

# ANNUAL REPORT

CALIFORNIA

## *FRAUD DETERRENCE AND DETECTION ACTIVITIES*

TWENTY-NINTH REPORT

2022

*A REPORT TO THE  
CALIFORNIA LEGISLATURE*



June 2023

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## Fraud Deterrence and Detection Report - Calendar Year 2022

### EXECUTIVE SUMMARY

This report documents the Employment Development Department's (EDD) fraud deterrence and detection activities for Calendar Year (CY) 2022, as required by Section 2614 of the California Unemployment Insurance Code (CUIC). California law identifies EDD's responsibilities to include the administration of the Unemployment Insurance (UI) program, State Disability Insurance (SDI) program, Paid Family Leave (PFL) administered by the SDI program, Employment Tax Collection, and the Workforce Innovation and Opportunity Act (WIOA) Title I and Title III programs.

From January 1, 2022, through December 31, 2022, EDD collected more than \$105.5 billion in California payroll taxes, penalties, and interest from over 1.6 million employers. Benefit programs issued the following:

Table 1

EDD Program	Claims Processed	Benefits Paid
Unemployment	2.3 million	\$5.7 Billion
Disability	820,000	\$7.8 Billion
Paid Family Leave	311,000	\$1.7 Billion
Total	3.4 million	\$15.2 Billion

As a comparison, this is a significant decline from 2021, when EDD paid over \$77 billion on over 7.1 million UI, DI and PFL claims. Much of the decline is directly associated to the end of the federal pandemic programs, including the Pandemic Unemployment Assistance (PUA) program.

To protect the integrity of these programs and the interests of employers, claimants, and taxpayers, EDD enforces the CUIC provisions and various other California and Federal codes. Research suggests organizations can "reduce the risk of fraud through a combination of prevention, detection, and deterrence measures. A strong emphasis on fraud prevention may reduce opportunities for fraud to take place while deterrence can persuade individuals that they should not commit fraud due to the likelihood of detection and punishment".<sup>1</sup> In 2022, EDD continued to embrace these ideas in the administration of its programs.

While statistics continue to show a decline in the number of claims filed for the second year in a row, states across the country continue to struggle with the numerous cases of fraud which began in 2020 with attempts continuing into 2022. Many of these fraud schemes were perpetrated by sophisticated organized crime groups and criminal opportunists in and outside of the country. Cases include complex identity theft rings and impostor cases on a scale never seen before. The increase in the number of fraud cases stemming from the pandemic has continued to strain EDD's limited criminal investigation resources, which has caused further difficulty in identifying those responsible for the schemes.

<sup>1</sup> Management Antifraud programs and Controls – Guidance to Help Prevent and Deter Fraud, American Institute of Certified Public Accountants, 2002 p.5.

Fraud deterrence and criminal investigations are accomplished both independently and collaboratively with external law enforcement entities at all levels and varying jurisdictions. In 2022, the Sacramento Federal Bureau of Investigation Task Force was combined with the United States (US) Department of Justice's newly created COVID-19 Fraud Strike Force. California EDD is currently the only state agency invited to participate as an active law enforcement contributor to the Strike Force. EDD Investigation Division continues to work closely with the US Department of Labor, Office of Inspector General (DOL OIG), on UI fraud cases involving large fraud schemes.

EDD continues to seek additional ways to combat and deter fraud. EDD created a new Fraud Enterprise Workgroup to assist EDD in establishing a foundation for a fraud risk management culture and strives to increase fraud risk awareness throughout the department. The group serves as an approval body for decisions regarding the operation of the EDD's fraud risk management program such as policies, selection of systems or identifying processes to identify and deter fraud.

