

Labor and Workforce Development

2015 SLAA Report

December 30, 2015

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Labor and Workforce Development 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 Jay Sturges, Associate Secretary, at (916) 653-9900, Jay.Sturges@labor.ca.gov.

Background

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 wellbeing of California's current and future workforce. As the head of an executive branch Agency, the Secretary is a member of the Governor's Cabinet. The Secretary oversees seven major departments, boards and panels that serve California businesses and workers. These include:

- Agricultural Labor Relations Board
- California Unemployment Insurance Appeals Board
- California Workforce Development Board
- Department of Industrial Relations
- Employment Development Department
- Employment Training Panel
- Public Employment Relations Board

The work of the Agency, which has a cumulative budget of \$14.7 billion and approximately 11,700 employees, 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 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.
- Employer tax collection through the Employment Development Department, which is the third largest tax collection agency in the United States.
- Economic development activities that lead to job creation and improved economic competitiveness.

The goals of the Agency are twofold:

- Improve access to employment and training programs.
- Ensure that California businesses and workers have a level playing field in which to compete and prosper.

Risk Assessment Process

The initial step in the Agency's risk assessment process was to consider the mission and goals of the Agency and review the Agency's operations over the last two years. We reviewed the Department of Finance's Guidance for Management's Evaluation of Controls document and reviewed the risks identified in the Agency's past FISMA reports.

As a result of that process, as well as interviews and subsequent discussions with key Agency executives, we developed an updated list of risks to the Agency's mission and goals. These risks were then ranked based on the potential impact to the Agency's operations, the probability of occurrence, and an evaluation of the existing controls. Agency executive staff meet regularly to evaluate emerging risks and to review and discuss the effectiveness of controls for existing risks.

Evaluation of Risks and Controls

Operations- External- Partner Agencies/Grantees—Conflicting Objectives, Program Coordination

Agency Role: Without leadership, guidance and support from the Agency, departments may insufficiently coordinate with other departments (both internal and external to the Agency) and as a result may perform inefficiently and ineffectively.

Control A - External - Agency is playing a significant leadership role in the statewide implementation of a federal workforce development initiative that involves state and local partners. Without strong leadership from Agency, the development of a comprehensive unified plan that meets both Federal requirements and the needs of core partners would be compromised. Agency is convening regular meetings and acting as the project manager to insure the timelines are met and objectives are achieved.

Control B - Internal - Agency departments have traditionally operated within their own programs and have not coordinated sufficiently with other departments that serve similar constituencies. Agency has identified opportunities to coordinate departmental programs and has begun acting as a convener and project manager with the goal of leveraging resources and increasing the number of Californians being served by the Agency.

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

Agency staffing reflects State employee age demographics, with a significant number of employees who are eligible to retire. Due to the small number of staff within the Agency, the Agency is at risk of not having sufficient institutional knowledge and experience in key program areas when tenured employees leave the Agency.

Control - Revise the Agency's succession planning process to mitigate losses in leadership, experience, and institutional knowledge which would occur otherwise when key individuals leave the Agency. The Agency's succession plan includes the following components:

- Monitoring and evaluating key challenges facing the Agency.
- Utilizing key individuals in departments that are knowledgeable and experienced to provide Agency with information and advice on policy and pending issues.
- Identifying staff currently serving in both internal and external roles that have demonstrated the potential to serve in future leadership capacities.
- Creating opportunities for internal mentoring and professional growth development for internal candidates and continue monitoring the development of external staff.

Ongoing Monitoring

Through our ongoing monitoring processes, the Labor and Workforce Development reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Labor and Workforce Development, David Lanier, Secretary, is responsible for the overall establishment and maintenance of the internal control system. We have identified Andre Schoorl, Undersecretary, as our designated agency monitor(s).

Frequency of Monitoring Activities

The Agency convenes regular monthly meetings and ad hoc staff meetings for both Agency staff and departmental leadership to review and discuss operational issues and risks. Internal and external control systems are reviewed on a quarterly basis and as needed to mitigate situational issues.

Reporting and Documenting Monitoring Activities

Agency staff are responsible for monitoring risks and identifying new risks that fall within their area of expertise (legal, operational, administrative, policy, etc). At the regularly scheduled

monthly meetings Agency staff are responsible for providing updates on monitoring efforts and the effectiveness of controls.

All SLAA documentation is stored electronically, and cataloged into a SLAA folder on the Agency's shared drive, where all staff with monitoring responsibilities can access the files and make updates as necessary. Sub-folders and files within the SLAA folder contain historical SLAA/FISMA reports and associated Corrective Actions Plans, document LWDA SLAA roles and responsibilities, document the risk identification, evaluation, mitigation, and monitoring process, document all identified operational risks and their associated controls, and various other SLAA reference materials. Storage of documents related risk and control monitoring and updates are the responsibility of the individual policy experts while the overall maintenance of the electronic SLAA folder is the responsibility of the Associate Secretary for Administration and is overseen by the Agency Monitor.

Procedure for Addressing Identified Internal Control Deficiencies

When potential internal control deficiencies are identified, the subject matter expert evaluates the internal control weakness and provides management with alternatives and a recommendation for how to mitigate the risk. The subject matter expert implements management's 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 provides regular and frequent monitoring updates until management is comfortable that the deficiency has been appropriately addressed.

Conclusion

The Labor and Workforce Development strives to reduce the risks inherent in our work through ongoing monitoring. The Labor and Workforce Development 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.

David Lanier, Secretary

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