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Fraud Deterrence and Detection Activities

TWENTY-SEVENTH REPORT

2020

*A Report to the
California Legislature*



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TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

BACKGROUND INFORMATION..... 5

APPROACH 6

PROGRAM ACTIVITIES..... 7

 Unemployment Insurance Program 7

 State Disability Insurance Program 19

 Employment Tax Program 27

 Workforce Services Program 38

INDEPENDENT OVERSIGHT ACTIVITIES..... 41

ENTERPRISE-LEVEL ACTIVITIES..... 47

ACRONYMS 51

EXECUTIVE SUMMARY

This report documents the Employment Development Department's (EDD) fraud deterrence and detection activities for Calendar Year (CY) 2020, as required by California Unemployment Insurance Code (CUIC) Section 2614. EDD's responsibilities include the administration of the Unemployment Insurance (UI), State Disability Insurance (SDI), Employment Tax Collection, and Workforce Innovation and Opportunity Act Title I and Title III (WIOA) programs. From January 2020 through December 31, 2020, EDD collected more than \$88.6 billion in California payroll taxes, penalties, and interest from over 1.5 million employers and issued benefit payments in excess of \$121.8 billion on over 21 million UI and SDI claims.

Statistics for the 27th report year ending December 31st 2020, reflect the unprecedented rise in UI claim filing during the Coronavirus (COVID-19) pandemic. States across the country faced new levels of criminal fraud, including fraud perpetrated by sophisticated organized crime groups and criminal opportunists throughout the country. When the U.S. Department of Labor deployed new unemployment programs early in the pandemic there was no accompanying inter-jurisdictional anti-fraud guidance or technical assistance to thwart the tidal wave of fraudulent claims. While the Department of Labor Office of Inspector General (DOL OIG) plays a valuable role in fighting unemployment insurance fraud, it primarily focuses on large-scale prosecutions and schemes that may spread across multiple states. The States were left to deal with the high level of claims and the fraud which inevitably follow largely on their own.

Insurance programs are always at risk for some level of fraud. Prior to the pandemic, the UI program has historically experienced a fraud risk between 4 and 6 percent of any payments in a given year. Previously, the majority of fraud against the programs could be attributed to individuals using stolen identities to file claims, false quarterly wages being reported, forgery, or working and earning wages while obtaining benefits. Federal Department of Labor (DOL) guidelines expect fraud and non-fraud improper payments to occur in under 10 percent of payments.

The federal Pandemic Unemployment Assistance (PUA) program, where much of the current fraud is concentrated, was designed to provide unemployment benefits to independent contractors and the self-employed. The federal program was created to provide much-needed benefits to those who lost their livelihood during the pandemic. Traditionally state unemployment agencies rely on employment or wage records to verifying eligibility. The self-certification of prior wages, made allowable under the PUA program, made it inherently susceptible to fraud. With the lack of verifiable criteria regarding eligibility, fraud increased with the number of claims filed.

Analysis of CY 2020 claims resulting in payments of *state-funded* benefits has revealed a level of fraud well within expected norms at less than 1 percent. Unfortunately, the federal PUA program saw a higher than normal level of fraud at 24 percent of payments made. The following chart outlines the fraud identified in each of the programs:

	Total Benefits Paid	Payments Identified as Fraud	% of Fraud	Per Program	Non-CARES Act Fraud	All Fraud
SDI	\$ 7,600,000,000.00	\$ 5,900,000.00	0.08%	0.14%	0.68%	9.06%
PFL	\$ 1,200,000,000.00	\$ 6,057,000.00	0.50%			
UI	\$ 70,000,000,000.00	\$ 521,000,000.00	0.74%	9.75%		
PUA	\$ 43,000,000,000.00	\$ 10,500,000,000.00	24.42%			

While EDD’s fraud screening measures prevented up to \$60 billion in potential fraud, California didn’t stop there. Additional efforts were made to limit fraud at the front end due to identity theft. As an example, the Department was one of the first states to launch the identity verification system, ID.me. The Department also stopped over 980,000 potentially fraudulent claims last year by halting the automatic backdating of federal claims in the PUA program. Throughout CY 2020, the Department continued to identify and invest in fraud prevention technology and tools to assist in the process of detecting, preventing and prosecuting acts of fraud.

Actions taken by the Department in 2020 included:

- Cross referencing data against new databases including incarceration and birth records and other databases held by a new vendor: Thomson Reuters.
- Entering into an agreement to share data with other UI state workforce agencies (SWA) through the National Association of State Workforce Agencies (NASWA) Integrity Data Hub (IDH) alert notifications to assist with improper and fraudulent multi-state claims.
- Data sharing with DOL OIG to facilitate detection of multi-state and international fraudsters.
- Investing state and federal funds in investigative and fraud fighting tools.
- Stopping large numbers of multiple claims from single addresses.
- Implementing the California State Auditor recommendation to set up a unit for coordinating all UI fraud and prevention and detection.
- Coordinating with the California Governor’s Office of Emergency Services (CalOES) in partnership with California Department of Corrections and Rehabilitation (CDCR), the State’s District Attorneys, and the U.S. Attorney’s Office in a state-led task force on investigations and interdiction efforts.
- Expanding criminal investigations and multi-state coordination by enlisting former U.S. Attorney McGregor Scott as EDD’s Fraud Special Counsel.

The remainder of this report highlights the fraud deterrence and detection activities by each EDD program and summarizes the oversight activities across EDD. The final section of the report highlights enterprise-wide efforts in progress and under consideration to prevent, detect and deter fraud.

BACKGROUND INFORMATION

Section 2614 of the CUIC requires the Director of EDD to report to the Legislature by June 30 of each year on EDD's fraud deterrence and detection activities. Please note that this report is being submitted after the statutory deadline due to additional necessary review by the impacted agencies. EDD administers three large employee benefit programs that include: UI, DI, and Paid Family Leave (PFL) programs. In 2020, these three programs paid claimants in excess of \$121 billion on more than 21 million UI and SDI claims.

As with any assistance program there are individuals who attempt to defraud the system for personal gain. The global COVID-19 pandemic presented criminal elements the opportunity to leverage technology and stolen personal identifying information to defraud state workforce agencies and unemployment insurance systems throughout the United States. All of the various fraud schemes identified by EDD, U.S. DOL OIG, and other federal law enforcement entities involved either identity theft or falsified information, in one form or another, to illicitly receive benefits. Some examples of these are:

- Identity Theft – Impostors may falsely use identities of workers to file a fraudulent claim with the intention of obtaining benefits.
- Address Theft – Schemes using private citizen mailing or residential addresses in connection to filing fraudulent and/or imposter claims.
- Incarcerated individual's personal identifying information (PII) used willingly or unknowingly fraudulently filing for benefits or themselves being the victims of identity theft.
- Fictitious business registrations as employers and submitting illicit wage reports to collect benefits.
- Businesses who operate in the underground economy illegally evade tax laws.
- Employers who exploit immigrant labor and federal Visa programs.
- Employers intentionally do not fully report wages and do not pay their employment taxes as required by law.
- Claimants who claim benefits while working.
- Physicians who certify a disability inappropriately.
- Claimants or physicians who submit forged documents.

EDD's Tax Branch is responsible for administering the state's Employment Tax program. These responsibilities include all administrative, education, customer service, and enforcement functions for the audit and collection of employer-paid UI and Employment Training Taxes, and DI and Personal Income Tax (PIT) withholdings paid by employees. The Tax Branch also processes quarterly wage reports from the state's more than 1.5 million employers, accounting for more than 18.9 million workers. Making up almost 50 percent of the state's General Fund, the Tax Branch collects over \$88 billion in taxes and contributions each year.

The final responsibility of EDD is the administration of the Workforce Innovation and Opportunity Act (WIOA) program in California. The WIOA program provides funding to designated local entities to provide employment and training opportunities. EDD guides the sub-granting of WIOA funds received from the U.S. DOL and provides general program direction to local administrative entities to deliver services to eligible clients via a statewide system.

APPROACH

EDD uses a multi-tiered, comprehensive approach to fraud deterrence and detection. This approach involves EDD programs, EDD independent oversight entities, business partners including federal, state, and local law enforcement agencies, and prosecutors.

Each program area has established ongoing internal controls and anti-fraud activities. In addition, oversight entities within EDD perform audit, evaluation, monitoring and internal control reviews to measure the integrity, accuracy and propriety of benefit payments, as well as information technology system reviews to detect system control deficiencies. Regular evaluation and assessments to the multi-tiered approach has been an effective means towards combating fraud holistically; however, during CY 2020, the sheer volume of claims due to the pandemic and the sophisticated fraud schemes overwhelmed existing fraud detection and prevention systems.

Anti-fraud activities within EDD include:

Prevention	Detection	
<ul style="list-style-type: none"> • Customer Education • Internal Control Reviews • Employer Audits • Internal System Audits • Fiscal Monitoring • Fraud Detection Efforts • Interagency Efforts • External Partnerships 	<ul style="list-style-type: none"> • Analyzing Employer Data • Internal Checks & Balances • Evidence Seizure • Cross-matching Data • Interagency Efforts • Fraud Hot Line • AskEDD Website Report • Whistleblower 	<ul style="list-style-type: none"> • Undercover Operations • Computer Forensics • Serving Warrants • Monitoring • Reviewing Medical Data • Arrests & Prosecutions • External Partnerships • Criminal Surveillance

Lastly, the Investigation Division (ID) identifies, investigates, and prosecutes fraud within EDD’s various programs and internal operations.

PROGRAM ACTIVITIES

The following provides more detailed information on the specific activities performed by each major program to prevent and detect fraud.

Unemployment Insurance Program

EDD administers the UI program, which provides benefits to individuals who have lost their jobs through no fault of their own, are actively seeking work, are able to work, and are willing to accept employment. During Calendar Year (CY) 2020, the UI program processed 20 million initial claims and paid a total of \$113 billion in benefits.

California entered CY 2020 with historical low unemployment for the state and a decreasing UI workload. That dramatically changed once the pandemic reached an unprecedented level in March 2020. Within the first two months of the pandemic, the Unemployment Insurance Branch (UIB) processed approximately 4.2 million claims related to the pandemic and unemployment. In comparison, EDD received and processed almost as many claims in those first few months as within the previous two years combined (4.8 million claims).

Through new federal programs under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, UI benefits became available to self-employed workers for the first time ever. Benefits paid to claimants under the CARES Act are designated as Pandemic Unemployment Assistance or PUA and account for \$43 billion in benefits out of the \$113 billion paid. With the absence of comparable wage information to validate the claims the PUA program was particularly vulnerable to fraud. This was evident at the end of 2020 with an identified fraud rate in the PUA program at just over 24 percent, or approximately \$10.5 billion. In CY 2020, EDD took measures to identify and stop fraudulent benefits from being paid, the most notable of those were:

- ✓ In September, EDD ceased the automatic backdating of PUA claims. This led to a significant reduction in the UI claims backlog, while also helping to prevent additional benefits payment on fraudulent claims.
- ✓ In October, EDD partnered with ID.me to implement their identity proofing and authentication platform used by various government agencies that helps expedite the process of verifying claimants' identities. By incorporating ID.me into a complex manual review, the product was an enhancement to anti-fraud effort on the front end as a preventative measure and business process improvement. ID.me helped to expedite the process of verifying claimants' identities, reduce the build-up of claims requiring complex manual review, and prevent imposters from filing a claim online.
- ✓ EDD partnered with Pondera, a business unit within the Thomson Reuters' (TR) Government Division, which provides innovative solutions for the prevention and detection of improper payments and suspected fraud.
- ✓ EDD partnered with the California Department of Corrections and Rehabilitation (CDCR) to create a process to cross match EDD claims against incarceration data on a monthly basis. The cross-match allows for EDD to detect and deter unemployment fraud and properly adjudicate

claims where a claimant may be incarcerated during the life of their claim.

EDD continues to work in concert with a state-led task force comprised of state and local agencies in an effort to support unemployment fraud investigation. In addition, EDD Investigation Division is directly involved in hundreds of joint criminal investigations with local, state and federal law enforcement entities in an ongoing effort to identify and prosecute the individuals who participated in fraud schemes throughout 2020.

Notifications

1. Claimant Information

Notifications to the claimant include the Unemployment Insurance Benefits: *What You Need to Know Booklet* and *Step-by-Step Guide: How to Certify for Ongoing Unemployment Benefits*. These notifications explain the requirements to file, and certify for UI benefits, including how to correctly report work and wages.

Additionally, claimants are informed about UI claim eligibility requirements and the legal consequences of willful misrepresentation or willful nondisclosure of facts as referenced in the claimant handbook *A Guide to Benefits and Employment Services*, which is also available online. Claimants are also notified of the legal consequences for willfully making a false statement or knowingly concealing a material fact in order to obtain benefits. This notification is provided on the claim form declaration statement and is signed by the claimant when applying for benefits. This notification is also presented to be acknowledged by the claimant when applying for benefits through UI Online.

2. Continued Claim Certification

This certification is completed by claimants every two weeks to attest to their continued eligibility for UI benefits for each week that they claim. Claimants sign under penalty of perjury that the information they provide when applying for benefits is true and correct, to the best of their knowledge.