Throughout CY 2022, the department continued to invest in fraud prevention technology and tools to assist in the process of detecting, preventing, and prosecuting acts of fraud. EDD took the following actions in 2022:

- Continued partnership with ID.me to utilize their identity proofing and authentication platform for online UI claim filers and DI medical providers.
- Continued partnership with Pondera, a business unit within the Thomson Reuters (TR) Government Division, to cross-check new UI claims filed against fraud detection tools allowing for the earliest possible detection of fraud prior to issuing benefit payments.
- Created the EDD Fraud Enterprise Workgroup to monitor and discuss ongoing fraud issues as described above.
- Expanded data sharing agreements with the US DOL OIG to facilitate detection of multi-state and international fraudsters.
- Worked 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.
- Expanded public outreach with various targeted fraud prevention campaigns and expanded stakeholder education opportunities.
- Continued the partnership with the California Governor's Office of Emergency Services (Cal OES), California Department of Corrections and Rehabilitation (CDCR), the State's District Attorneys, and the US Attorney's Office in a state-led task force on investigations and interdiction efforts.
- Renewed the contract with former US Attorney McGregor Scott as EDD's Fraud Special Counsel to assist in the facilitation and coordination of California and multi-state criminal investigations.
- Increased collaboration with various multi-agency joint enforcement task forces statewide as well as regular participation with the US Department of Justice COVID-19 Fraud Strike Force.

The remainder of this report summarizes the oversight activities across EDD and highlights the fraud deterrence and detection activities by each of the EDD programs.

## BACKGROUND INFORMATION

Section 2614 of the CUIC requires the Director of EDD to report to the Legislature by June 30th of each year on EDD's fraud deterrence and detection activities. EDD is responsible for the administration of the UI and SDI benefit programs. In 2022, these benefit programs paid claimants more than \$15.2 billion on more than 3.4 million benefit claims.

As with any assistance program, there are individuals who attempt to defraud the system for personal gain. Even as the COVID-19 pandemic comes to an end, EDD continues to identify new attempts by criminals to obtain benefits through fraudulent means, leveraging technology and stolen Personally Identifiable Information (PII) to defraud state workforce agencies and UI systems throughout the country. Various fraud schemes identified by EDD, 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 the identities of workers to file a fraudulent claim with the intention of obtaining benefits.
- Address Theft – Schemes using private citizens' mailing or residential addresses in connection to filing fraudulent and/or impostor claims.
- Incarcerated individuals' PII used fraudulently to file for benefits, with the incarcerated individuals participating willingly or themselves being the victims of identity theft.
- Fictitious employer business registrations and submission of 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 who intentionally do not fully report wages and do not pay their employment taxes as required by law.
- Claimants who knowingly claim benefits while working.
- Physicians who knowingly 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 Tax (ETT), as well as employee payroll deductions of SDI and Personal Income Tax (PIT). The Tax Branch also processes quarterly wage reports from the state's more than 1.6 million employers, accounting for more than 18.5 million workers. Making up almost 50 percent of the state's General Fund, the Tax Branch collected over \$105.5 billion in taxes and contributions in 2022.

The final responsibility of EDD is the administration of the 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 the WIOA funds received from the 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, and 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 of the multi-tiered approach has been an effective means towards combating fraud holistically; however, the addition of TR data has been an invaluable asset in addressing the volume of claims and sophisticated fraud schemes, which previously overwhelmed the existing fraud detection and prevention systems.

Anti-fraud activities within EDD include the following:

Table 2

Prevention	Detection
Customer Education	Analyzing Employer Data
Internal Control Reviews	Internal Checks & Balances
Internal System Audits	Evidence Seizure
Fiscal Monitoring	Cross-matching Data
Fraud Detection Efforts	Interagency Efforts
Interagency Efforts	Fraud Hot Line
External Partnerships	AskEDD Website Report
ID.me	Whistleblower
	TR Data Analytics – Identity Risk
	Analytics (IDRA) & Fraud Caster

Lastly, the Investigation Division identifies, investigates, and prosecutes fraud committed against EDD's various programs, including allegations made against internal EDD staff and contracted vendor employees.

## 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 2022, as well as those activities that are under consideration for future implementation.

### **Fraud Prevention Measures**

#### ➤ **Fraud Penalty Assessment**

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

#### ➤ **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 a Personal Identification Number (PIN) 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 PIN is established or changed. Claimants are required to enter their Social Security Number (SSN) and four-digit PIN each time they request confidential payment information for their UI and SDI benefits.

