December 21, 2017

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

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), 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, 2017.

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 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.

ONGOING MONITORING

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

EXECUTIVE MONITORING SPONSOR(S)
The executive monitoring sponsor responsibilities include facilitating and verifying that the Labor and Workforce Development internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Jay Sturges, Associate Secretary, and Andre Schoorl, Undersecretary.

MONITORING ACTIVITIES
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.

ADDRESSING VULNERABILITIES
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.

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 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 the executive team is comfortable that the vulnerability has been appropriately addressed.

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.

Ongoing Monitoring Compliance

The Labor and Workforce Development 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 systems of controls and monitoring.

Risk Assessment Process

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

Risk Identification

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.

Risk Ranking

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: Operations - External Staff—Recruitment, Retention, Staffing Levels

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 structure which includes a large number of the executive staff that are appointed by the Governor and may leave the Agency after the election of a new Governor in November 2018. Due to the limited number of staff, the high volume of work, and the dynamic nature of the work at the Agency, the Agency relies heavily on executive staff to maintain the efficient operations of the Agency and the departments under the Agency.
**Control A**
The Agency’s organizational structure, operational practices, and succession planning process have been updated to minimize the impact of the loss of leadership, experience, and institutional knowledge that would have occurred otherwise when key individuals leave the Agency. These changes include revising and clarifying executive and business unit staff duties, adding staff to Agency’s roster, development of existing employees for advancement into key roles, increased use of formalized training opportunities, and increased documentation of current and ongoing operational issues.

**Risk: Operations - External - Oversight of or Program Coordination with Others**
Without leadership, direction, guidance, and support from the Agency, 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**
Agency departments have traditionally operated their own programs and have not coordinated sufficiently with other departments that serve similar constituencies. Agency has identified opportunities for improved coordination and has added Agency staff in these key program areas to provide direct leadership, increased oversight of departmental operations, and to improve coordination between these departmental programs to leverage these resources and maximize the number of employees and employers being served by the departments in the Agency.

**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 controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**David Lanier, 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