3. Employer Notification

The notification is issued to the last employer through the *Notice of Unemployment Insurance Claim Filed* when claimants file a new claim. If the employer contends that the claimant is not entitled to UI benefits and the employer's reserve account should not be charged, this notice instructs the employer how to protest the claim.

Employers may also choose to receive and respond to electronic notifications through the State Information Data Exchange System (SIDES). This nationally-standardized web-based system allows employers, including multi-state employers and third party administrators, to access and complete requests for UI information. This notice is mailed to employers who paid wages in the Base Period of the UI claim. The form is mailed to the respective employer after the first benefit payment is made to the claimant advising them of the amount of potential charges to their reserve account. This form also provides the employer with an opportunity to request a ruling for possible relief of charges.

The SIDES system provides a secure and timely way for employers to electronically exchange UI eligibility information about former employees with EDD. Employers can upload supporting documentation and receive an electronic time stamp for submission of information to EDD. All Fifty (50) states participate in SIDES, in one or more exchanges, with their state's employer community.

Data Sharing and Reviews

1. Unemployment Insurance Benefit Accuracy Measurement Program

This is an internal review of a random sample of regular UI claims throughout the year to test the effectiveness of procedures for the prevention of improper UI payments. A specialized unit conducts these reviews pursuant to U.S. DOL requirements and detect the nature and extent of improper payments, reveal operating weaknesses, and serve as a check on agency employee fraud or collusion. Claims that appear fraudulent are referred to ID for review for a possible criminal case or to the program for administrative follow up.

2. Quarterly Benefit Audits

This is an automated quarterly process that cross-matches wages reported by employers to UI benefits paid within the same period. Through this process, the UI program is able to detect when claimants have been fraudulently collecting benefits while working and failing to report their work and wages when certifying for UI benefits. Traditionally, this is the one of most common forms of fraud committed against the UI program. Overpayments and penalties are established and collected as a result of this process, protecting the solvency of the UI Trust Fund. EDD utilizes an employer compliance database to track benefit audit forms that have been mailed and returned by employers.

3. National Directory of New Hires

This cross-match enables EDD to use new hire information provided by employers nationwide to identify claimants who improperly continue to receive benefits after they have returned to work. This is accomplished by matching, on a weekly basis, the new hire information with EDD's records of claimants currently collecting UI benefits. This nationally maintained database allows EDD to identify and investigate claimants receiving UI benefits who have returned to work outside California who may not have reported their work and wages. EDD utilizes an employer compliance database to track benefit audit forms that have been mailed and returned by employers.

4. New Employee Registry (NER) Benefit Cross-Match

This cross-match enables EDD to use new hire information from California employers to identify claimants who improperly continue to receive benefits after they have returned to work. This is accomplished by matching, on a daily basis, the new hire information with EDD's records of claimants currently collecting UI benefits. Through this process, EDD is able to detect fraud and other eligibility issues up to six months earlier than through EDD's benefit audit process, allowing EDD to protect the UI Trust Fund by reducing the amount of dollars overpaid to claimants.

To further reduce improper payments resulting from claimants incorrectly or failing to report work and wages, EDD enhanced the NER Benefit Cross-Match. Effective March 2019, EDD is re-running the original New Employee Registry records from California employers a second time. This process identifies any Social Security Numbers (SSNs) that have UI claim activity not detected during the first run because the claimant had not yet certified for UI benefits. The New Employee Registry Re-Run occurs daily approximately four weeks after the original daily NER Cross-Match. EDD utilizes an employer compliance database to track benefit audit forms that have been mailed and returned by employers.

5. Interstate Cross-Match

This process cross-matches wages reported quarterly by employers outside of California to UI benefits paid within the same period. Through this process, the UI program is able to detect when claimants have been fraudulently collecting benefits while working outside of California.

Overpayments and penalties are established and collected as a result of this process, protecting the solvency of the UI Trust Fund. These matches are performed on a quarterly basis.

6. Social Security Number Verification Process

This verification provides real time (online) access to the Social Security Administration's records. The claimant's SSN is verified during the claimant's identification process to detect potential fraud prior to filing a UI claim.

7. Department of Motor Vehicles Verification Process

This verification provides real time (online) access to its database to verify a claimant's California driver's license or identification card number prior to filing a UI claim. This part of the identity verification process is used to prevent identity theft fraud in the UI program.

8. Last Employer Address Information

This information is obtained from EDD's internal database. The ability to cross-match employer addresses with this database rather than relying upon the customer to provide EDD with this information helps ensure that proper payments are made to the appropriate individual.

9. Identity Alert Process

EDD has always used various measures to ensure the true identity of a claimant for UI benefits. The UI Impostor Fraud Prevention was enhanced with the implementation of EDD's Identity Alert Process. The process, developed to reduce the risk of identity theft fraud, was implemented when employers and/or employers' payroll agents contacted EDD to report that their records containing confidential employee information had been compromised.

When a claim is initiated into the Identity Alert Process, no payments are issued until EDD obtains the information needed to validate the identity of the individual filing the UI claim. The UI Identity Regulations, pursuant to the California Code of Regulations, Title 22, Sections 1251-1 and 1326-2, allow EDD to require a claimant to provide identity verification documentation upon request.

For every staff dedicated to this function, there is an estimated corresponding savings to the UI Trust Fund of more than \$12.1 million. The tools utilized by EDD to specifically prevent UI impostor fraud include:

- Stopping benefit payments on active UI claims that are associated with compromised SSNs until the identity of the claimant is confirmed.
- Utilizing a variety of communication methods to provide information to all California employers on how to protect and properly destroy confidential personnel information and assist EDD in preventing UI fraud. This includes information in a tax publication titled the *California Employer's Guide*.
- Partnering with other states that have also experienced increases in UI impostor fraud. EDD continues to work closely with other states to identify common patterns and trends,

share anti-fraud processes, and resolve fraud cases where the parties have a connection to multiple states.

- Developing a toolkit for employers, as part of an ongoing public education campaign, that includes information on how they can prevent and detect UI fraud. Success in preventing, detecting, and deterring UI fraud is dependent upon a strong partnership with the employer community.

10. Mortality Data Cross-Match

The Mortality Data Cross-Match process matches UI claimant records with information from the Social Security Administration's Death Master File that EDD receives from the Department of Commerce National Technical Information Service on a monthly basis. Once the information is received, a thorough review of the information is conducted to identify individuals who continued to certify for UI benefits after they were reported to the Social Security Administration as deceased. By utilizing a cross-match between EDD's UI claimant data and the Death Master File, EDD is able to proactively detect and prevent UI fraud and improper benefit payments, protecting the UI Trust Fund.

Since the implementation of the Mortality Data Cross-Match process, the total cost avoidance is \$3,579,230 and the total amount of overpayments that have been established as a result of the cross-match is \$853,877. The total cost avoidance is the amount of benefits remaining on a claim when action is taken to prevent further payments from being issued to a claimant that was verified deceased. The overpayments assessed are very unlikely to be collected, however, they are a good measure of how quickly EDD is discovering the fraudulent activity through the Mortality Data Cross-match process. EDD is detecting it earlier and deterring future fraud.

11. California Department of Corrections and Rehabilitation Cross-Match

The California Department of Corrections and Rehabilitation (CDCR) Cross-Match allows EDD to check against incarceration data provided by the CDCR on a monthly basis. The agreement allows EDD to identify violations of the California Unemployment Insurance Code (CUIC). The cross-match allows for EDD to detect and deter unemployment fraud and properly adjudicate claims where a claimant may be incarcerated during the life of their claim.

12. Thomson Reuters Implementation/Pondera Cross-Match

EDD partnered with Pondera, a business unit within the Thomson Reuters' (TR) Government Division, which provides innovative solutions for the prevention and detection of improper payments and suspected fraud. In December 2020, all claims filed from January 1, 2020 forward were run through the TR fraud detection tools to identify whether claims had any potential fraud indicators. Claims with positive results for potential fraud were then flagged for either identity or other eligibility issues. After the initial run of claim review, EDD continues to put all claims through TR review to prevent payments to fraudsters.

13. Internal System Reports

These reports are generated daily to detect internal fraudulent activity by EDD employees. These reports identify instances when employees update a claimant's base wage file when there is not a current claim on the UI program's Single Client Data Base. A manager is responsible for performing

a full review of each item listed on the report to determine if the update to the base wage file was for a valid and necessary reason.

Technology Improvements

1. California Stopped Automatic Backdating of PUA Claims

EDD implemented the new PUA program on April 27, 2020 under the federal CARES Act in response to the COVID-19 pandemic. As authorized by the federal law, these claims were automatically backdated to the week in which claimants first became unemployed or partially unemployed as a result of one of the acceptable federal COVID-19 reasons, regardless of whether the claimant was able to demonstrate good cause for requesting a backdate of their claim.

In response to a surge in PUA claims, in September 2020, EDD ceased the automatic backdating of PUA claims. This proactive measure led to a significant reduction in the PUA claims, while also helping to prevent fraud. As required by the federal law, claimants are still allowed to have their claim backdated if they make a request through the phone or the AskEDD online message portal.

2. Benefit Programs Online Features

The Benefits Programs Online (BPO) system is a convenient and secure way for claimants to access EDD's online systems for State Disability (SDI) claims, Paid Family Leave (PFL) claims, UI claims, and Benefit Overpayment Services through a single sign-on. In April of 2019, EDD implemented the Completely Automated Public Test to Tell Computer and Humans Apart (reCAPTCHA) security check on the BPO log-in page to reduce the risk of online attacks from bots.

3. Benefit Overpayment Collection Automation Project

The Benefit Overpayment Collection Automation project (BOCA) was implemented in January 2019, which expanded the Accounting and Compliance Enterprise System, providing a robust, secure, and integrated automated collection system for overpayment liability collection, storage, and account management with added functionality, such as levy automation, increasing the overall effectiveness of the benefit overpayment collection program.

The BOCA system replaced the outdated Benefit Overpayment Collection System and has allowed EDD to utilize the advanced collection tools within the Accounting and Compliance Enterprise System. Automating the Benefit Overpayment Collection System increased the recovery of UI benefit overpayments thereby replenishing the UI Trust Fund and contributing to the overall fiscal stability of the UI Program.

The BOCA solution also provides improved access and additional services to claimants. These improved services help to reduce the time and effort required to interact with EDD, providing self-service options and alternative payment options such as Electronic Funds Transfers and automated correspondence letters. In addition, the new system searches the Financial Institution Record Match information and automatically issues bank levies, based upon established business rules. The issuance of bank levies is a new collection tool used for the collection of benefit overpayments.

Building upon BOCA, the Benefit Overpayment Services (BOS) expansion was implemented in August 2019, which allows claimants to pay by credit card, set up an installment agreement, and view their overpayment balance and corresponded letters. By simplifying the process and providing additional

options for repayment, EDD expects a positive impact on recouping overpayments and replenishing the UI Trust Fund.

4. Document Upload Project

In July 2020, the Document Upload Project kicked off to implement a new UI Online system functionality allowing claimants to upload required documents through their UI Online account for claims that have already been filed. The first phase began in September 2020 with Identity Verification (IDV) documents. The changes were marketed to UI customers on public web pages, through FAQs, social media posts, mailers, targeted emails, and SMS text messages, and a YouTube video was produced to help ease the customer transition when utilizing the new UI Online functionality. The positive effects are evident with the identity verification process which requires claimants to provide approved documents to verify their identity before allowing for payment of UI benefits. This enhancement reduces the overall processing time by enabling immediate submittal of identity documents to EDD.

5. Call Center Management Information System

EDD Call Center System has a management information system that reports call activity, enabling EDD to capture call history and call data for fraud detection and prevention. Additionally, the call center system has self-service Interactive Voice Response features, including the ability to certify for continued claims by phone via EDD Tele-CertSM. In April of 2020, EDD upgraded its call center systems to a Virtual Contact Center (VCC) platform that allows staff to answer calls from their home, adhering to social distancing mandates during the COVID-19 pandemic. Operating from 8:00 a.m. to 8:00 p.m. seven days a week, the VCC helps properly direct callers to the right resources and will provide callers with basic information about the status of their claim. Upgrading the UI Call Center System was crucial to EDD vastly strengthening its ability to support its claimants during the pandemic.

6. ID.me Implementation

While managing extraordinary workloads due to the effects of COVID-19, the UI system was faced with historically high levels of claims in the regular UI program while simultaneously implementing the temporary programs authorized by the CARES Act. As the size and scope of the UI program grew, fraud became more prevalent. In October 2020, EDD partnered with ID.me to implement their identity proofing and authentication platform used by various government agencies that helps expedite the process of verifying claimants' identities, reduce the build-up of claims requiring complex manual review, and prevent imposters from filing a claim online.

ID.me meets the United States government's most rigorous requirements for identity validation, stopping fraud attacks on the front end of the process and preventing the redirection of services away from deserving claimants. The ID.me tool is deployed before an individual is allowed to file a claim online for UI benefits and reduces the processing time to file valid UI claims because the identity issue has already been verified and resolved.

