

December 22, 2025

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

Dear Secretary Stewart Knox,

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, 2025.

Should you have any questions please contact Clera Yen, Labor Data and Compliance Branch Deputy Director, at (916) 653-2407, [clera.yen@edd.ca.gov](mailto:clera.yen@edd.ca.gov).

## **GOVERNANCE**

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### **Mission and Strategic Plan**

#### **EDD's 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.

#### **EDD's Strategic Goals**

Responsible Service – Negotiate clear commitments with stakeholders and focus on priorities.

Skilled Workforce – Build a highly-skilled and responsive workforce with clear roles and responsibilities.

Sustainable Business Operations – Align system operations, administration, resources, and business processes with strategic priorities and budgetary parameters.

Technological Innovation – Invest in our future by supporting appropriate technology solutions.

Fiscal Stewardship – Manage our public resources and align investments with strategic goals.

### **Control Environment**

The EDD's director, chief deputy director, 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.

**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 entire 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 their 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 and still in use today are:

- 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.

**Internal 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. It 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. The internal oversight body also scrutinizes and questions management's activities, presents alternative views, and acts when faced with suspected wrongdoing. The EDD 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 expertise needed by the ELT 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, treat risks to the achievement of objectives, and meet the expectations of its stakeholders, if appropriate. The oversight body is expected to behave with integrity and ethically, demonstrate leadership, think critically, and solve problems. Specialized skills are considered when selecting members of the internal oversight body such as enabling discussions, offering constructive criticism to management, and making appropriate oversight decisions.

**External Oversight Structure** - 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 (DOL/ETA), 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.

**Oversight for the Internal Control System** - As the internal 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 and all levels of management. Oversight occurs throughout the Department in many ways. Some of these ways include:

- quality and field office reviews,
- Individual Development Plans,
- Leadership Competency Development Plans,
- professional growth and career development plans,

- management expectations documents,
- meetings,
- 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 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 Resource 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 EDD's 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. Some branches 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 employees,
- modeling the way,
- working one-on-one with employees,
- discussing employees' goals,
- identifying and supporting employees' core values,
- promoting and providing continuous training,
- communicating openly and on an ongoing basis with employees,
- offering assignments to increase skill sets and addressing employee interests,
- ongoing professional and leadership training and development,
- providing feedback from Leadership Competency Development Plans and performance appraisals,
- helping employees explore interests in pursuing careers in management,
- encouraging employee development based on changes and new roles within the Department,
- offering rotational assignments for employee 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, and 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 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; threat advisory notifications; and systems updates. Information for cross-branch or cross-Department audiences is communicated in various ways including email, meetings, Internal Administrative Notices, the EDD Newsroom, EDD Administrator Mail, Information Technology Branch Notifications, and EDD's The Scene newsletter which is the official source for EDD news and developments.

**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 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, social media, and a bi-monthly EDD newsletter entitled *Benefiting Californians* which features updates for stakeholders and the public on service enhancements and EDDNext modernization efforts. 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 Resource 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,
- emailing the Director's Office using [Improve@edd.ca.gov](mailto:Improve@edd.ca.gov),
- suggestion/comment/idea boxes,
- the formal complaint/grievance process, and
- cultural surveys.

## **MONITORING**

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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: Loree Levy, Public Affairs Branch Deputy Director; Amy Faulkner, Chief

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Deputy Director; Javier Romero, Workforce Services Branch Deputy Director; Grecia Staton, Disability Insurance Branch Deputy Director; Karin Shine, General Counsel and Deputy Director; Quinn Buniel, Legislative Affairs Branch Deputy Director; Ajit Girn, Information Technology Branch Deputy Director; Todd Swenson, Unemployment Insurance Branch Deputy Director; Caleb Horel, Administration Branch Deputy Director; Jarrod Shepler, Tax Branch Deputy Director; Clera Yen, Labor Data and Compliance Branch Deputy Director; Nancy Farias, Director.

At EDD, management recognizes that what gets monitored gets done, and done right. Monitoring operations is essential, especially because internal controls are a constantly evolving and dynamic process. 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** - The EDD management retains the responsibility for monitoring the effectiveness of internal control over EDD's 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 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 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

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The following personnel were involved in the Employment Development Department risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, audit/review results, other/prior risk assessments, questionnaires, 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

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### Risk: Fraud

As the administrator of critical statewide programs including payroll tax collection, unemployment insurance, and disability benefit distribution, EDD handles vast amounts of monetary assets and sensitive and protected information. This makes EDD a frequent target of fraud attempts, which continue to grow in volume and sophistication.

