Governor's Office to ensure a competent workforce through evaluations and assessments to best develop existing staff for growth opportunities, as well as, provide training appropriate to the position. Appointments in the Agency are performance based and are evaluated on a mix of performance outcomes and project outcomes. Any deviations to performance expectations are addressed internally in a timely manner. The Agency recognizes the importance of

staff development and encourages continual training and development to its entire staff.

To support Human Resource Management functions, the Agency contracts with the EDD for technical human resources and management services that includes, but not limited to, support for recruitment and retention activities; upward mobility and career guidance and labor relations. Additionally, the Agency utilizes the EDD Personnel Management Handbook which details all policies and procedures relating to personnel management including: codes of conduct; ethical requirements; staff development; staff development; employee performance and accountability; discipline; promotion; training and health and safety.

Information and Communication

Communication of monitoring roles and activities for management and staff is done through duty statements and through specific work assignments. Levels and areas of responsibility are documented in duty statements, organizational charts, policies and procedures, and work assignments.

The Agency has established a Risk Event Action Plan Template to guide the assessment, monitoring, and communication process. Vulnerabilities and control inefficiencies are typically communicated vertically during the regular business unit staff meetings and across program areas during executive management meetings. Controls may also be reported to executive management through e-mails, memos, and summary reports. The method of communication chosen depends on the type of issue, the urgency, the sensitivity, the complexity, and the breadth of the potential impact.

The Labor and Workforce Development Agency has implemented and documented 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 Labor and Workforce Development Agency systems of controls and monitoring.

The Agency's public website is the primary means to communicate general information to external parties or when a high-volume of external parties are anticipated to have interest in a matter. Press releases and stakeholder calls are used to highlight and bring attention to noteworthy activities within the Agency. Additionally, all Agency executives meet and communicate with stakeholders on a regular basis to share information on activities occurring within the Agency as well as a means to learn about stakeholders perspectives on key issues.

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 Labor and Workforce Development monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Stewart Knox, Undersecretary.

The Labor and Workforce Development Agency continuously monitors the effectiveness of internal control systems through routine Agency-wide meetings of executive-level staff and Agency technical staff. The Agency technical staff performs periodic reviews of its operational activities that are contracted through another department to ensure its accuracy and timeliness.

When potential vulnerabilities are identified, the Agency's executive level subject matter expert

evaluates the risk, provides management with alternatives, and recommends controls to mitigate the vulnerability. The subject matter expert implements managements preferred mitigation strategy as soon as possible, generally within a week to 10 days, depending on the complexity of the issue. The subject matter expert then then provides regular and frequent monitoring updates until the executive team is comfortable that the vulnerability has been appropriately addressed.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Labor and Workforce Development risk assessment process: executive management, middle management, and staff.

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

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, and tolerance level for the type of risk.

The Agency's risk assessment process begins with a review of the Agency's enacting statutes that describe the mission and goals of the Agency and a review of the Agency's operations over the last several years. It includes a review of the Department of Finance's Guidance for Management's Evaluation of Controls document, Info-Tech's "Build a Business Driven IT Risk Management Program" and risks identified in the Agency's past FISMA/SLAA reporting processes as well as any subsequent CAPs. As a result of those reviews, regular executive management meetings that include discussions of existing and potential organizational risks and controls, as well as interviews and subsequent discussions with key Agency executives, the executive management team developed an updated list of risks.

Risks are then ranked using a matrix to define the risk severity, which is based on the potential severity of impact to the Agency's operations, the probability of occurrence, and an evaluation of the existing controls.

RISKS AND CONTROLS

Risk: Key Person Dependency

The Agency is at risk of not having sufficient institutional knowledge and experience in key program areas. This is a result of the Agency's organizational structure, which includes a large percentage of employees that are executive staff who are the sole subject matter experts in their field. These executive staff are appointed by the Governor's Office and typically have higher turnover rates than career state employees. The Agency regularly operates with key executive positions vacant, due to the limited number of staff in the Agency, the high volume of work, and the likelihood of key executive personnel leaving the Agency;

Control: Assessment and Documentation

The Agency's organizational structure and operational practices are reviewed and updated on a

regular basis, to minimize the impact of the loss of leadership, experience, and institutional knowledge that would have otherwise occurred when key individuals leave the Agency. These changes include revising and clarifying executive and business unit roles and responsibilities, adding additional staff to Agency's roster, continuous development of current employees for advancement into key roles when possible, employing formal training opportunities, and utilizing new information technology platforms to document and share information horizontally and vertically throughout the organization.

Risk: Departmental Program Deficiencies

Departments have traditionally operated their programs with a level of independence and autonomy and regularly experience operational challenges. Without appropriate leadership, direction, guidance, and support from the Agency, departments in the Agency may be unable to sufficiently address operational issues that arise. If the departmental operational issues are not remediated appropriately, constituents may not receive the services or benefits they require.

Control: Program Reviews

As part of its control environment and monitoring processes, the Agency performs regular reviews and analyses of departmental programs and outcomes. If a review identifies an operational deficiency in a key departmental program, the Agency will increase the pace of required reporting and communication from the department. If necessary, the Agency will redirect existing Agency staff or add additional Agency staff to provide additional support and oversight of the issue. The Agency coordinates with the Governor's Office and state control agencies to provide additional support and resources for the department until the program outcomes return to acceptable levels.

Control: Interdepartmental Coordination

If a program review reveals a departmental deficiency that cannot be remedied independently by the department, the Agency will leverage the resources of the other departments within the Agency and departments outside of the Agency. This interdepartmental coordination includes activities such as sharing policies, procedures and best practices, coordinated discussions with staff from the Agency and departments, and in extreme cases the temporary redirection of staff to the department. These activities continue until the department has the necessary resources to remediate the issue and the program outcomes return to acceptable levels.

CONCLUSION

The Labor and Workforce Development 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.

Natalie Palugyai , Secretary

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