7. Unemployment Insurance Online Features

EDD's benefit payment system, UI Online, created self-service functions, increased fraud detection and prevention tools, improved program integrity, and built a more flexible and responsive infrastructure to operate the UI program. This automation system also enhanced EDD's anti-fraud components to ensure that benefits are paid properly and that employers'

reserve accounts are charged appropriately. With deployment of ID.me in October 2020 (see above), the UI Online self-services functions are available 24 hours per day. Previously, the UI Online system closed for several hours each night for connectivity to the Social Security Administration (SSA) systems. The SSA verification process is completed for applications not submitted through the UI Online channel.

Information Sharing and Marketing

1. Customer Account Number

EDD randomly assigns a 10-digit EDD Customer Account Numbers to claimants to use when registering for UI Online services. Notification of this number is mailed to claimants after they file a claim. The notification also promotes the use of UI Online and provides basic instructions on how to set-up an account. Claimants are able to use EDD Customer Account Number as an identification reference in place of their SSN, and the number is printed as a claimant identifier on certain EDD-issued documents.

EDD continually monitors its website for intrusion attempts and cyber-attacks, and responds to customers who report an issue with their account. Customers have access to a help desk and if there is a reasonable concern of account take over, EDD works to address the issue.

2. Fraud Prevention Campaign

To promote fraud awareness and encourage the proper reporting of work and wages, the ***EDD Fraud Prevention and Detection Activities Insert, DE 2361CS***, was mailed for one month during each calendar quarter during 2020. The insert details how EDD collects data from employers and the California Department of Child Support Services to identify claimants who are working and claiming UI benefits at the same time. The insert also provides tips and resources for customers to properly report work and wages and clearly explains the consequences when wages are misreported. These efforts continued at the same interval throughout the end of CY 2021.

During 2020, the [Help Fight Fraud](#) web page was expanded to include important public guidance for common fraud schemes during COVID-19, as well as to communicate enhancements to report fraud through AskEDD.

3. Employer Education

Employers play an important role in EDD's fraud prevention efforts. To educate employers, the ***How to Protect Your Business from Higher Unemployment Insurance (UI) Taxes*** video is available on EDD's website. This video focuses on preventing fraud by encouraging employers to immediately report all new hires and rehires to EDD. To further support these efforts, a corresponding web page and publication are also available to assist employers.

4. Continuous Public Outreach and Education Efforts

EDD will continue its ongoing efforts to educate claimants, staff, and employers about the impact of fraud on EDD benefit programs. These ongoing efforts include refreshed web content dedicated to fraud (prevention, detection, and prosecution), helpful videos for claimants on how to properly report their wages, and print publications to distribute during employer and community outreach events.

5. SMS Messaging

Since May 2020, EDD has sent out millions of SMS messages to English and Spanish-speaking claimants seven days a week to proactively notify claimants when their claim has reached certain steps in the claim cycle and informing them if further action is required for their claim to move forward. Ongoing messages currently invite customers to utilize UI Online and notify claimants after their claim is filed, when the first payment is processed, and if identity verification is required.

EDD issued warnings via different media outlets for Californians to be on alert for scammers who pretend to be EDD or Bank of America in an attempt to trick people into giving up personal information by text message. In particular, EDD noted that text messages asking people to reactivate a card by clicking a link are scams as Bank of America and EDD never text message people to reactivate a debit card.

6. Federal Subpoenas and Search Warrants

EDD works collaboratively with various law enforcement agencies across the nation to provide pertinent UI information requested to assist in investigating and prosecuting fraud related to UI. As new cases are established or current cases require additional information, the respective law enforcement agencies will send their subpoenas and search warrants to EDD for timely fulfillment. EDD will then coordinate with the responsible subject matter experts from each branch to provide the information and send the UI data utilizing secure and encrypted methods. During CY 2020 approximately 600 requests were fulfilled.

Unemployment Insurance Results and Accomplishments

The following table illustrates the UI program’s results and ID criminal case accomplishments for the last three years:

UI Program Results	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cases Under Investigation	\$44,336,788 140 cases	\$24,446,437 61 cases	\$167,880,922 392 Cases
Criminal Complaints Filed	\$838,788 12 cases	\$10,016,534 15 cases	\$1,784,406 13 cases
Completed Criminal Prosecutions	\$10,809,663 21 cases	\$3,025,631 10 cases	\$3,794,480 11 cases
Fraud Overpayments Established	\$123,763,546 110,007 OPs	\$116,808,262 109,976 OPs	\$59,181,845 60,510 OPs
Fraudulent Benefits Prevented By ID	\$4,461,182	\$7,421,483	\$61,767,134

The following information provides some of the highlights that resulted in the actions cited in the previous table regarding fraud in the UI program in CY 2020.

There were 392 ongoing and new UI fraud cases representing potential fraudulent benefit payments in the amount of \$167,880,922. Nine (9) aged cases had outstanding warrants (OSW) and are included in the initial case count total of 392; however, the aged cases with an OSW are not reflected in the active criminal investigation types below. The residual active 383 EDD ID cases have a presumptive fraudulent overpayment value of \$132,231,540 focused on the following case type categories:

- ✓ Impostor fraud/identity theft (221 cases representing \$70,680,567).
 - ✓ Incarceration (91 cases representing \$26,980,810).
 - ✓ Work and Earnings Violation – Working while certifying for benefits (30 cases representing \$622,601).
 - ✓ False wages (19 cases representing \$3,717,160).
 - ✓ The remaining 22 cases, representing \$30,230,402 include multiple SSNs used by one person, fictitious self-employment, and other miscellaneous violations.
- The ID filed 25 criminal complaints on 13 cases representing potential fraudulent benefits in the amount of \$1,784,406. During 2020, ID gave priority to investigating complex fraud cases involving the most egregious violations, identity theft and higher overpayments, many of the presumptive overpayment amounts have yet to be determined as investigations are still actively in progress.
 - The ID completed 11 criminal prosecutions representing fraudulent benefits in the amount of \$3,794,480. These completed prosecutions for CY 2020 included convictions for identity theft and imposter claims as well as work and earnings violations, one the most common reasons for improper payments.
 - The ID prevented the payment of \$61,767,134 in fraudulent benefits. This amount refers to remaining unpaid balances on the suspected claims that would have been paid had ID not taken preventive action.
 - Other violations on separate cases that were unsuitable for prosecution were referred to the UI Branch for assessment of administrative penalties and collection of overpayments. These violations were determined to be unsuitable for prosecution based on the amount of overpayment, number of weeks of violation, unavailability of witnesses and records, and other mitigating factors identified by prosecuting authorities. These violations included individual suspects who failed to report work and earnings while certifying for benefits, filed claims with stolen identity, employer collusion with employees, and altered or forged documents.
 - In compliance with California regulations, UI program staff imposed disqualifications and overpayments on 75,862 cases totaling an additional \$33 million in non-fraud overpayments. The disqualifications and overpayments were imposed when claimants failed to comply with EDD's request for identity verification information and there was insufficient information to determine the claim as legitimate to the social security number true owner's identity.
 - In September 2014, EDD implemented the Treasury Offset Program administered by the Bureau of Fiscal Service in the US Department of Treasury. The Treasury Offset Program allows states to collect delinquent state UI benefit overpayment liabilities from claimants by offsetting their

federal income tax refunds. In CY 2020, EDD collected approximately \$56.9 million in Treasury Offset Program overpayment liabilities. This total includes approximately \$32.9 million in actual benefit overpayments, \$9.9 million in interest, \$11.1 million in penalties, and \$3.0 million in court costs.

Administrative Fraud Overpayments

The following provides additional information regarding UI fraud prevention and detection results related to overpayments established on regular UI claims (claims based on prior wages):

- The UI program staff in the Integrity Accounting Division established over 60,510 fraud overpayments totaling \$59.2 million in CY 2020 for regular UI program benefits.

Out of the total 60,510 fraud overpayments established, over 37,393 (nearly 62%), were a result of three specific systems: the benefit audit cross-match, the New Employee Registry cross-match, and the interstate cross-match processes. These overpayments totaled over \$32.3 million.

The following chart provides the number and dollar amount of fraud overpayments detected using the three data cross-match tools:

Method of Detection	Fraud Overpayments Established	
	Number	Dollars
Benefit Audit Cross-Match	17,967	\$19,247,989
New Employee Registry Cross-Match	186	\$360,577
Interstate Benefit Cross-Match	19,240	\$12,655,176
Total	37,393	\$32,263,742

- Because the New Employee Registry cross-match allows EDD to detect fraud and other eligibility issues up to six months earlier than through the benefit audit process, the average amount of overpayment is \$658 compared to \$1,071 for a benefit audit overpayment, a variance of \$413.

This is an average savings, or benefit overpayment avoidance, of \$7.9 million annually. Based on findings through the Benefit Accuracy Measurement system, the top two leading causes of fraud overpayments are unreported work and earnings during the biweekly benefit certification and misreported separation information at the claim filing point.

- The UI program staff established fraud overpayments on 80 cases of identity theft totaling \$237,687.
- The additional 23,000 fraud overpayments not attributed to the Benefit Audit or New Employee Registry cross-match system or identity theft totaled approximately \$26.7 million. These overpayments were established for a variety of reasons including retroactive

disqualifications of miscellaneous eligibility issues and unreported work and earnings that were not discovered through the Benefit Audit crossmatch system.

Future Unemployment Insurance Program Enhancements

EDD continues to monitor, research, and investigate systems and activities in order to detect and prevent fraud within the UI program. The following describes fraud detection and prevention system enhancements to the UI program that are currently being developed:

1. State Information Data Exchange System Enhancements

The SIDES, originally implemented in 2015 and enhanced in 2016, reduces errors, common with paper forms, and provides employers with a standardized format to ensure that separation information is communicated to EDD. The Department is focusing efforts towards marketing the many benefits of SIDES to encourage business participation. It continues to explore different marketing strategies to reach a larger audience. It is EDD's objective to increase participation and usage of SIDES in the business community to maximize the number of electronic communications received by employers.

2. Thomson Reuters (TR)

Thomson Reuter's (TR) utilizes Pondera Analytics, now a business unit within the Thomson Reuters' (TR) Government Division. EDD continues to identify collaborative strategies and incorporate additional TR innovative solutions to enhance front end prevention and detection of improper payments and suspected fraud.

3. Benefit Systems Modernization

This effort will consist of a full replacement of the UI and DI and PFL legacy benefit systems. This will be a modern, stable, and fully automated system for EDD's benefit programs. It is anticipated that this system will have data analytics and other fraud prevention and detection tools. The ultimate goal of this effort is to ensure EDD can pay benefits timely and accurately, while protecting EDD's benefit programs against any potential fraud. On September 16, 2020, the Governor's Strike Team issued a recommendation for EDD to immediately "pause" and redirect any staff from the Benefit Systems Modernization (BSM) back to their previous roles, and once the backlog was eliminated, restart the BSM project with a different approach. In May 2021, EDD re-engaged in the BSM in what is now the Re-Imagining BSM (RBSM) which seeks to implement new customer-centric processes, leverage new technologies, and create a modular approach to focus on customer experience.

4. Fraud Special Counsel

In a major step toward prosecuting those who defrauded California's unemployment benefit program in 2020, EDD and the California CalOES Fraud Task Force announced that former United States Attorney McGregor W. Scott would assist state investigators to ramp up statewide efforts to hold those who committed crimes accountable. Scott will serve as Fraud Special Counsel to aid the state's work with law enforcement to combat fraud, including supporting the state, federal, and local efforts to prosecute suspected criminal activity.

State Disability Insurance Program

The State Disability Insurance (SDI) Program includes two benefits: the Disability Insurance (DI) and the Paid Family Leave (PFL) programs. The DI benefits provide partial wage replacement for eligible
Employment Development Department

California workers who are unable to work due to illness, injury, or pregnancy. Workers covered under SDI are potentially eligible for PFL benefits when they are unable to work because of the need to care for a seriously ill child, parent, spouse, registered domestic partner, parent-in-law, grandparent, grandchild, or sibling, or to bond with a new minor child within the first year of birth or placement by an adoption or foster care agency.

The following are some program highlights for CY 2020:

State Disability Insurance	Claims Processed	Benefits Paid
DI program	718,120	\$7.6 Billion
PFL program	288,778	\$1.2 Billion

EDD monitors, researches, and identifies new systems and activities to detect and prevent fraud, and improve benefit payment accuracy in the SDI program. The SDI Program Integrity Unit oversees, coordinates, and conducts various staff education efforts and investigative activities involving suspicious claims in the SDI offices.

The unit staff complete in-depth data analysis of various reports and develop procedures and forms to enhance program integrity efforts. The DI Branch staff work closely with EDD’s Investigation Division (ID) criminal investigators to combat fraud in the SDI programs.

Primary SDI fraud deterrence and detection tools include a number of different tactics such as key notifications to claimants, data sharing with key partners, conducting systematic reviews, training and outreach, etc.

Claimant Interactions

1. Claimant Notification

This notification provides claimants the legal consequences for willfully making a false statement or knowingly concealing a material fact in order to obtain benefits. This notification is provided on the claim form declaration statement and is signed by the claimant when applying for benefits. This notification is also presented to be acknowledged by the claimant when applying for benefits through SDI Online.