These evolving threats impact multiple programs, including unemployment insurance and disability insurance benefits, and tax administration. Fraud schemes are often complex, coordinated, and rapidly changing, requiring EDD to stay ahead through continuous monitoring, collaboration, and innovation.

Emerging technologies, including artificial intelligence and automated testing tools, are increasingly used to probe and exploit vulnerabilities in EDD's systems. The EDD is actively investing in tools and strategies to prevent, detect, and respond to fraud. These efforts include enhanced fraud analytics, sharing intelligence with external partners, and adapting controls to address new patterns of fraudulent activity. Despite these preventative and mitigation efforts, the risk remains that fraud could compromise EDD's ability to deliver services efficiently and securely.

Due to the increasing sophistication and frequency of fraud attempts targeting EDD's systems and processes, EDD may experience a breach or disruption in benefit

distribution, tax collection, or data integrity. This may result in diminished public trust, financial loss, and impaired delivery of critical services.

### **Control: Monitoring and Testing**

The EDD will develop, implement, and/or strengthen continuous monitoring and targeted testing of its systems and processes to detect, assess, and respond to fraudulent activity. Monitoring efforts are coordinated across programs to ensure timely identification and mitigation of emerging fraud patterns.

### **Control: Enhanced Technology**

The EDD will continue to develop, implement, and/or strengthen its advanced technologies to fortify fraud prevention, detection, and response capabilities. These technologies support secure system architecture, enable predictive modeling to anticipate fraud risks, and streamline data analysis across benefit and tax platforms. The EDD will also seek opportunities to leverage integrated platforms to improve fraud intelligence and continuously adapt controls to evolving threats.

## **Risk: Institutional Knowledge and Hiring**

As one of California's largest state departments with approximately 8,000 employees serving at over 150 locations statewide, the EDD, like many public agencies, faces growing challenges in both retaining institutional knowledge and recruiting a skilled workforce capable of meeting its operational goals.

A significant portion of EDD's workforce is nearing retirement, with 38% currently eligible and an additional 13% expected to become eligible within the next five years—bringing the total to 51%. This presents a substantial risk of losing critical institutional knowledge



held by long-tenured staff and key person dependencies, including expertise in legacy systems, program operations, and regulatory compliance.

At the same time, EDD is experiencing recruitment and hiring challenges that compound this risk. A few of these are:

- Lengthy hiring timelines due to complex civil service hiring processes including federal background checks.
- High competition for talent with specialized skills, especially in information technology.
- Limited applicant pools in certain regions or for hard-to-fill classifications.
- Retention difficulties due to external promotional opportunities and career / leadership development concerns.

Together, these factors are a risk to EDD's ability to maintain service levels, meet strategic objectives, and operate efficiently. Without effective strategies to transfer institutional knowledge and strengthen recruitment efforts, the EDD risks operational disruptions and diminished service quality.

### **Control: Leadership Academies and Mentoring Alliances**

Leadership academies and mentoring alliances are effective tools for developing leadership skills and transferring institutional knowledge among current and future leaders. Through consistent, collaborative, and sustainable efforts, these programs promote continuous learning and growth across all leadership levels. The EDD recognizes the value of cultivating a skilled, talented, and leadership-driven workforce. This control supports efforts to develop, implement, and/or enhance leadership academies and mentoring alliances that assist in transferring and memorializing institutional knowledge.

### **Control: Efficiency and Effectiveness Across All Hiring Processes**

Human resource services operate at the state, department, and branch levels in adherence to California Department of Human Resources guidelines. To ensure optimal performance, related processes and controls must be aligned and

function cohesively. This control focuses on reviewing, assessing, and improving department and branch-level recruitment and hiring processes to enhance alignment and overall efficiency and effectiveness.

### **Risk: Aging Program Systems**

The EDD's legacy technology systems were not designed to support the scope and complexity of today's operations. They lack modern functionality, security features, and maintainability, making them increasingly difficult to update or sustain.

As these systems age, there is a significant risk of service disruptions affecting key programs and systems including disability and unemployment insurance benefit distribution, workforce services via CalJOBS, and the Base Wage System. The EDD may be unable to effectively prepare for or respond to system failures, which could compromise its ability to deliver essential services and maintain responsible customer support.

#### **Control: Systems Modernization**

The EDDNext will modernize operations, business processes, and technology for unemployment, disability, and tax collection services provided by EDD. The modern technology will enable secure and innovative architecture. The EDDNext will incorporate the integrated claims management system to allow streamlined claims and applications processing and benefit overpayment collections as well as enhanced protection of data files. Additionally, EDD will enhance mitigations to CalJOBS service interruptions and explore options for meeting future operational, business process, and technological needs.

## CONCLUSION

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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.

**Nancy Farias, Director**

CC: California Legislature [Senate, Assembly]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency