December 31, 2021

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

Dear Secretary Natalie Palugyai,

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, 2021.

Should you have any questions please contact
Clera Yen, Deputy Director, Policy, Accountability and Compliance Branch, at (916) 653-2407, Clera.Yen@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 directors, and deputy directors, also known as the Executive Leadership Team (ELT), serve as both the oversight body and executive management for EDD's

operations and administrative activities, and are responsible for establishing and maintaining an effective control environment. The following describes how the ELT achieves and sustains an effective control environment at EDD.

Management's Establishment and Demonstration of Integrity and Ethical Values - 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 and offices of the organization to all managers and staff and reinforces EDD's control environment.

Standards of Conduct - 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 Interests forms must complete ethics training. The Statement of Economic Interests 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.

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.

Adherence to Standards of Conduct - 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.

Oversight Structure - The ELT, which serves as EDD's internal 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 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 as external oversight bodies. 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.

Oversight for the Internal Control System - 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 provides 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 EDD, the 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.

Input for Remediation of Deficiencies - 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.

Organizational Structure - 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.

Assignment of Authority and Delegation of Responsibility - 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 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.

Documentation of the Internal Control System - 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.

Recruitment, Development, and Retention of Individuals - 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 individuals' 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 and cross-training,

• mentoring,

• creating a safe work environment,

• offering development opportunities,

• job shadowing,

• 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,

• ongoing professional and 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 development 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.

Enforcement of Accountability - 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.

Identification of Information Requirements - 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.

Relevant Data from Reliable Sources and Validation - 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 reasonably 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 Processed into Quality Information - 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.

Communication Throughout the Entity - 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.

Appropriate Methods of Communication - 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.

Communication with External Parties - 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.

Separate Reporting Lines - 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.

Communication of Risks to the Internal Control System - 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 typically impact more than one branch, require a response from more than one branch, or significantly impact EDD's core objectives or mission.

Reporting of Inefficiencies and Inappropriate Actions - 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:

• 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:

• 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:
Tad Allred, Administration Branch Deputy Director;
Ronald Washington, Disability Insurance Branch Deputy Director;
Loree Levy, Public Affairs Branch Deputy Director;
Amy Faulkner, Acting Chief Deputy Director, Operations;
Rita Gass, Information Technology Branch Deputy Director; Rita Saenz, Director;
Nancy Farias, Chief Deputy Director, External Affairs, Legislation, and Policy;
Javier Romero, Workforce Services Branch Deputy Director;
Grecia Staton, Unemployment Insurance Branch Deputy Director;
Kevin Matulich, Legislative Affairs Deputy Director; Carol Vigne, Chief Counsel Deputy Director;
Pamela Geitner, Tax Branch Deputy Director; and
"Akhtar" Muhammad Akhtar, Policy, Accountability and Compliance 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 Activities to Identify Potential Problems - 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 - 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.

Internal Control System Monitoring - 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.

Establishment of a Baseline - 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.

Documentation, Evaluation of Results, and Corrective Actions - 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, and front line management.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, audit/review results, other/prior risk assessments, 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: Cyber Fraud Risk Due to Forensic Shortcomings

There is a moderate risk that EDD may receive negative publicity, experience challenges in the Project Approval Lifecycle process, and the loss of public trust if cyber fraud issues are not reduced. The current state of cyber fraud is due, in part, to underdeveloped and understaffed cyber fraud forensic activities in the Information Security Office that assist with fraud-related tasks. Currently, the ISO has redirected one staff person who provides assistance for cyber fraud forensic activities, however, there are no full-time staff dedicated to cyber fraud within the ISO.

Control: Hire Full-Time Cyber Forensics Staff

The full-time staff will process work items associated with cyber fraud/security in the ISO. This will reduce the risk of negative publicity by reducing backlogs and preventing future cyber fraud.

Risk: External Data Breach

There is a risk that personal confidential data can be breached by a hacker which can threaten the safeguarding of sensitive information. This could result in increased fraud, decreased efficiency for claim processing, loss of public confidence, and payment delays. Handling over one million claims a year which use personally identifiable information for claimants and medical providers, the potential impact is high. The risk is further impacted by staffing limitations. As the program responds to newly discovered vulnerabilities, it has limited resources to detect and respond to future potential vulnerabilities as part of system enhancements and implementations.

Control: A: Social Engineering Prevention Efforts

The Information Security Office leads live testing of EDD employees' use of protocols to prevent data breaches via social engineering. It does this by circulating mock emails for employees to decide if they are suspicious, if they should be reported, and to track engagement of the emails/ related information when they provide reasons to be suspicious. The ISO also provides awareness stimulators and informational resources on its SharePoint site called Phishing Clues to assist EDD employees in being properly prepared for phishing campaigns.

Control: B: System Access Limitations – Policies and Training

The EDD has established policies regarding access to the internet and enforces these policies both daily and annually with documented reminders. Additionally, staff are trained to use encryption for emails containing confidential information.

The EDD also requires all employees to complete annual Security and Privacy Awareness Training which prepares employees to identify suspicious items and take proper and necessary corrective actions. This training includes real techniques hackers use to penetrate organizations. Examples are provided to train staff on what to look for and how to validate trusted sources.

Control: C: Monitoring Training

Management receives messages advising of the status of staff trainings, including those on how to prevent inappropriate access to EDD's information systems. Management monitors training status daily. The monitoring helps reduce risk by ensuring employees are aware of possible breaches and how to address them.

Control: D: Fraud Detection and Prevention Unit

The Disability Insurance Branch will establish a Fraud Detection and Prevention Unit as part of the organizational structure. This unit will be modeled after partner branches and include resources to engage in preventative risk analysis through data-mining and current claim processing trends. As a control, the new unit's objectives will include anticipating fraud schemes and potential vulnerabilities as new policy and procedures are developed. Final executive approval for this control is in progress.

Risk: Technology Recovery Environment Readiness

The inability for EDD to timely recover critical systems and services has been identified as a risk. The EDD's business operations could be seriously impacted in the event of an outage caused by a natural disaster, disruptive events, or major technology disruption including but not limited to a cyber-attack, power availability, loss of facility, loss of access to the facility, and equipment failure. The root cause of this risk is the absence of a technology recovery environment that is available, tested, and compliant for continuity of operations. The absence of a technology recovery environment which allows EDD to validate readiness and untested recovery processes could undermine the Department's entire technology recovery efforts. During a significant business-impacting event, EDD systems may be unavailable longer than the acceptable recovery time objective. Claimants, employers, job seekers and EDD staff may not be able to access external and/or internal information technology systems. Such inabilities to access systems could limit EDD's ability to deliver mission critical services such as paying claimants' unemployment insurance (UI), disability insurance (DI), or Paid Family Leave (PFL) benefits timely, delay the collection of payroll taxes and processing of employer tax documents and remittances, and delay the provision of a wide range of employment and training services.

Control: A: Request for Resources

The EDD will request resources from the Department of Finance to implement a technology recovery (TR) environment.

Control: B: Implement the Technology Recovery Environment

- Form a TR team responsible for implementing and maintaining the TR environment.
- Plan and procure the TR solution(s).
- Configure and implement the TR solution(s).
- Designate roles and train EDD Information Technology Branch (ITB) staff responsible for maintaining and executing the TR environment.

Control: C: Test the Technology Recovery Plan

- Conduct TR exercises as specified in the Technology Recovery Plan.
- Perform Technology gap analysis of the current versus desired recovery point objectives & recovery time objectives.
- Reconfigure accordingly and align procedures.
- Update the EDD's Technology Recovery Plan to reflect the new TR environment and technical configurations.

Risk: Enterprise Reporting Limitations

The EDD's enterprise reporting limitations have been identified as a risk. The EDD currently maintains a number of systems to collect longitudinal, operational, and programmatic data. The department strives to ensure that the collection, use, and communication of all information entrusted is relevant, reliable, and free from errors. Without a robust reporting solution that can provide accurate, real-time data that precisely represents what it purports to represent, EDD's ability to properly execute to its mission is impacted negatively. Causes of the risk are many including lack of dedicated resources to

support reporting functions and inadequate data solutions that have the following deficiencies:

- Lack of support for dynamic reporting,
- Inability to identify across multiple disparate systems with key metrics where the most recent data is located,
- Complexity of integrating various data silos,
- Lack of uniform data model,
- Diverse reporting requirement requiring manually manipulating and combining reports in spreadsheets,
- Ad-hoc reports take too long to create, and
- Static reports do not provide the level of detail needed.

The EDD's reporting is operating inefficiently because of system limitations and complexities. The current reporting process may also require additional staff time to manually create reports and apply temporary fixes for unexpected challenges during the creation of reports. This reduced efficiency and delay in response may negatively impact informed decision making due to missed correlated activities that could impact EDD's mission critical services. Incorrect and/or untimely data reporting impacts accuracy of financial forecasting models and increases the probability of incorrect status of key metrics.

Control: A: Request for Resources

The EDD has requested resources from the Department of Finance to enhance the enterprise reporting systems.

Control: B: Staffing

The EDD will seek necessary staffing:

- The EDD/ITB created a new Data Analytical and Reporting group. Completed.
- The EDD/ITB has hired six staff as of 12/1/2021 focused on data reporting and will hire two more starting on 1/3/2022.
- The EDD/ITB will continue to work with the Director's Office to request additional funding for positions to assist with the workload and ensure highest priority projects and assignments are adequately staffed.

Control: C: Implement the Enhanced Reporting Solution(s)

The EDD will implement enhanced reporting solutions taking the following action:

- Plan and procure Analytics, Business Intelligence and Reporting solutions.
- Configure and implement the reporting solutions.

Risk: Risk of UI Branch Systems Failure

The EDD's technological systems are aging, and the ability to maintain them is diminishing, leaving large portions of Unemployment Insurance Branch (UIB) operations at risk of disruption.

Control: A: Systems Monitoring and Response - The ITB Work Intake Process and the IT Help Desk.

The ITB monitors the system's performance and immediately addresses system issues that have been reported and submitted through the ITB Work Intake process.

Control: B: Monitoring Systems Issues and Correspondence Performance

The UIB monitors UI online system issue reports and the web correspondence queue categories.

Control: C: Data Collection – Applications

The UIB collects data from multiple sources (i.e., Single Client Data Base [SCDB], online applications, the State Information Data Exchange, and the Interactive Voice Response system).

Control: D: Database Monitoring – Business Intelligence Tools

The UIB uses business intelligence tools such as Microsoft Structured Query Language server and Statistical Analysis System to collect and monitor data that is captured by the SCDB.

Control: E: Data Validation

The UIB reviews and validates the accuracy of UI system data.

Control: F: Re-Imagined Benefits Systems Modernization

The EDD is exploring systems requirements as part of the initial phase of replacing the current aging system. This effort is known as the Re-imagined Benefits Systems Modernization project.

Risk: External Fraud Risk to EDD Programs

There is a risk of increased fraudulent UI/DI claims being submitted by persons or entities external to the EDD. The risk increases when the state or national unemployment rate is high or growing for prolonged periods and when new unemployment or disability benefit programs are funded. External entities see this as an opportunity to exploit the creation of new systems or processes with the hope of producing a larger number of fraudulent UI/DI claims. This risk will challenge EDD's public reputation, entangle UI or DI customers with fraud investigations and proceedings, inconvenience claimants by requiring them to substantiate their address or identity through multiple identity validations, and risk the integrity of funding.

Within the State Disability Insurance Program (SDI), there is a risk of claimants submitting fraudulent insurance claims or medical certifications by providing false information and identities for claimants and medical providers. The issue consists of perpetrators fraudulently acquiring and using personally identifiable information (PII) to access EDD's online registration system and create fraudulent claimant and medical provider accounts. The root cause of the risk is the ability for accounts to be set up using common PII without conducting cross-checks with external databases to validate the information.

External fraud is mitigated with strong internal controls comprising both systems and processes and supported by the organization's risk culture embedded in employees.

Control: A: ID.me Vendor/Contract

The UIB utilizes the ID.me vendor/contract to maintain an identity proofing authentication platform.

Control: B: Document Upload System

The UIB uses the document upload system to perform identity proofing and verification.

Control: C: Conducting Various Crossmatches

The UIB conducts various crossmatches, such as Quarterly Benefit Audit crossmatch, New Employee Registry crossmatch, National Directory of New Hire crossmatch, and the Interstate and Death Master crossmatches.

Control: D: Social Security Administration & Department of Motor Vehicles Contracts

The UIB maintains contracts with the Social Security Administration and the Department of Motor Vehicles to be able to validate customers' Social Security Numbers and driver's licenses for UI eligibility decisions.

Control: E: Thomson Reuters

The Thomson Reuters fraud detection tool is used to identify UI claims with potential fraud indicators.

Control: F: Audits

The UIB analyzes and investigates paid and denied UI claims. Claimants and employers are contacted to verify that benefit payments were properly paid, and eligibility decisions were correctly made.

Control: G: Documented Program Policy and Personal Responsibility Requirements

This control provides guidelines, standards, and expectations resources intended to maintain integrity in the administration of SDI. Program manuals provide the policy requirements and instructions to employees on what to look for in claim processing and where to refer potential fraud. These resources provide the policy and expected procedure compliance of all staff. Each office tracks annual documentation from each employee thereby reinforcing program integrity expectations.

Control: H: Annual Documents and Training

This control requires all program staff to complete New Hire Orientation and annual Information Security Training on a regular basis as part of EDD's efforts to reinforce expectations and communicate new policies regarding the protection of program information – including confidential documents and medical information. Training is designed with relevant examples and situations. Staff are required to certify completion of the training. Upon hiring and each year thereafter, staff must also sign an acknowledgement of their understanding of employee standards of conduct.

Control: I: Whistleblower Protections

Whistleblower protection is available to all staff to report incidents of internal and external fraud. This policy provides a confidential inroad for state employees to report incidents of fraudulent account access or program vulnerabilities. This control reflects a State mandate and its requirement is posted visibly in all office spaces.

Control: J: Data Filtering Services Based on Fraud Pattern Filters

The SDI will implement fraudulent activity filters and reports in partnership with data management vendors. This control will categorize customers based on specific indicators and patterns of indicators to help identify and prioritize accounts suspected of fraud. The filters will be identified and continuously evaluated to ensure maximum fraud prevention efforts for claimants and medical providers.

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.

Rita Saenz, 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