2. Address Integrity

This is a component of SDI Online that ensures only the rightful owner of the claim makes a change of address to a claim. As a security and fraud detection measure, a letter is sent to the prior address to notify the claimant when the SDI program receives a request for a change of address.

3. Identity Management Software

This software authenticates and authorizes external users (customers) who set up external user accounts. The system creates an online profile for each external user and will encrypt and store the user identification/password, profiles, and credentials in an enterprise Identity Management System. The system validates and authenticates external users’ logon credentials and allows authenticated users to access system functionality and improve SDI staff’s ability to detect fraud.

4. In-Office Eligibility Review Process

This process permits EDD to require claimants suspected of fraud, who are currently receiving benefits, to submit to an in-person interview before a decision is made regarding their continued eligibility to receive benefits. During CY 2020 due to the pandemic, in-person interviews were suspended and were conducted by phone. The process provides the claimant with a fair and equitable opportunity to be heard in person and enables EDD to gather additional information before making its decision. Regulations provide precise time frames and procedures for conducting interviews to ensure claimant's rights to due process are protected.

5. Protection of Claimant's Social Security Number

EDD continues to identify ways to remove, truncate, or obfuscate claimant SSNs on mailed correspondence and increase the availability of forms online.

6. Electronic Benefit Payment Process

The electronic benefit payment process allows EDD to pay claimants using debit cards or direct deposit transfer options, providing claimants immediate access to their benefits and eliminating fraud associated with theft or loss of paper checks.

7. Identity Alert Procedures

These procedures instruct staff assigned to process DI and PFL claims on how to verify a claimant's identity when an SSN has been reported as being compromised. Staff will conduct an in-depth review to ensure the claimant is the true wage earner before allowing benefits to be paid.

8. Password Reset Process

EDD launched Benefit Programs Online (BPO), a single login that EDD customers use to access SDI Online and UI Online, on October 16, 2017. It included a new password reset process utilizing a unique "Reset Password" link. The link is sent directly to the user's registered email address to deter potential imposter fraud and to ensure the payment of benefits to the appropriate person. In 2020, the BPO was updated to prevent known identified fraudulent email domains from being used to register an account with EDD.

9. Using Business Logic

With the implementation of SDI Online, the DI Branch identifies and addresses fraud and abuse through automated programs and business logic. The DI Branch continues to develop new reports, automated detection and prevention measures to combat fraud and abuse.

Data Sharing

1. Department of Motor Vehicles Interface

This data interface with Department of Motor Vehicles records helps the DI Branch to verify the identity of SDI Online claimants and medical providers.

2. New Employee Registry Benefit Cross-Match

EDD uses a new hire interface to validate new hires are not collecting benefits when they have returned to work. This interface also allows identification of overpayments established against new hires.

3. Unemployment Insurance/Disability Insurance Overlap Flags

These flags automatically stop payments on DI and PFL claims when a prior UI claim period overlaps the dates that DI benefits are claimed. The DI and PFL staff then block the overlapping period pending an eligibility determination, thereby preventing potentially improper payments.

Medical Providers

1. Independent Medical Examinations

These examinations provide EDD with a second medical opinion regarding the claimant's ability to perform their regular or customary work when the period of disability allowed by the treating physician or practitioner exceeds the normal expected duration for that diagnosis. Photo identification is required to verify the identity of the claimant appearing for the examination.

The Independent Medical Examinations (IME) are used to validate the treating physician's diagnosis and prognosis, and as a means of controlling the duration of claims. The IMEs are also a useful tool in curtailing the loss of benefits for valid claims that are suspected of fraud or abuse.

As a result of the IME suspension due to the Coronavirus Pandemic, the IME data previously reported in the Annual Fraud Report was not obtained and recorded during CY 2020.

2. Automated Tolerance Indicators

These indicators (flags) are associated with the certifying healthcare providers' license number and assist staff to identify and track claims on which fraud or abuse is suspected or has previously been detected. They also alert staff to refer to special instructions created to assist in the adjudication and payment of these claims.

3. Doctor Activity Tracking System

This system tracks the status of investigations involving potential doctor or doctor impostor fraud cases. The system ensures that appropriate follow up occurs; and documents and evaluates accomplishments.

4. Department of Consumer Affairs Notifications

These notifications identify medical practitioners whose licenses have been revoked or suspended. The information provided by the following medical practitioner boards, helps ensure claims are not certified by improperly licensed medical practitioners and alerts EDD to potential fraud.

- ✓ Medical Board of California
- ✓ Board of Chiropractic Examiners
- ✓ Board of Optometry
- ✓ Board of Podiatric Medicine
- ✓ Board of Psychology
- ✓ Board of Registered Nursing
- ✓ Dental Board of California
- ✓ Osteopathic Medical Board of California
- ✓ Physician Assistant Board

Reviews and Reports

1. Monthly Doctor Activity Report

This report provides a list of the top doctors certifying the highest total amount of benefits. This automated monthly report enables staff to identify significant changes in claims activity and/or filing patterns, which may be indicators of fraud.

2. State Disability Insurance Online Security Features

These security features provide physicians and medical practitioners the ability to certify DI and PFL claims through secure electronic channels. These channels reduce the risk of losing confidential information in the mail and reduces exposure for misuse.

3. Decedent Cross-Match Reports

These reports check the SSNs of all claimants against SSNs of individuals reported as deceased nationwide. This report enables the DI Branch to identify and recover benefits paid subsequent to the date of death. In CY 2020, of the 1,152 Decedent Cross-Match Reports received, 1,144 (99.31 percent) required no further action; 8 (.69 percent) required additional action with potential overpayment of \$420,676.48 and one was submitted to ID for further investigation.

4. Automated Detection Reports

These reports are developed collaboratively with ID's Criminal Intelligence Unit and the DI Program Integrity Unit, and permit staff to detect unusual patterns of activity in the SDI benefit payment system involving addresses, issuance of multiple payments, and multiple claims filed by the same claimant within a specified period of time.

5. Address and Phone Number Pattern Reports

These reports help identify other DI claims with the same address and/or phone number as the claimant, medical practitioner, and/or employer. Analysis of the claims listed on the report may lead to discovery of fraudulent claims or program abuse.

6. Employer Pattern Reports

These reports also help identify other DI claims having the same employer. Analysis of the claims listed on the report may lead to discovery of fraudulent claims or program abuse.

7. User Pattern Reports

These reports identify SDI Online claims processed by a specific user or DI staff. Analysis of the claims listed on the report may lead to discovery of internal fraud.

Training and Outreach

1. Program Integrity Training

This training is provided to heighten staff awareness and develop capacity to detect and deter fraud and abuse in the SDI program. This is provided to newly hired DI Program Representatives via the 15-Week New Hire Training.

2. Medical Training

This training, provided to field office staff, includes a comprehensive Adobe presentation of medical

information and case study training intended to educate and enhance staff's knowledge of medical conditions and medical terminology. This training allows the staff to communicate more effectively with physicians/practitioners when discussing and obtaining additional medical information regarding a SDI claim. Medical terminology training provides staff with a better understanding of a diagnosis and assists in determining the severity and expected length of a disability as well as the appropriate action to control claim duration or potential abuse of the program. This is provided to newly hired DI Program Representatives via the 15-Week New Hire Training.

3. Information Security and Privacy Awareness Training

This training module is designed by the Information Security Office (ISO) to help educate all users of EDD data about basic security threats and vulnerabilities, as well as responsibilities regarding the protection of the confidentiality, integrity, and availability of EDD information and information assets. This is provided via EDD University in conjunction with ISO and is managed and tracked by EDD Learning Management System.

4. Impostor Fraud Training

Impostor fraud is defined as someone who represents themselves as another to obtain a benefit. This training provides resources to identify abusive or fraudulent activity. The impostor is generally assuming the identity of another to collect benefits to which they are not legally entitled.

This training is provided to newly hired DI Program Representatives via the 15-Week New Hire Training. In addition, trainers are instructed to review Disability Insurance Policy and Procedures Manual (DIPPM) Section 700 Program Integrity (PI) training which also has instructions on processing claims with claimant identity issues, claims involving deceased claimants, impostor allegations and anonymous tips.

5. Education and Outreach to Stakeholders

The Disability Insurance Branch's Outreach Development Section (ODS) educates and provides outreach to the California medical and employer communities. This section is comprised of two Outreach Units, the Education and Outreach Unit (EOU) and the Paid Family Leave Outreach Unit (PFLOU). The EOU attends conferences and provides a general overview of the State Disability Insurance (SDI) program via webinar to physicians, employers, and claimants. The PFLOU educates and creates partnerships with stakeholders (e.g. hospitals, medical providers, employers, and community groups) in all 58 California counties.

6. Birth Certificate Requirement for Paid Family Leave Bonding Claims

For bonding claims in which no medical substantiation is required, claimants must submit a birth certificate, adoption placement, Declaration of Paternity, or foster care certification to verify the relationship.

7. Digitizing Claim Documents for Paid Family Leave Claims

The PFL automated system includes a scanning process that digitizes all claim documents. To assist in detecting possible forgeries, claims examiners are able to compare current signatures of claimants and physicians on these documents with documents submitted previously by the same claimant and/or physicians.

State Disability Insurance Results and Accomplishments

The following table illustrates the SDI program's dollar value and case number results for the last

three years:

SDI Program Results	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cases Under Investigation	\$10,852,407 140 cases	\$34,280,502 120 cases	\$36,986,976 125 cases
Criminal Complaints Filed	\$5,032,778 16 cases	\$12,090,967 15 cases	\$5,344,424 10 cases
Completed Criminal Prosecutions	\$1,686,689 19 cases	\$2,620,779 6 cases	\$2,580,088 7 Cases
Fraud Overpayments Established	\$8,568,54 70 OPs	\$11,047,380 826 OPs	\$6,057,523 504 OPs
Fraudulent Benefits Prevented By ID	\$2,687,214	\$2,918,933	\$1,187,205

The following provides more detailed information on the actions cited in the previous table regarding cases under investigation in the SDI program in CY 2020.

- There were 125 open and active criminal cases potentially representing \$36,986,976. Ten (10) aged cases had outstanding warrants for arrest. The remaining 115 cases with value of \$36,620,783. These investigations focused on the following case types:
 - Impostor fraud/identity theft and DI/PFL claim take over (21 cases representing \$10,292,163).
 - Altered or forged documents (22 cases representing \$4,209,254).
 - Medical practitioner fraud (6 cases representing \$18,262,623).
 - Working while certifying for benefits (52 cases representing \$2,306,269).
 - The remaining 14 cases, representing \$1,550,474, included fictitious employer registrations on which fraudulent claims were based, false injury certified by claimant, multiple social security numbers used by an individual and other miscellaneous violations.
- The ID filed 16 criminal complaints on 10 cases representing potential fraudulent benefits in the amount of \$5,344,424. The ID has continued its emphasis on the more complex fraud cases such as impostor/identity theft that take longer to investigate.
- The ID completed 7 criminal prosecutions representing fraudulent benefits in the amount of \$2,580,088. These completed prosecutions primarily involved altered and forged medical records, counterfeit checks, impostors, and working while certifying for benefits.

Both DI and PFL staff established a cumulative total of 504 fraud overpayments in the amount of \$6,057,523.

- The DI program established 249 fraud overpayments totaling \$3,265,730 on claims associated with claimants who were prosecuted.
- The PFL program established 12 fraud overpayments totaling \$69,494 on claims associated with claimants who were prosecuted.
- The DI program established 232 fraud overpayments not attributed to prosecutions.

These overpayments, totaling \$2,684,241 were the result of administrative actions applied by DI staff, such as false statement overpayments.

- The PFL program established 11 fraud overpayments not attributed to prosecutions. These overpayments, totaling \$38,058 were the result of administrative actions applied by PFL staff, such as false statement overpayments.

Anti-fraud efforts stopped \$7,311,884 in fraudulent SDI benefits from being paid. Of this total, \$6,124,679 is attributable to the SDI programs' anti-fraud efforts. Those efforts include, but are not limited to: IMEs, verification of SSN ownership with deletion of improper base period wages, and referrals to ID resulting in convictions or administrative actions. Payments of approximately \$1,187,205 in fraudulent benefits were prevented through ID's ongoing investigations of identity theft, forgeries, and medical practitioner fraud.

During 2020, there were 153 medical providers who certified to an unusually high number of claims. A review concluded 41 medical providers' certification were justified and no fraud or abuse was detected. Of the remaining 112 medical provider certifications, two doctors are under investigation by ID and have a tolerance indicator. The remaining 110 medical providers are pending further evaluation by staff.

Future State Disability Insurance Program Enhancements

As the SDI program continues to use an electronic web-based application for delivery services to its clients, the need to maintain the security and integrity of the program is a high priority. The following describes fraud detection and prevention system enhancements to the SDI program currently under development:

1. Benefit Systems Modernization

The Benefit Systems Modernization (BSM) project creates a single portal integrating the UI, DI, PFL and Tax programs. The system will include data analytics and other fraud prevention and detection tools. The goal of BSM is to modernize EDD's benefit systems by implementing a single, integrated benefit system that provides customers and staff a consistent, single portal into EDD's services while providing a more agile and responsive benefit system with overall lower maintenance costs that also protects the benefit programs against potential fraud. On September 16, 2020, the Governor's Strike Team issued a recommendation for EDD to immediately "pause" and redirect any staff from the Benefit Systems Modernization (BSM) back to their previous roles, and once the backlog was eliminated, restart the BSM project with a different approach. In May 2021, EDD re-engaged in the BSM in what is now the Re-Imagining BSM (RBSM) which seeks to implement new customer-centric processes, leverage new technologies, and create a modular approach to focus on customer experience.

