

December 21, 2017

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

Dear Mr. David Lanier,

In accordance with the State Leadership Accountability Act (SLAA), the California Unemployment Insurance Appeals Board submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Lori Kurosaka, Assistant Director, at (916) 263-6818, [Lori.Kurosaka@cuiab.ca.gov](mailto:Lori.Kurosaka@cuiab.ca.gov).

## **BACKGROUND**

The California Unemployment Insurance Appeals Board (CUIAB) was established by the State Legislature in 1943 to provide due process for California's workers and employers who seek to dispute determinations of Unemployment Insurance (UI) and Disability Insurance (DI) benefit claims and employer payroll tax assessments and decisions made by the Employment Development Department (EDD). The California statutes governing the CUIAB begin with Unemployment Insurance Code Sections 401-413, and continue in numerous sections thereafter.

Our organizational goals include sustaining the timeliness and quality of CUIAB's services; continuously developing employees' skills and expertise; providing a secure, healthy, and environmentally responsible workplace for employees and the public; and, ensuring protection of information assets and continuity of business operations.

## **ONGOING MONITORING**

As the head of California Unemployment Insurance Appeals Board, Elena Gonzales, Executive Director / CALJ, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

### **EXECUTIVE MONITORING SPONSOR(S)**

The executive monitoring sponsor responsibilities include facilitating and verifying that the California Unemployment Insurance Appeals Board internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Lori Kurosaka, Assistant Director, Janet Maglinte, Research Coordinator, and Elena Gonzales, Executive Director / CALJ.

### **MONITORING ACTIVITIES**

CUIAB has leadership groups that meet regularly to discuss operational matters, activities, events, issues, and risks that could impact the organization. They also monitor existing controls for their effectiveness, and make adjustments as needed. These groups include Senior Staff (the executive

management team), field office managers (Presiding Administrative Law Judges), Appellate Operations Innovation Team, IT, and the Security Committee. When an issue or potential risk comes up, the members discuss steps to address the issue, obtain approval as needed, and establish and/or receive regular updates on the actions being taken to manage the issue and potential risk; they monitor how well these actions and controls are working, and whether more needs to be done.

CUIAB uses meetings, production reports, and key performance indicators (KPI) to monitor performance and the effectiveness of internal controls. The production reports and KPIs are used by operations managers who compare outcomes to expectations and determine whether changes are needed. These reports are also monitored by the Executive Office's policy and research staff, who monitor for potential problems, comparing actual outcomes to expectations, and brings issues to the Executive Director's attention, making recommendations as appropriate. The appeal production and KPI reports are monitored by the Board members at the monthly Board meeting.

### **ADDRESSING VULNERABILITIES**

Senior Staff meet weekly to monitor enterprise-wide issues, risks and controls, and the progress being made to reduce CUIAB's vulnerability. As vulnerabilities are identified, an appropriate senior manager is assigned to address the issue, and to monitor and report back to the group on the success of efforts to reduce the new vulnerability.

At the division level, division managers hold regular meetings with staff to review issues, risks and controls; to identify any deficiencies; and, establish new or modify existing control strategies as needed. When a new vulnerability is identified, managers and staff work to identify actions to reduce the vulnerability, and managers assign staff to the implement the action(s) and monitor progress. The staff report on the progress to reduce or eliminate the vulnerability. If the issues or risks could have an enterprise-wide impact, the division manager reports this to Senior Staff and obtains approval for action, as needed. The division manager will then provide status reports to Senior Staff, and Senior Staff will monitor progress made to reduce CUIAB's vulnerability.

### **COMMUNICATION**

Communication of monitoring roles and activities for managers and staff is done in duty statements and with specific work assignments. Levels of responsibility are documented in duty statements, work assignments, and organizational charts.

Channels for communicating vulnerabilities and control inefficiencies include from staff to staff and staff to supervisor, supervisor to manager, and manager to division manager within a division. If the vulnerability or control has an enterprise-wide impact, the channel for communication is from division manager to Senior Staff, and then from the Executive Director to the Board Chair and/or to the full Board at a Board meeting.

Methods for communicating monitoring activities and results may include orally at meetings, including Board meetings, or through circulated reports, email messages, or memos. The method chosen is based on the type of issue/control, on who is receiving the communications, and on whether the issue/control is of enterprise-wide importance.

### **ONGOING MONITORING COMPLIANCE**

The California Unemployment Insurance Appeals Board is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the

California Unemployment Insurance Appeals Board systems of controls and monitoring.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the California Unemployment Insurance Appeals Board risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

### **RISK IDENTIFICATION**

CUIAB's Senior Staff meets regularly to discuss organizational matters, which include identifying areas of potential risk, existing organizational risks, and how we are addressing them. In this venue, risks are identified and discussed, and control measures are developed, implemented and monitored. From time to time, division managers and field office managers bring a new risk to the group's attention, and request Senior Staff's approval to implement controls. Senior Staff regularly monitors the controls and results, and makes or approves changes to control measures to ensure that CUIAB's vulnerability is reduced or eliminated. This is an ongoing process.