#### ➤ **Toll-free EDD Fraud Tip Hotline 800-229-6297 and Website**

This toll-free Hotline provides employers and individuals with a designated telephone number to report alleged fraud directly to the Investigation Division's Criminal Intelligence Section (CIS). 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 2022, ongoing effects of the pandemic, operational priorities, and limited resources resulted in numerous workload adjustments. A system upgrade in February of 2022 allowed for Fraud Hotline operations to be conducted both remotely and on-site, based on business need. The Hotline was not the only way the department received allegations. Reporting methods included:

- EDD Fraud Tip Hotline Toll-Free number and Voicemails.
- EDD public website AskEDD online reporting method.
- EDD Fraud Hotline Fax.
- United States Postal Service (USPS) Mail and Interoﬃce Mail.
- Emails and phone calls directly received by Investigation Division staff.

- Much like the previous two years, the top three reasons for fraud reports received were:
- Identity theft (Individual and Business).
- Address theft.
- Phishing schemes (text, email, phone calls and USPS mail).

Midyear 2022, the Investigation Division, UI and Tax Branches collaborated to process pandemic related fraud reports. The department has been utilizing overtime, reorganized workloads, and redirected staff for the effort. Collectively, the staff processed over 284,000 items in 2022.

➤ **Information Security and Privacy Awareness Training**

This training module is designed by the Information Security Office to help educate all users of EDD data about basic security threats and vulnerabilities as well as responsibilities regarding the protection of confidentiality, integrity, and availability of EDD information and assets.

## **New and Enhanced Partnerships**

➤ **Internal Partnerships**

The Investigation Division, jointly with both the UI and SDI programs, continues to identify claim or payment characteristics indicative of fraud. The Investigation Division uses SDI Online, California Unemployment Benefit Services, and the new TR Identity Risk Analytics (IDRA) and Fraud Caster applications' fraud detection rules to identify fraud more effectively. Additionally, the Investigation Division enjoys a close partnership with staff in the UI, DI, and Tax branches to work collaboratively to combat fraud in the respective programs.

➤ **External Partnerships**

The Investigation Division continues to foster joint investigative activities with the US DOL OIG, US Postal Inspector General, and the US Attorney's Office, to develop and share fraud leads, and more effectively investigate and prosecute perpetrators of fraud.

In 2022, EDD expanded collaborative efforts with the US DOL OIG to provide electronic UI claims information, as well as specific UI application data elements, as requested. EDD and US DOL OIG have accomplished several data exchanges of UI claim information to identify potential fraud and improper payments more readily.

The EDD Legal Office continues to monitor the fraud recovery effort and assist external agencies in fraud recovery. The effort allows banks as well as federal, state, and local law enforcement entities to have a central point of contact to address fraud issues and aid non-EDD Investigation cases.

In 2022, EDD continued to participate in the Governor's statewide Cal OES PUA/UI Task Force on investigations and interdiction efforts to protect Californians from UI and PUA fraud, with the support of the EDD Fraud Special Counsel. This partnership includes the CDCR, State's District Attorneys, and the US Attorney's Office. The task force is regionalized into Southern California, Central California, Northern California, and the Bay Area. The efforts between these regions include, but are not limited to, sharing data, tracking resources, and ensuring case de-confliction.

➤ **Data Sharing Interfaces**

In CY 2022, EDD maintained agreements with several government agencies to facilitate the sharing of claim information for use in the prosecution of PUA fraud. Agreements have been renewed with



multiple law enforcement entities including local district attorney's offices, police departments, CDCR, and the California Department of Justice. In providing this valuable case information, the department helps ensure other agencies can prosecute violations independently and contribute towards stopping criminal activity.

During 2022, EDD responded to 597 inquiries from these law enforcement entities with approximately 7,700 files. This is an increase from the previous year with 166 inquiries and approximately 1,080 files.

In addition, when law enforcement agencies or departments do not obtain a data-sharing agreement, they are required to submit a subpoena or search warrant. The EDD Legal Office received hundreds of these requests from law enforcement to facilitate investigations independently from the EDD Investigation Division.

➤ **Identity Management System**

EDD continues to partner with ID.me to utilize its identity proofing and authentication platform, which is used by various government agencies. ID.me requires all claimants filing a new claim to verify their identity before being allowed to file an online application, which ensures an expedited process for verifying claimants' identities, reduces the potential backlog of claims requiring complex manual review, and deters impostors from filing a claim online. ID.me continued to roll out enhancements to ensure the highest degree of identity validation while enhancing the user's experience and protecting their privacy.

Additionally, the DI Branch partnered with ID.me in 2022 to develop a system to ensure only validated claimants and medical providers would be able to access accounts. Full implementation for the SDI program is scheduled for 2023.

➤ **Thomson Reuters**

EDD continues its partnership with TR Government Division, which provides innovative solutions for the prevention and detection of improper payments and suspected fraud. EDD works closely with TR, which includes Pondera Analytics, to refine and manage the solutions implemented. EDD continues to put all UI claims through TR review to prevent benefit payments to potential fraudsters and allow for the earliest possible detection of fraud. Claims with indicators of potential fraud are subject to additional review.

The DI Branch has also partnered with TR to develop alert systems to help identify fraud risks when processing initial claims. Full implementation for the DI program is scheduled for 2023.

In 2022, EDD expanded its contract with TR to identify large and complex criminal fraud schemes. Cases identified will be referred to local, state, and federal law enforcement entities to investigate and prosecute.

➤ **Benefit Programs Online Features**

The Benefit Programs Online (BPO) system is a convenient and secure way for claimants to access EDD's online systems for DI claims, PFL claims, UI claims, and Benefit Overpayment Services through a single sign-on.

➤ **EDD Benefit Systems Modernization**

EDD continues to work with different vendors on the project to modernize the benefits system including the BPO mentioned above. The system seeks to implement customer-centric processes,

leverage new technologies, and create a modular approach to focus on customer experience, including fraud detection as a primary system goal. The final solution strives to enhance existing fraud detection tools, data integration, claims integration, analytics, and reporting.

Implementation of the Shared Customer Portal Project is expected in June 2023. A new feature will include multifactor authentication that will enable a second authentication method when a client accesses EDD online systems for UI or DI benefits. Clients will have the option to select email, phone, or Short Messaging Service (SMS) text for the multifactor authentication method.

➤ **Fraud Special Counsel**

The former US Attorney McGregor W. Scott continued to serve as the Fraud Special Counsel for EDD. The contract with Scott was renewed in 2022 and he continues to aid the State's work with law enforcement in combating fraud, including supporting the state, federal, and local efforts to prosecute suspected criminal activity.

## 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. 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, have 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 individuals who have appropriated their PII applying and certifying for benefits that would otherwise be ineligible.
- Internal fraud by EDD employees and contracted vendor employees.

The following activities are performed by 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.

### ➤ Independent Internal and External Audits

These audits are conducted of departmental operations and recipients of federal funds such as Local Workforce Development Areas (LWDA) 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.

### ➤ Independent Internal Control Audits – Risk-based Approach

These risk-based audits assist organizations in maintaining effective controls including fraud prevention and detection, by evaluating their effectiveness and efficiency in responding to risks. EDD considers a strong system of internal controls to be a major deterrent to internal fraud. 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.

### ➤ 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 Title I and

Title III workforce development and training, Wagner-Peyser, and Disaster Relief funded services, and state funded workforce development and training programs. EDD Compliance Monitors are alert to symptoms and conditions that may be indicators of illegal activities, maintaining independence and objectivity when conducting monitoring reviews of these activities, programs, and systems.

This oversight provides EDD with an opportunity to ensure internal control structures are in place and they function as prescribed. PACB provides fraud deterrence by continually ensuring proper safeguards are in place to discourage fraudulent activity.

➤ **Incident Reporting**

The incident reporting system under 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. PACB receives and tracks incident reports and submits them to DOL for their review. DOL will determine whether to conduct a joint investigation or refer the reports back to EDD for investigation, audit, or appropriate administrative action.

➤ **Enterprise Risk Management**

EDD's Enterprise Risk Management Office provides a comprehensive, sustainable enterprise risk management program that supports and guides EDD management in identifying and mitigating risks, including fraud risks, and maintaining a robust system of internal controls.

➤ **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 Investigation Division develops cases for criminal prosecution at the county, state, and federal levels when appropriate. Restitution in convicted cases can include the recovery of benefit overpayments, tax liabilities, penalties, interest, investigation costs, and other monies determined by the court to be owed to EDD by an entity or individual.

➤ **Published Website to Report Fraud**

The EDD website 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 in 2022 were automatically directed to the Investigation Division.