2. Fraud Enhancement Project

The project goal is to develop a DI Branch fraud policy and improved strategies and tactics to deter fraud through automation early in claim processing. The project focuses on enhancing fraud prevention and identification to limit risk of the DI program and fund. It re-defines roles of the DI Branch management and staff have in deterring fraud. It streamlines fraud business processes for enhanced customer experience.

Employment Tax Program

One of the largest tax collection agencies in the nation, EDD's Tax Branch is responsible for administering the state's Employment Tax program. With this responsibility, the Tax Branch handles all administrative, education, customer service, and enforcement functions for the audit and collection of employer-paid UI and Employment Training Taxes, and DI and Personal Income Tax (PIT) withholdings paid by employees. The Tax Branch also processes quarterly wage reports from the state's more than 1.5 million employers, accounting for more than 18.9 million workers. Collecting almost 50 percent of the state's General Fund, the Tax Branch collects \$88.6 billion in taxes and contributions.

The Tax Branch ensures the integrity of the Employment Tax Program by collaborating with our customers to provide efficient, responsive, and innovative services. EDD is committed to reducing unfair business competition and protecting the rights of workers by coordinating the joint enforcement of tax, labor, and licensing laws; detecting and deterring employment tax violations in the underground economy; and educating customers to increase compliance with tax laws. EDD has staff presence throughout the state and also conducts out-of-state audits to provide education, assistance, and enforcement. The Tax Branch takes a strategic approach to combating the underground economy which includes education and outreach, administrative enforcement, and criminal prosecution.

In 2020, the State of California experienced unprecedented challenges due to the COVID-19 pandemic. In response to the outbreak, the Tax Branch adjusted its operations to provide mission critical functions and essential services to the people of California, while complying with stay-at-home directives from the state to protect the health of employees and customers during the crisis.

Education and Outreach

The Tax Branch has a variety of methods for outreach and education accessible to employers, employees, tax professionals, business groups, and the general public to promote voluntary compliance. The education and methods used to distribute information include publications, online and in-person seminars, community outreach, social media, and websites.

EDD conducts various in-person payroll tax seminars, available at no cost including co-presented joint seminars such as EDD/Internal Revenue Service (IRS) payroll tax, EDD/Department of Industrial Relations (DIR) labor law and payroll tax seminars, etc. EDD's outreach efforts also include providing special presentations and participating in information booths at events sponsored by entities such as payroll associations, industry groups, non-profit organizations, and other governmental entities. In 2020, as a result of the COVID-19 pandemic, EDD converted all in-person seminars to webinars. EDD conducted 118 outreach events with 5,446 attendees. EDD continues to look for innovative ways to expand its education and outreach efforts. For example, EDD utilizes social media such as Facebook and Twitter to reach employers and more of the general public.

Administrative

The Tax Branch uses administrative enforcement activities such as site inspections, audits, and involuntary collection of amounts due to address noncompliance. Data and information are shared with various governmental agencies where permitted, to maximize enforcement results. The Tax Branch's Collection Program administers the employment tax collection and benefit overpayment collection programs, where it ensures that employers promptly and

accurately report data and pay tax liabilities necessary to support services and benefits provided by the UI, DI, Employment Training Tax, and Personal Income Tax withholding programs. It also collects UI and DI benefit overpayments which are a major source of income for the UI and DI funds that are used to pay future benefits. The Collection Division Field Operations program works on complex accounts involving the most flagrant and egregious employers engaged in underground economy activities and asset deception; UI rate manipulation (state unemployment tax avoidance schemes); and employers penalized due to fraud or intent to evade.

In response to the State of Emergency guidelines for COVID-19 issued on March 4, 2020, the Tax Branch temporarily suspended all field enforcement activities starting in late March of 2020 to ensure the safety of its employees and customers. The suspension remained in effect through the end of the year. As EDD navigated the changing tides posed by the pandemic, the safety and health of its employees and customers remained a top priority.

California, as well as other states, were inundated in 2020 with an unprecedented number of UI benefit claims due to the COVID-19 pandemic. For context, in one three-week period, California received more claims for UI benefits than it had in all of the prior calendar year. With the UI benefit claim workload being a top priority for EDD, the concerted efforts to address this workload demand included an all-hands on deck approach and staff redirection, including Tax Branch staff. The Tax Branch's Audit Program redirected audit staff to focus on processing the influx of obstructed claims¹. The Tax Branch's Collection Program redirected collection staff to focus on Identity Verification and UI Contact Center workloads. The objective of these efforts was to ensure that California workers received the unemployment benefits to which they were entitled.

Due to the prioritization of workloads and the redirection of staff as a result of the COVID-19 pandemic, the operational results for the normal Tax Branch workloads were greatly impacted for the calendar year 2020.

Criminal Prosecutions

EDD's Tax Branch, ID, and local District Attorneys leverage resources, share best practices, and work together to combat the underground economy. The ID has a specialized Law Enforcement Unit that investigates criminal violations of the CUIC, the California Penal Code (PC), and the United States Code for federal prosecution. They conduct criminal investigations involving employer collusion in the underground economy, employer failure to register and report wages paid to employees, and collaborate on workers' compensation insurance investigations related to state payroll tax violations. EDD works with prosecutors and local District Attorneys to convict individuals who commit employment tax fraud. The conviction itself and the collection of the tax liabilities play an integral part in deterring the underground economy.

¹ A benefit claim becomes "obstructed" when a worker files a claim for benefits but the hiring entity considers the worker an independent contractor and not an employee and fails to report or under-report the worker's wages to EDD.

EDD monitors if the convicted party made restitution and is still on active probation. The conviction itself and the collection of the tax liabilities play an integral part in deterring the underground economy.

The following are some Tax Branch specific efforts in combating the underground economy:

1. Tax Audit Program

In 2020, this program conducted 2,097 audits and investigations, resulting in assessments totaling \$74,513,080 and identified 31,287 unreported employees. The 2,097 EDD payroll tax audits and investigations completed were comprised of 1,928 audits and 169 investigations; of the \$74,513,080 in EDD payroll tax assessments, \$53,971,682 were the result of audits and \$20,541,398 were the result of investigations; of the 31,287 previously unreported employees, 26,820 were the result of audits and 4,467 were the result of investigations.

2. Compliance Development Operations

The Compliance Development Operations (CDO) is a program within EDD's Tax Branch whose functions include conducting on-site business inspections as part of Joint Enforcement Strike Force (JESF) and Labor Enforcement Task Force (LETF) operations and screening allegations received from task force partners to determine suitability for on-site inspections. In addition, the CDO captures allegations of non-compliance submitted through the Payroll Tax Fraud Hotline (1-800-528-1783), correspondence, fax, and online Fraud Reporting form and electronic mail. The allegations are screened and referred for inspection or audit.

- **Joint Enforcement Strike Force**

The JESF was established in October 1993, by Executive Order W-66-93, to combat the underground economy by pooling resources and sharing data among the state agencies charged with enforcing licensing, labor, and payroll tax laws. On January 1, 1995, Section 329 was added to the CUIIC, which placed the provisions of the Executive Order into law. EDD is the lead agency for the JESF. The JESF is responsible for enhancing the development and sharing of information necessary to combat the underground economy, to improve the coordination of enforcement activities, and to develop methods to pool, focus, and target enforcement resources.

The JESF is empowered and authorized to form joint enforcement teams, when appropriate, to utilize the collective investigative and enforcement capabilities of the JESF partners. The partners include, but are not limited to:

- ✓ Employment Development Department
- ✓ Department of Industrial Relations
- ✓ Department of Consumer Affairs - Contractors State License Board, Bureau of Automotive Repair, and Bureau of Security Investigative Services
- ✓ California Department of Insurance
- ✓ California Department of Justice
- ✓ Franchise Tax Board
- ✓ California Department of Tax and Fee Administration (formerly Board of Equalization)
- ✓ California Labor and Workforce Development Agency

- ✓ Alcoholic Beverage Control
- ✓ Internal Revenue Service
- ✓ US Department of Labor
- ✓ District Attorneys throughout California
- ✓ Local law enforcement

EDD's administrative enforcement efforts undertaken by JESF to combat the underground economy include:

- Conducting unannounced site inspections to identify employers operating in the underground economy. The goal is to identify and bring into compliance individuals and businesses in the underground economy that are in violation of payroll tax, labor, and licensing laws.
- Utilizing various databases, income tax return analysis, along with informant information, to conduct in-depth investigations of employers suspected of operating in the underground economy. When noncompliance is detected, the case is referred to EDD's Audit Program.
- Collaborating efforts between EDD and the IRS to allow for an exchange of case information regarding unreported wages and/or misclassified workers. This multiagency compliance approach presents a united effort to taxpayers and their representatives that both the federal and state agencies work together to enforce tax laws.
- Targeting of industries known for high levels of noncompliance with licensing, labor, and payroll tax laws.
- Pursuing administrative actions to address employer noncompliance detected via the JESF's efforts, or for cases warranting criminal investigation, ID's Criminal Tax Enforcement Program works with law enforcement agencies and JESF partner agencies to identify and prosecute those responsible for the criminal activities.

- **Labor Enforcement Task Force**

The LETF was initially formed in 2005 as the Economic and Employment Enforcement Coalition and began operating as LETF in January of 2012. The LETF is responsible for ensuring that California workers receive proper payment of wages and are provided a safe work environment, ensuring that California receives all employment taxes, fees, and penalties due from employers, eliminating unfair business competition by leveling the playing field, and making efficient use of state and federal resources in carrying out its mission.

The Department of Industrial Relations leads this multi-agency coalition. The LETF partners include:

- ✓ Department of Industrial Relations
- ✓ Employment Development Department
- ✓ Department of Consumer Affairs – Contractors State License Board, and Bureau of

Automotive Repair

- ✓ California Department of Tax and Fee Administration
- ✓ California Department of Insurance
- ✓ State Attorney General
- ✓ District Attorneys throughout California

Compliance Development Operations and Related Audit and Investigation Results

The following table illustrates the CDO’s cumulative JESF/LETF activities and results of related follow-up audits and investigations for the last three years:

CDO JESF/LETF Cumulative Lead Development Activities and Results*	<u>2018</u>	<u>2019</u>	<u>2020</u>
Joint Inspections	1,442	1,448	333
EDD Audit Referrals	993	916	413
EDD Payroll Tax Audits	1,026	937	252
EDD Payroll Tax Assessments	\$46,293,424	\$37,167,357	\$12,696,520
Assessed Amounts Collected To-Date*	\$8,072,028	\$5,385,019	\$804,975
Previously Unreported Employees	13,572	10,572	2,537
Cases w/Fraud Penalty Assessed	31	19	1
Assessments on Fraud Cases	\$4,318,430	\$1,913,115	\$46,239
Fraud Assessed Amounts Collected To-Date*	\$516,872	\$382,980	\$0

*These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2018 and 2019 include funds collected after 2019 which is why the totals are greater from what was reported in the 2019 report.

Non-CDO Audit and Investigation Results

The following table illustrates the results of additional audits and investigations in which the Audit Program found fraud on cases that were initiated from non-CDO leads for the last three years:

Fraud Audit and Investigation Results From Non-CDO Leads	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cases w/Fraud Penalty Assessed	50	44	16
Previously Unreported Employees	8,131	3,566	2,120
Assessments on Fraud Cases	\$20,554,351	\$17,776,273	\$8,682,585
Fraud Assessed Amounts Collected To-Date*	\$1,088,975	\$411,097	\$7,374

*These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2018 and 2019 include funds collected after 2019 which is why the totals are greater from what was reported in the 2019 report.

The Field Audit and Compliance Division’s Central Office staff conducts follow-up work on informant allegations of non-compliance received by CDO’s Complex Case Group when the circumstances or

information received does not warrant a site inspection. They conduct desk reviews of the businesses using various databases and income tax return analysis to detect non-compliance and fraud. They forward their reports to the Audit Program for follow-up when the likelihood of non-compliance is high.

The following table illustrates the results from these cases for the last three years:

Desk Investigation Results	<u>2018</u>	<u>2019</u>	<u>2020</u>
EDD Audit Referrals	47	36	14
EDD Payroll Tax Audits	41	28	5
EDD Payroll Tax Assessments	\$6,425,646	\$1,261,865	\$1,026,721
Previously Unreported Employees	1,252	643	168
Assessed Amounts Collected To-Date*	\$696,413	\$166,078	\$16,965

*These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2018 and 2019 include funds collected after 2019 which is why the totals are greater from what was reported in the 2019 report.