Methods and procedures for identifying risks include input from front line staff and managers, meetings, committees, and brainstorming sessions. CUIAB also looks at risks identified in 2015 and whether they are still risks; audit findings, such as the Department of Military information security audit; and, existing and new challenges facing the organization.

### **RISK RANKING**

CUIAB's Senior Staff reviewed the identified risks and ranked them based on whether they were enterprise-wide risks, the significance of their potential impact on the organization, the likelihood of the risk event occurring, and the severity of the potential consequences. This was done by Senior Staff, with input from divisional managers and field office managers.

## **RISKS AND CONTROLS**

### **RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING**

CUIAB is at risk of not having enough experienced managers with the knowledge and/or experience at the executive level in running a State agency so that they may either succeed current leadership or support future leadership.

Experienced senior managers have retired in recent years, and more are planning to retire in the next year or two.

Most of the remaining managers lack experience with enterprise-wide organization oversight, policy, management and planning.

#### **CONTROL A**

Identify and send managers to participate in leadership training offered by CSU Sacramento's Extension Program.

**CONTROL B**

Provide cross-training for managers in critical areas including the Governor’s budget process, continuous improvement of processes at the enterprise-wide level, IT systems modernization planning, and the policy development process.

**RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING**

CUIAB is at risk of not having enough judges who are familiar with CUIAB’s processes as it will need to respond quickly to a sudden increase in workload when the next economic downturn occurs and increases CUIAB’s workload levels.

As the state’s economy has improved, since the Great Recession, the demand for UI benefit appeals has declined significantly, as has federal funding for administration of the UI program, which makes up over 90% of CUIAB’s total workload and budget. CUIAB had to downsize its staffing through attrition and layoffs to match the lower workload levels and reduced funding.

CUIAB has lost experienced judges who would otherwise likely stay at CUIAB for many years. The nature of a layoff means the least senior staff are impacted. This leaves more senior staff on CUIAB’s roster. Many of these more senior staff are in a position to retire at any time, if they choose to do so. This leaves the CUIAB vulnerable with regard to judicial staffing who have experience with CUIAB’s processes.

**CONTROL A**

The CUIAB provides on-the-job training to its judges for specialized areas, such as the more complex benefit appeals and employer tax assessment petitions. This helps to mitigate loss of institutional knowledge in these areas when experienced judges retire.

**CONTROL B**

As workload increases, CUIAB is using retired annuitant judges to address temporary increases in workload. There are a number of experienced judges who have retired in recent years and want to work as retired annuitants for the CUIAB.

**CONTROL C**

When future workload increases are projected to last long enough to warrant an increase in permanent staffing or significant judge attrition occurs, whether full time or intermittent, the CUIAB will increase staffing by first hiring experienced judges from reemployment lists.

**RISK: OPERATIONS -EXTERNAL-FUNDING—SOURCES, LEVELS**

CUIAB is at risk of not receiving enough federal UI program funding to support the staffing levels needed to process the volume of UI appeals that it receives.

Federal funding doesn’t cover all of the costs to administer the UI program, and is at risk of being further reduced at the national level during federal budget negotiations, given the current political climate in Washington DC. Such reductions would be passed along to the states, and specifically to EDD and CUIAB. CUIAB does not receive State funds for processing UI appeals.

Not having adequate funding would reduce services and increase employers’ and workers’ wait time for decisions, and possibly cause California to be out of compliance with US Department of Labor (DOL) performance standards. Being out of compliance could put California under corrective action with the US DOL.

**CONTROL A**

CUIAB must continue to balance workload, staffing and funding, and to sustain cost savings efforts, to ensure it is processing the maximum number of appeals with available funding.

**CONTROL B**

CUIAB will work with EDD to identify other possible sources of funding to support the UI program, should federal funding for the UI program be cut during federal budget negotiations.

**RISK: OPERATIONS -INTERNAL-TECHNOLOGY—SUPPORT, TOOLS, DESIGN, OR MAINTENANCE**

CUIAB does not have a comprehensive case management system to more efficiently process appeals and address future increases in workload that will come with economic downturns. CUIAB cannot take advantage of the processing efficiencies, case file management, and data analytics that a comprehensive system would provide.

CUIAB does not have funding to procure a comprehensive system. CUIAB's appeal process is predominantly a paper-based process, with some document imaging and workflows for second level appeals. This process is currently supported by independent, modest applications that do not provide comprehensive case management or the functionality or integration needed.

CUIAB will continue to process appeals using a predominantly paper-based system. When workload levels rise significantly, CUIAB will have to increase staffing to higher levels than would be needed with a modernized appeal processing system.

**CONTROL A**

CUIAB is working with EDD, as EDD begins a new modernization effort, to identify opportunities to leverage EDD's future systems/applications for the appeal process wherever possible.

**CONTROL B**

CUIAB is researching the feasibility of building components of a modernized system in stages over time, with existing staff resources.

**CONTROL C**

The CUIAB will continue to monitor funding opportunities, should funding become available that would support modernization of its systems/applications.

**CONCLUSION**

The California Unemployment Insurance Appeals Board strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Elena Gonzales, Executive Director / CALJ**

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