EDD’s Complex Case Group receives allegations of noncompliance by several methods. The following table provides a breakdown of the number of contacts received by each method in 2018, 2019, and 2020:

Number of Contacts Received and Processed	<u>2018</u>	<u>2019</u>	<u>2020</u>
Telephone Call to Payroll Tax Fraud Hotline*	1,764	2,537	6,674
Online Submission (EDD Website or Email)	1,058	2,338	7,852
Correspondence (Fax or Mail)	122	117	65
Total	2,944	4,992	14,591

*The name of the Underground Economy Hotline was changed to the Payroll Tax Fraud Hotline in 2018.

Of the 14,591 overall contacts in 2020:

- 1,187 were allegations of potential payroll tax violations.
- 2,023 calls and emails were received with reports of potential UI benefit fraud schemes. These reports were promptly screened and forwarded to EDD program integrity analysts in the UI Branch and the Investigation Division (ID) for further investigation.
- 3,084 contacts inquiring about UI and/or Pandemic Unemployment Assistance claims were provided to the UI Branch for review.
- 8,297 contacts were either requests for general information or inquiries that were intended for other agencies. The misrouted items were forwarded to the appropriate agency contacts for review and action, as appropriate.

The following are the out-of-state audit results for the last three years:

Out-Of-State Audits Completed	<u>2018</u>	<u>2019</u>	<u>2020</u>
EDD Payroll Tax Audits	242	207	43
EDD Payroll Tax Assessments	\$7,982,173	\$9,209,014	\$1,069,733

Average Liability Change	\$32,984	\$44,488	\$24,878
Unreported Employees	7,351	10,101	3,170
Assessed Amounts Collected To-Date*	\$2,940,390	\$2,069,940	\$243,466

*These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2018 and 2019 include funds collected after 2019 which is why the total for 2019 is greater from what was reported in the 2019 report. The amount for 2018 is less than what was reported in 2019 due to an adjustment made to the original assessment. A portion of one of the payments received was refunded and this resulted in a net decrease in the amount collected to-date on the 2018 out-of-state audit assessments.

The Questionable Employment Tax Practices Program (QETP) was initiated in 2007 as a collaborative effort between EDD and the IRS. A Memorandum of Understanding was created to allow for exchange of case information. These cases are excellent audit leads for EDD since the employers in these cases concurred with the IRS findings regarding unreported wages and/or misclassified workers.

The following table illustrates the results of the QETP Program for the last three years:

QETP Results from IRS Leads	<u>2018</u>	<u>2019</u>	<u>2020</u>
EDD Payroll Tax Audits	37	43	8
EDD Payroll Tax Assessments	\$2,127,091	\$2,288,127	\$418,948
Average Liability Change	\$57,489	\$53,212	\$52,369
Previously Unreported Employees	866	398	207
Assessed amounts Collected To-Date*	\$469,103	\$200,797	\$85,146
Cases w/Fraud Penalty Assessed	0	0	0

*These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2018 and 2019 include funds collected after 2019 which is why the totals are greater from what was reported in the 2019 report.

The table below illustrates the Tax Branch’s workload accomplishments in this area for the last three years. The number of CUIC Section 1061 payroll tax investigations completed increased significantly in 2019 due to efficiencies gained by centralizing this workload. The number of Section 1061 investigations decreased significantly in 2020 due to staff being redirected to assist with the record volume of UI claim work caused by the pandemic.

Results – Experience Rating Exploitation			
Calendar Year	<u>2018</u>	<u>2019</u>	<u>2020</u>
CUIC Section 135.2 (Two or more businesses combining)			
EDD Payroll Tax Investigations	1	0	0
EDD Payroll Tax Assessments	\$0	N/A	N/A
Average Liability Change	\$0	N/A	N/A
CUIC Section 1061 (business transfers)	<u>2018</u>	<u>2019</u>	<u>2020</u>
EDD Payroll Tax Investigations	32	105	43
EDD Payroll Tax Assessments	\$762,133	\$3,311,080	\$2,017,903
Average Liability Change	\$23,817	\$31,534	\$46,928

3. FedState Tax Partnership

This partnership is an ongoing alliance between EDD, Franchise Tax Board, California Department of Tax and Fee Administration, and the IRS. The mission of the FedState Tax Partnership is to increase tax compliance and provide greater convenience to taxpayers. The FedState Tax Partnership goals include: enhancing taxpayer access to information and services, reducing taxpayers' burden, increasing voluntary compliance, increasing the sharing of taxpayer data among the partner agencies to enhance compliance activities, enhancing communication among the tax partner agencies regarding current and long-range agency specific projects, and identifying opportunities to leverage resources among the partner agencies.

4. Interagency Tax Collection Committee

This committee is an alliance with EDD, Franchise Tax Board, California Department of Tax and Fee Administration, and the IRS. It provides a forum to share common collection practices in order to increase compliance and resolve collection issues. It also allows the agencies to meet and share information about their collection programs focusing on common, competing, and overlapping functions including bankruptcy, lien, and levy issues. It is intended to foster communication and allow collection staff to meet their counterparts, establish working relationships, and encourage cooperation on common tax collection issues.

5. License Suspensions/Holds Requested

The Business and Professions Code and CUIIC authorize state agencies to suspend/hold a license needed to legally operate certain types of businesses in this state. This is a valuable collection tool for resolving delinquent tax liabilities and for compelling corrective action. There are three types of licenses that EDD can request other state agencies to suspend/hold if the licensee is delinquent in paying amounts due to EDD:

- **Contractor License (CSLB Hold)**

Once the CSLB receives the request from EDD to place a license hold, the CSLB will search their database for all licenses with the same personnel of record and suspend those licenses as well. The licenses remain suspended until the delinquency that led to the suspension has been resolved or arrangements have been made to pay it.
- **Liquor License (ABC Hold)**

The EDD may request the ABC to place a hold on certain types of liquor licenses. A hold establishes a priority for EDD to any monies received from the sale of the liquor license and prevents the transfer of a liquor license from the seller to a buyer until the conditions of the hold have been met.
- **Farm Labor Contractor License (FLC Hold)**

EDD is authorized to notify the Labor Commissioner of the (DLSE) in writing that an FLC is delinquent in payment of worker contributions. Once notified, the Labor Commissioner has the authority to refuse to issue or renew any license until the licensee has fully paid the amount of the delinquency.

The following table illustrates the ending inventory of license holds for the past three calendar years:

License Holds Requested			
Type of Hold	2018	2019	2020
Contractors	591	441	135
Liquor	41	43	5
Farm Labor Contractors	19	10	0

When the court orders restitution to EDD as part of the sentencing during criminal prosecutions, EDD monitors these cases to ensure that the restitution is made. The cases are monitored by Collection Division Central Operations until the convicted party is no longer on probation. If there is a restitution balance remaining at the end of probation, the case is transferred to Collection Division Field Operations for collection action.

6. Criminal Prosecutions and Restitution

In 2020, ID conducted the following tax enforcement activities independent of:

- The ID investigated a total of 132 ongoing and new payroll tax evasion fraud cases representing a potential tax liability of \$97,098,810.
- The ID filed 15 criminal complaints representing a potential tax liability of \$2,799,970.
- The ID prosecuted 13 criminal cases resulting in convictions with a potential tax liability of \$8,550,022.
- The ID continues to partner with staff from the Tax and UI Branches and develop strategies and preventative tactics for addressing fictitious employer schemes responsible for perpetrating fraud against EDD. The objective is to identify potential fictitious employer schemes based on a thorough and ongoing evaluation of the characteristics/elements of such schemes. The identification of these schemes allows EDD to increase detection and eliminate fraudulent UI and SDI benefit claims filed against EDD.

The following table illustrates data for criminal restitution cases for the calendar years 2018, 2019 and 2020:

Criminal Restitution Cases			
Calendar Year	2018	2019	2020
Restitution Cases Monitored*	119	120	140
Beginning Restitution Accounts Receivable	\$21,58,906	\$26,043,889	\$26,724,735
Restitution Amounts Ordered	\$6,591,914	\$1,729,062	\$1,185,882
Payments Received During the Year	\$1,278,794	\$828,619	\$1,282,002
Transfers**	\$778,136	\$219,597	\$208,108
Ending Restitution Accounts Receivable	\$26,043,889	\$26,724,735	\$26,420,507

*Inventory at the end of the calendar year.

**"Transfers" are restitution collection cases transferred to the Collection Division Field Operations for collection action due to non-payment of restitution and expiration of probation. The dollar amount shown in the table above is the unpaid restitution liability only.

The following table illustrates amounts collected to-date by EDD as of January 14, 2021 on audit assessed amounts during the last three years. The year 2018 and 2019 amounts include additional amounts collected after 2019 which is why the figures differ from what was reported in the 2019 report.

Amounts Assessed by Audits	2018	2019	2020
Calendar Year			
Audit Assessed Amounts Collected	\$39,701,216	\$33,103,268	\$7,205,136

Recent Legislation and Initiative

1. Governor Newsom signed [Assembly Bill \(AB\) 2257](#) into law on September 4, 2020. The bill modified the exceptions provided under AB 5 and added additional exceptions. AB 5 became effective in 2019 which codifies the ABC test adopted by the California Supreme Court in *Dynamex Operations West, Inc. v. Superior Court of Los Angeles* (2018) 4 Cal.5th 903. AB 5 requires the ABC test be applied to determine if workers in California are employees or independent contractors for purposes of the Labor Code, the CUIC, and the Industrial Welfare Commission wage orders.
2. On November 3, 2020, California voters approved [Proposition \(Prop\) 22](#) that became effective December 16, 2020. Under Prop 22 drivers for app-based network companies providing transportation (rideshare) and delivery services are independent contractors and not employees or agents if the network company satisfies [certain conditions](#).

To learn more on AB 5, AB 2257, and Prop 22, visit EDD [AB 5 – Employment Status](#) webpage or California Labor & Workforce Development Agency’s [Employment Status Portal](#).

Education and Outreach for Emerging Issues

- In an effort to continue to educate California’s employers for AB 5, EDD conducted 11 Employment Status webinars in 2020. Critical information regarding the implementation of AB 2257 was included in webinars conducted after Governor Newsom signed the bill and it became law September 4, 2020.
- Due to AB 2257, EDD is in the process of updating the impacted forms and publications, including several industry specific information sheets, to provide guidance on the application of the ABC test.

Future Education and Outreach

As mentioned earlier, in response to the COVID-19 pandemic, EDD converted all in-person seminars to webinars. EDD is planning to continue its virtual outreach efforts in 2021. The no-cost payroll tax seminars cover a variety of payroll tax topics. Two of the seminars are offered in collaboration with the Internal Revenue Service and the Department of Industrial Relations, including the *Federal/State Basic Payroll Tax Seminar* and the *State Labor Law and Payroll Tax Seminar*. These two seminars are designed to integrate the requirements of both agencies, covering their similarities and differences. The other EDD sponsored seminars include *State Basic Payroll Tax Seminar*, *Cannabis Industry and State Payroll Tax Seminar*, and *Employment Status Tax Seminar*.

As the mandatory State of Emergency guidelines for the COVID-19 pandemic are updated, EDD will evaluate the reintroduction of in-person seminars. EDD may also consider offering a combination of virtual and in-person seminars in the future.

Workforce Services Program

EDD administers the federally funded Workforce Innovation and Opportunity Act (WIOA) program in California. The WIOA program provides funding to local entities that provide employment and training opportunities. EDD guides the sub-granting of WIOA funds received from U.S. Department of Labor (DOL) and provides general program direction to local administrative entities that deliver services to eligible clients via a statewide system of WIOA Local Workforce Development Areas (LWDA) and other grantees. The WIOA superseded the Workforce Investment Act and took effect in July 2015.

The detection and deterrence of fraud in the expenditure of WIOA funds is accomplished through a combination of processes that EDD requires of the local administrative entities. In addition, DOL occasionally conducts specialized WIOA reviews, which, even though their focus is on the adequacy of the state's management of the program, typically include review of a sample of local administrative entity activities. The program integrity components related to WIOA include:

1. Monitoring Reviews

These reviews determine whether programs operate in compliance with WIOA, and applicable federal, state, and local rules and regulations, and impose corrective action for any deficiencies.

2. Local Workforce Development Areas Administrative Entity Sub-Recipient Monitoring

Each LWDA administrative entity, as a condition of receiving WIOA funds, is required to maintain and operate a monitoring system that ensures that each of its sub-recipients are monitored on-site at least once during each program year in both fiscal and program areas. In addition, EDD conducts monitoring of LWDA administrative entities and all other recipients of WIOA funding.

3. Incident Reporting System

This system provides reports of fraud, waste, abuse, and criminal activity within the WIOA program. Each local administrative entity, as a condition of receiving WIOA funds, participates in this system by being alert to indications and allegations of WIOA-related fraud, waste, abuse, and criminal activity, and by maintaining procedures that ensure that violations are reported promptly (within 24 hours of detection). EDD then takes action to ensure the allegations are investigated and resolved.

4. Single Audits

Single Audits are required of LWDA administrative entities and their subcontractors that expend an aggregate of \$750,000 or more in federal funds. Further, commercial subcontractors that expend \$750,000 or more in federal funds to operate a WIOA program must obtain either an organization-wide audit or an independent financial and compliance audit. These audits are usually performed annually, but must be performed no less than once every two years.

Audit findings of local sub-recipients are resolved by the local administrative entity. Audit findings of the local administrative entities and other direct grantees are resolved by EDD. EDD may also conduct ad hoc WIOA audits as warranted.

5. Workforce Services Division

Program staff in this division oversee the delivery of services by WIOA funded organizations. Staff provide ongoing programmatic, fiscal, and technical assistance to WIOA funded projects. Staff also review WIOA grantee participant and financial records to ensure that they follow applicable state and federal requirements, and each grantee adheres to the terms and conditions of their grant with EDD.

6. Regulatory Controls

These controls provide for additional fraud protection. The DOL provides a Hotline to report fraud and abuse complaints. This Hotline functions as a national control point. Another control point is that the WIOA program prohibits contracting or doing business with any agency that has been disbarred (e.g., license revoked, de-certified). Additionally, the WIOA regulations have established controls against nepotism.

Wagner-Peyser Activities

EDD also administers the federally funded Wagner-Peyser Act program (Title III of WIOA) in California. The Wagner-Peyser Act program provides funding for EDD field staff to provide employment services throughout California. EDD staff deliver services to eligible customers statewide through the America's Job Centers of CaliforniaSM network, while providing job matching services to the employers of California.

The primary tool used directly by customers (both job seekers and employers) is the California Job Opening Browse System (CalJOBSSM). Through CalJOBS, clients can utilize the system themselves, and EDD staff can refer job seekers to jobs, workshops, and appointments. The system can also be used to track services for the federally mandated participant reports. EDD ensures that client data is kept confidential, and works with the vendor to ensure that CalJOBS maintains its program integrity and security.

The program integrity components related to CalJOBS include:

1. Access to Confidential Data

Access to confidential data is limited by various internal safeguards which have been implemented, including system generated reports listing suspicious activity, redacting job seekers' SSNs in the system, removing confidential data from any standard reports, and giving job seekers the option to suppress their contact and personal information. Job seekers may omit personal information on résumés and provide it only to employers with whom they would like to share it.

2. Employer Vetting

This vetting is completed on every employer granted access to the system. Because postings are generated by employers, vetting is critical to protecting users. This validation process includes a confirmation that each employer who registers is a California employer with verified identifiers including a valid California tax identification number.

Starting on December 4, 2017, an automated vetting solution was implemented within CalJOBS. Employers that provide information that matches the identifiers are automatically

verified and granted access to CalJOBS. Employers that provide information that does not match revert to the manual review process, which can take up to 72 hours.

Once an employer is vetted and granted access to CalJOBS, there are automated features in place to report suspicious activity. Legitimate California employers continue to have the option to search for and contact qualified candidates through internal CalJOBS messaging. EDD continues to closely monitor and immediately respond to suspicious employer activity in order to ensure California jobseekers are protected. Stronger warning messages and additional cautionary language informing job seekers of the dangers of potentially fraudulent employers and information on how to detect them have also been added to the CalJOBS website.

3. Document Management and Scanning

This functionality was implemented in 2015 as a CalJOBS enhancement, reducing the need for paper files. The replacement of hard copy files eliminates the need for job seekers to carry documents with them every time they are provided services, reduces the chances of lost or misfiled documents, and increases efficiency in managing the documents both locally and remotely.

4. System Controls

To ensure security in the system and maintain data integrity, the CalJOBS system is equipped with various levels of access that are defined by several privilege groups within the system. The privilege groups give users access to confidential and non-confidential data depending on the privilege group they are associated with. In order to maintain access and ensure changes are minimal, the creation of these privilege groups are determined by Workforce Services Management. This internal control allows the state to maintain the security and data integrity of the data housed in the CalJOBS system.

Workforce Services Results and Accomplishments

The Compliance Resolution Unit makes determinations on incident report allegations, findings contained in audit reports, and findings contained in monitoring reports. The resolution of these cases is based on the proper expenditure of WIOA, Workforce Investment Act, and American Recovery and Reinvestment Act funds. Although the American Recovery and Reinvestment Act and Workforce Investment Act programs have ended, staff continue to resolve fraud and abuse cases associated with these programs.

During CY 2020 the Compliance Resolution Unit processed 58 cases, 12 of which were resolved, and \$601,625.91 in non-federal funds from LWDA or sub-grantees were recovered. At the end of 2020, ongoing cases for a total of \$7,205,412.57 in questioned costs remained open in various stages of audit and investigation within the state resolution process.

INDEPENDENT OVERSIGHT ACTIVITIES

EDD's Policy, Accountability and Compliance Branch (PACB) performs independent departmental oversight activities of EDD programs, including fraud detection and deterrence. Fraud detection and deterrence are accomplished through sound internal control structures, internal and external audits, risk assessments, detailed quality control reviews, and criminal investigations. The PACB has increasingly taken an active role to prevent, detect, and deter fraud against EDD's programs through partnerships with internal and external entities.

Fraud in EDD programs covers a variety of offenses, such as:

- Forgery of claim documents and falsifying information to receive benefits.
- Identity theft and impostor claimants using the identity and/or wage credits of others.
- Impostors taking over the claims of individuals who are deceased, moved or returned to work.
- False certifications by medical practitioners and claimants.
- Fictitious employer registrations to establish future fraudulent UI and DI claims.
- Underground economic activities to evade paying taxes such as underreporting or failure to report employee wages and taxes.
- Incarcerated individuals or associates applying and certifying for benefits that would otherwise be ineligible.
- Internal fraud by EDD employees.

The PACB performs audits in accordance with the Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing, which are promulgated by the Comptroller of the United States and the Institute of Internal Auditors. These standards require auditors to possess the knowledge, skills and other competencies needed to perform audits, including sufficient knowledge to identify the indicators of fraud and to evaluate the adequacy and effectiveness of controls encompassing the organization's operations and information systems that are used to detect illegal activities and deter fraud. Audit independence is achieved by reporting to a level within the enterprise that allows the audit organization to fulfill its responsibilities.

The following activities are performed by the PACB to assist in the fraud deterrence and detection efforts. Many of these activities cited under the specific EDD program areas are performed with the assistance of PACB criminal investigators, auditors, and compliance monitors.

1. Independent Internal and External Audits

These audits are conducted of departmental operations and recipients of federal funds such as LWDA's and community-based organizations, over which EDD has administrative and program oversight responsibility. These audits are performed at the request of EDD management, or in response to issues resulting from EDD program monitoring activities or received incident reports.

2. Independent Internal Control Audits

These audits assist organizations in maintaining effective controls including fraud prevention, by

evaluating their effectiveness and efficiency. EDD considers a strong system of internal controls to be a major deterrent to internal fraud. The PACB provides technical assistance to EDD staff prior to and during the system design phase to ensure appropriate internal controls are developed and in place. EDD believes that it is more cost effective to build controls into the system, as opposed to raising internal control issues during an audit, which may require system redesign.

3. On-Site Monitoring Reviews

As required under federal law, on-site reviews are conducted of WIOA funding recipients to determine fiscal and program compliance. EDD is required to perform scheduled on-site monitoring reviews of sub-recipients and sub-grantees of federally funded programs, including WIOA and Disaster Relief funded services.

The monitoring reviews include regularly scheduled examinations of both fiscal and programmatic systems and records. This oversight provides EDD with an opportunity to ensure that internal control structures are in place and that they function as prescribed. The PACB provides fraud deterrence by continually ensuring that proper safeguards are in place to discourage fraudulent activity. Monitors are alert to symptoms and conditions that may be indicators of illegal activities.

4. Incident Reporting

The incident reporting system under the WIOA provides a means for individuals to report allegations of program fraud and abuse, as well as a process in which these allegations are reviewed. The PACB receives and tracks incident reports and submits them to the DOL for their review. The DOL will determine whether to conduct the investigation itself, or refer the reports back to EDD for investigation, audit and appropriate administrative action.

5. Criminal Fraud Investigations

EDD's criminal investigators conduct these investigations to prevent, detect, and deter fraud committed against the UI, SDI, Tax Collection, and other programs administered by EDD. The ID develops cases for criminal prosecution at the county, state, and federal levels.

Whenever appropriate, EDD seeks prosecution of perpetrators that commit fraud against EDD programs. Publication of the prosecutions and the heightened awareness of EDD's actions against both external and internal fraud provide a deterrent for individuals who might be contemplating committing fraud. Court ordered restitution, imprisonment, or probation also act as fraud deterrents.

Restitution includes recovery of benefit overpayments, tax liabilities, penalties, interest, investigation costs, and any other monies determined by the court to be owed to EDD by an entity or individual.

A deterrent used in ID's Internal Affairs cases is the initiation of adverse action against EDD employees. The adverse action process includes suspensions, demotions, reductions in pay, dismissal from state service, and/or criminal prosecution. (See next section for more details regarding Criminal Investigations.)

6. Published Website to Report Fraud

The EDD website (www.edd.ca.gov) has a link to an electronic fraud reporting form through the AskEDD platform. The form allows the public to report allegations of fraud against programs administered by EDD which are automatically directed to the ID and reviewed by the Criminal Intelligence Unit.

7. Participation in Task Forces

The PACB participates in task forces with other state and federal law enforcement agencies such as the California Office of Emergency Services, the California Department of Insurance, Department of Fee and Tax Administration (formerly Board of Equalization), Franchise Tax Board, IRS, DOL, US Postal Inspectors, and local prosecutors.

8. Forensic Audit and Examinations

The Audit and Evaluation Division conducts forensic audit and examinations in response to requests for assistance from ID.

9. Strategic and Tactical Intelligence Gathering

The ID's Criminal Intelligence Unit develops strategic and tactical intelligence for investigative planning and case identification, and assists program managers in identifying areas to prevent and detect fraud. This unit works with EDD program managers to identify characteristics of fraud, detect trends, and uses technology to screen claims for potential fraudulent activities. The unit gathers and analyzes data from claims filed and investigative cases worked to gain insight into the fraudulent trends being employed against EDD. This information helps identify strategies that EDD can use to counter this fraudulent activity.

10. Business Intelligence Competency Center

EDD's Business Intelligence Competency Center is a data warehouse that helps the ID's Criminal Intelligence Unit utilize complex software to improve data mining to prevent and detect fraud against EDD's programs. This data warehouse is used to improve fraud detection efforts by conducting in-depth data analyses to identify patterns and trends that will serve as potential indicators of fraudulent activity.

Enforcement Activities

To protect the integrity of its programs, EDD enforces the CUI provisions and various other California codes affecting its programs. Doing so assures the integrity of all EDD programs and protects the interests of employers, claimants, and taxpayers. EDD takes a comprehensive approach to fraud prevention, detection, and deterrence. This approach involves EDD programs, EDD oversight entities, and business partners including federal, state and local law enforcement agencies, and prosecutors.

During CY 2020, EDD's comprehensive anti-fraud activities in the SDI, UI, Tax and WIOA programs identified potential fraud to warrant investigation and actual fraud resulting in criminal complaints and prosecutions (in dollars) accomplished by EDD ID are as follows:

<u>ID Criminal Case Description</u>	SDI Program	UI Program	Tax Program
Cases Under Investigation	\$36,986,976 125 Cases	\$167,880,922 392 cases	\$97,098,810 132 Cases
Criminal Complaints Filed	\$5,344,424 10 Cases 16 Complaints	\$1,784,406 13 Cases 25 Complaints	\$2,799,970 10 Cases 15 complaints
Completed Criminal Prosecutions	\$2,580,088 7 Cases	\$3,794,480 11 cases	\$8,550,022 13 Cases
Fraud Overpayments (OP) Established ²	\$6,057,523 504 OPs	\$59,181,845 60,510 OPs	N/A
Fraudulent Benefits Prevented by EDD ID	\$1,187,205	\$61,767,134	N/A

*The case statistics reported in the above table by the Investigation Division are representative of the cumulative total of open and ongoing criminal investigations and prosecutions for the CY 2020.

¹Management Antifraud Programs and Controls – Guidance to Help Prevent and Deter Fraud, American Institute of Certified Public Accountants, 2002, page 5.

²“Fraud Overpayments Established” includes overpayments established as a result of both criminal and administrative actions.

During CY 2020, 649 cases were open and ongoing for criminal investigation collectively for SDI, UI and Tax programs. The Investigation Division (ID) had no WIOA cases recorded as open and active in CY 2020. In total, the 649 EDD ID criminal cases represent \$301,966,708 of presumptive fraud and State tax liability. By way of comparison, the CY 2019 Fraud Deterrence and Detection Report identified 61 criminal cases were opened in the UI Program compared with 392 for this calendar year.

The ID closed 68 of the 649 cases with a collective value of \$7,420,627 in benefit fraud and \$13,647,762 in State tax liability throughout the course of the year. As a subset of the 68 closed cases, 23 cases totaling approximately \$5.5 million, were closed due to various administrative reasons. Some reasons may include, but are not limited to, case consolidation, change of case type, charges refused by prosecutor, lack of staffing. One case of note, is a Tax case closed after expiration of the statute of limitations because an audit could not be completed on time due to reallocating of Tax Branch staff to UI during the pandemic. This case accounts for just over \$5 million of the closed cases. Cases closed for administrative reasons or where prosecution declines to file charges are referred to the benefit program for administrative action. EDD ID ended CY 2020 with 581 open and ongoing cases.

The 581 active criminal cases include 388 new criminal cases opened by the ID in CY 2020 specifically in response to the CARES Act Pandemic funding. The 388 cases are from reports of fraudulent activity occurring through identity theft, fraud rings of imposter claims, address theft, incarcerated individuals and other improper payments, such as working and earning violations. The report sources include claimants, private citizens, business owners, EDD personnel, external law enforcement and government agencies, and anonymous tips. Collectively the 388 cases opened in CY 2020 in specific response to pandemic represent \$147,510,478 in presumptive fraud and account for 68% of the current EDD criminal investigations case load.

The following table illustrates the distribution of CY 2020 cases opened specifically in response to the pandemic:

Criminal Cases Opened in CY 2020	Case Count	Potential Fraud Overpayment Amount
Disability Insurance Programs	24	\$1,991,111
Unemployment Insurance Programs	345	\$142,884,522
Tax Programs	19	\$4,426,845
Total Opened CY 2020 cases	388	\$144,875,633 Fraud OPs \$4,426,845 Tax Liability

During the pandemic, EDD forged new relationships with law enforcement agencies across California. The U.S. DOL Office of Inspector General (OIG) played a significant and instrumental part in assisting EDD through CY 2020 through data exchanges and assisting with identifying potentially fraudulent claims, especially out-of-state claims, using OIG analytics.

Fraud perpetration schemes observed related to CY 2020 pandemic era claims include:

- Identity Theft and Address Theft - Imposter Claims: PUA claims filed by perpetrators and sophisticated criminal schemes using stolen or borrowed identities, and using false addresses to obtain unemployment insurance benefits illicitly for financial gain. These occurrences generally involved filing for benefits using true wage earner without knowledge or consent.
- Incarcerated: Fraudulent certification and receipt of benefits while detained in local, state and/or a federal jurisdiction detention facility. Claims filed either by the incarcerated individual or by an associate with the incarcerated individual’s knowledge and corroboration.
- False wages: Individuals certifying to being self-employed or a contract employee and either not employed or overstating income and loss to qualify for maximum benefits. These claims also crossed over into Identity Theft with fraudsters certifying to self-employment wages on stolen personally identifiable information of children, homeless, or individuals living out of state.

Fraud deterrence and criminal investigations are accomplished both independently and collaboratively with external law enforcement entities at all levels and varying jurisdictions. The Federal Bureau of Investigation has invited participation of an EDD investigator who is currently a member of their Sacramento Public Corruption Task Force while several other investigators are working mutually, statewide, with the Department of Labor, Office of Inspector General, on UI fraud cases involving multi-state perpetration including benefit claims filed in the name of prison inmates and celebrities. EDD ID participates in several taskforce groups; however, due to the amount of fraud reporting during CY 2020, many external law enforcement entities established criminal cases independent of EDD for prosecution.

Given the national scope of the imposter fraud schemes, states around the country have recognized the need for additional federal leadership. In response to the need the National Governors Association, NASWA and others have called on the U.S. DOL to enhance their coordination of efforts to stop the sophisticated fraud schemes before they spread from one state to the next. A coordinated response will improve each state’s ability to fight fraud.

2020 was a year of challenge and transformation for the anti-fraud activities at EDD. The Department launched new programs to block fraudsters last year and information from the dark web shows that criminals are looking to other states that lack California's strong new fraud protections. This year, the Department has gone from just reacting to requests from outside law enforcement agencies to aid in their investigations to actively sorting and collating cases and referring them out to proper authorities for prosecution. As a result, the Department anticipates next year's report will include significant increases in the number of cases under investigation and prosecuted.

EDD remains determined to take action to hold accountable those who committed fraud during 2020 before additional fraud filters were put in place. A recent grant from the federal government that was instituted with the signing of the American Rescue Plan Act of 2021 will help increase staff devoted to benefit payments and investigation of UI-COVID related fraud.

ENTERPRISE-LEVEL ACTIVITIES

EDD embraces an enterprise-wide approach to identify and combat fraud within and across programs. Additionally, EDD is continually seeking new approaches to prevent, detect, and deter fraud, through partnerships with both internal and external entities. This section summarizes enterprise-level anti-fraud efforts that are ongoing, new and enhanced partnerships undertaken during CY 2020, as well as those activities that are under consideration for future implementation.

Ongoing Efforts

1. Fraud Penalty Assessment

A monetary penalty of 30 percent is assessed on overpayments resulting from claimant fraud in the UI and SDI programs.

2. Personal Identification Number and Identity Management System

These technology features provide telephone identification, authentication, and authorization services via EDD's Interactive Voice Response system improving claimant privacy by preventing unauthorized access to confidential data. The systems are available 24-hours a day, seven days a week.

Claimants select their Personal Identification Number the first time they use the Interactive Voice Response system to obtain payment information by matching personal identifying information. As an additional security and fraud detection measure, claimants are sent a notice when their Personal Identification Number is established or changed. Claimants are required to enter their SSN and four-digit Personal Identification Number each time they request confidential payment information for their UI and SDI benefits.

3. Education and Outreach

Increased marketing efforts to educate the public on the consequences associated with committing fraud is ongoing. EDD also publishes a summary of recent fraud convictions detected by EDD and prosecuted to the fullest extent of the law. These convictions are for both UI and SDI benefit fraud, and tax evasion schemes.

EDD posts these summaries of recent fraud prosecutions on the EDD public website under the title of Recent Fraud Prosecutions. During CY 2020, there was a substantial increase in the number of visits the website page received. A total of 228,335 views were recorded for CY 2020, an approximate increase of 682% in comparison of the prior year's count of 33,486 visits. The fraud prosecution summaries are available directly through the link below:

https://edd.ca.gov/About_EDD/EDD_Actively_Prosecutes_Fraud.htm

4. Toll-free EDD Fraud Tip Hotline 800-229-6297 and Website

This toll-free Hotline provides employers and individuals a designated telephone number to report alleged fraud directly to ID's Criminal Intelligence Unit. These reporting options provide individuals the ability to report fraud in a secure environment. Individuals can also report fraud using the AskEDD public website.

During CY 2020, corporate data breaches and the impact of the Coronavirus pandemic provided opportunity for criminal enterprise. As such, an unprecedented number of reports were received regarding identity theft, imposter claims, associated schemes, social media scams, and other activities which fostered fraud against the EDD.

With the implementation of the State's Emergency Telework Program a voicemail was activated for the Fraud Tip Hotline. While protecting the safety of our employee's the Department continued to receive fraud allegations through a variety of methods and sources during CY 2020. Reporting methods included:

- EDD Fraud Tip Hotline Toll-Free number – By Voicemail
- EDD Fraud Hotline Fax
- EDD public website AskEDD reporting method
- USPS Mail
- Emails

In CY 2020, 106,616, electronic reports alleging fraud were received from the AskEDD public website application. Additionally, 1,884 emails were also received to the PACB ID Fraud email inbox and forwarded to the CIU. The EDD Fraud Desk logged nearly 4,200 contacts alleging fraud from phone calls, faxes, and USPS mail. In addition to the Ask EDD Report Fraud incident reports, the ID EDD Fraud Desk and Hotline processed 6,084 allegations.

Due to the high volume of reports received during the pandemic the EDD Fraud Desk could not keep up with the workload. While there is a significant backlog of allegations, tips, and contacts remaining from CY 2020, EDD ID is working diligently to review and appropriately distribute each of the back logged items. The Department is utilizing overtime and is also in the process of reorganizing and hiring to create a new unit dedicated to the intake and adjudication of all fraud reports received.

New and Enhanced Partnerships

1. Internal Partnerships

The ID, jointly with both the UI and SDI programs, continues to identify claim or payment characteristics that are indicative of fraud. The ID uses built-in SDI Online and California Unemployment Benefit Services applications' fraud detection rules to more easily identify fraud. Additionally, the ID enjoys a close partnership with staff in UI, DI and Tax to work collaboratively to combat fraud in the respective programs.

An expanded partnership between ID and EDD's Audit and Evaluation Division has enabled more thorough and timely analysis of large volumes of accounting data as a tool to identify and analyze perpetrators' fraudulent activities and develop investigative leads.

The ID maintains a valuable partnership with Tax Branch staff to develop a strategy for addressing fictitious employer schemes responsible for perpetrating fraud against EDD. This partnership identifies the characteristics and elements used to establish fictitious employers that improves

timely detection of these schemes and eliminates fraudulent UI and SDI benefit claims filed against EDD.

2. External Partnerships

The ID has continued to foster joint investigative activities with the DOL, Office of Inspector General (OIG), US Postal Inspector General, and the US Attorney, as a means to develop and share fraud leads, and more effectively investigate and prosecute perpetrators of fraud.

During CY 2020, EDD expanded collaborative efforts with the DOL OIG and accomplished several data exchanges of UI claim information to more readily identify potential fraud and improper payments related to the pandemic.

The ID also coordinates with partner investigative and enforcement agencies to publicize joint investigative, arrest, indictment, and prosecution actions, with the intent of deterring fraud perpetrators. EDD responds to official requests and subpoenas for information from outside law enforcement to facilitate their investigations independent from EDD ID. In addition to our strong partnerships with law enforcement during joint investigations, EDD also provides claim information to assist law enforcement with claims violations and independent criminal investigations in other jurisdictions. During CY 2020, EDD received over 4,000 subpoenas from external entities, including district attorneys, federal, state and local law enforcement entities pursuing cases independent from EDD. The Department fulfilled approximately 600 requests specifically from external law enforcement entities in 2020. In providing this valuable case information the Department helps ensure other agencies can prosecute violations independently and contribute towards stopping criminal activity.

During the latter part of 2020, the Employment Development Department entered a partnership with the Governor's Office of Emergency Services (CalOES) who was tasked with leading a state-wide task force on investigations and interdiction efforts in order to institute new safeguards to protect Californians from Unemployment Insurance and Pandemic Unemployment Assistance fraud. Also joining this partnership was the Department of Corrections and Rehabilitation (CDCR), the State's District Attorneys and the U.S. Attorney's Office. The task force was regionalized into Southern California, Central California, Northern California and the Bay Area. The efforts between these regions include, but is not limited to, sharing data, tracking resources, and ensure case de-confliction. In these efforts, 382 search warrants have been served to individuals and businesses, 94 charges have been filed, and 68 individuals have been arrested outside of the prison system.

EDD is currently considering a means of future case referrals to external law enforcement entities directly for consideration of criminal case prosecution.

Additionally, EDD signed an agreement to participate in the NASWA Integrity Data Hub (IDH), a national data repository of state UI claims. During CY 2020, NASWA Fraud Alert Notifications have been received. Participation of the additional available components of the NASWA IDH are under development by the EDD.

3. New Data Sharing Interfaces

During CY 2020, EDD began data sharing interfaces with government agencies such as incarceration data, or more department wide use of the Social Security Administration's decedent data.

4. A New Identity Management System

EDD implemented a new identity management system in October 2020, ID.me, to interface with Unemployment Insurance claims data to provide a more robust approach to validate the true identity of those applying for UI benefits online.

5. Thomson Reuters

EDD partnered with Thomson Reuter's (TR), which included Pondera Analytics, now a business unit within the TR Government Division. TR provides innovative solutions for the prevention and detection of improper payments and suspected fraud. In December 2020, all claims filed from January 1, 2020 were run through the TR fraud detection tools to identify whether claims had any potential fraud indicators. Claims with positive results for potential fraud were then flagged for either identity or other potential eligibility issues. After the initial run of claim review, EDD continues to put all claims through TR review to prevent payments to potential fraudsters.

6. Business Intelligence Competency Center

EDD's Information Technology Branch (ITB) Business Intelligence Competency Center (BICC) is a data warehouse. The ITB and BICC have integrated processes in concert with EDD's implementation of anti-fraud and prevention applications.

7. EDD Website and Internet Security

EDD has deployed reCAPTCHA and botnet protection services, and works closely with our state technology department and third party security organizations. EDD continually monitors EDD website regarding EDD Internet traffic and for cyber-attacks both independently and in conjunction with the state technology monitoring EDD Internet traffic.

ACRONYMS

CalJOBS SM	California Job Opening Browse System
CDO	Compliance Development Operations
CUIC	California Unemployment Insurance Code
CY	Calendar Year
DI	Disability Insurance
DOL	United States Department of Labor
EDD	Employment Development Department
ID	Investigation Division
IME	Independent Medical Examination
IRS	Internal Revenue Service
JESF	Joint Enforcement Strike Force
LETF	Labor Enforcement Task Force
LWDA	Local Workforce Development Area
OP	Overpayment
PACB	Policy, Accountability and Compliance Branch
PFL	Paid Family Leave
QETP	Questionable Employment Tax Practices Program
SDI	State Disability Insurance
SIDES	State Information Data Exchange System
SSN	Social Security Number
TAA	Trade Adjustment Assistance
UI	Unemployment Insurance
US	United States
WIOA	Workforce Innovation and Opportunity Act Title I

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EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling 916-654-7249 (voice) or TTY users, please call the California Relay Service at 711.



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