➤ **Participation in Task Forces**

The Investigation Division participates in various task forces with other state and federal law enforcement agencies such as Cal OES, California Department of Insurance, California Department of Tax and Fee Administration, Franchise Tax Board, Internal Revenue Service (IRS), DOL, US Postal Inspection Service, California Department of Justice, and local prosecutors.

➤ **Strategic and Tactical Intelligence Gathering**

The Investigation Division's CIS develops strategic and tactical intelligence for investigative case identification, as well as assists program managers in identifying areas to prevent and detect fraud. This section works with EDD program managers to identify characteristics of fraud, detect trends, and uses technology to screen claims for potentially fraudulent activities. The CIS also 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 EDD can use to counter fraudulent activity.

➤ **Business Intelligence Competency Center**

The Business Intelligence Competency Center (BICC) is a team within EDD responsible for managing all aspects of Business Intelligence strategy, projects, and systems. Business Intelligence applications include activities of decision support systems, query and reporting, online analytical processing, statistical analysis, forecasting, and data mining. The BICC infrastructure also provides a central metadata repository.

The BICC helps the Investigation Division utilize complex software to improve data mining to prevent and detect fraud against EDD's programs. This metadata repository is used to improve fraud detection efforts by enabling CIS to conduct in-depth data analyses to identify patterns and trends that will serve as potential indicators of fraudulent activity.

### **Compliance Resolution Activities**

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 and Workforce Investment Act (WIA) funds. Although the WIA program ended with the creation of WIOA in 2014, staff continue to resolve fraud and abuse cases associated with the WIA program.

During CY 2022 the Compliance Resolution Unit processed 69 cases, 20 of which were resolved. At the end of 2022, 49 ongoing cases totaling \$8,033,401 in questioned costs remained open in various stages of audit, investigation, and appeals within the state resolution process.

### **Enforcement Activities**

To protect the integrity of its programs and the interests of employers, claimants, and taxpayers, EDD enforces the CUIC provisions and various other California codes. 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 2022, EDD's comprehensive anti-fraud activities in the SDI, UI, Tax and WIOA programs identified potential fraud to warrant investigation, resulting in criminal complaints and prosecutions (in dollars).

Accomplishments by the EDD Investigation Division are as follows:

Table 3

<b>Criminal Case Activity</b>	<b>SDI Program</b>	<b>UI Program</b>	<b>Tax Program</b>	<b>Total</b>
Criminal Cases Opened in CY 2022	\$444,017 14 Cases	\$56,208,640 171 Cases	\$75,000 19 Cases	\$56,727,657 204 Cases
Total Active Criminal Cases Under Investigation	\$96,287,530 132 Cases	\$428,208,298 961 Cases	\$86,402,897 125 Cases	\$610,898,725 1218 Cases
Criminal Complaints Filed	\$54,072,746 3 Cases 3 Complaints	\$21,564,772 41 Cases 61 Complaints	\$853,631 5 Cases 5 Complaints	\$76,491,149 49 Cases 69 Complaints
Completed Criminal Prosecutions	\$6,017,532 7 Cases	\$29,501,811 54 Cases	\$5,004,534 10 Cases	\$40,523,877 71 Cases

The Investigation Division had no WIOA cases recorded as active in CY 2022. In total, the 1,218 EDD Investigation Division criminal cases represent \$610,898,725 of presumptive fraud and State tax liability. By way of comparison, the CY 2020 Report identified 392 criminal cases were opened compared with 470 in 2021.

As stated above, the Investigation Division opened 204 cases in CY 2022. Of the cases opened, 171 include allegations of fraudulent activity surrounding the Coronavirus Aid, Relief, and Economic Security (CARES) Act Pandemic funding. Collectively, the Investigation Division has approximately 800 active PUA fraud cases opened in CY 2020, 2021 and 2022 representing \$489.7 million in presumptive fraud. The PUA investigations account for approximately 73% of the current EDD criminal cases. The report sources include claimants, private citizens, business owners, EDD personnel, external law enforcement and government agencies, and anonymous tips.

The Investigation Division closed 116 cases in CY 2022 with a collective value of \$22,498,035 in benefit fraud and \$7,483,240 in state tax liability throughout the course of the year. As a subset of the 116 closed cases, 60 cases totaling approximately \$14.9 million, were closed due to various administrative reasons. Some reasons may include, but are not limited to, case consolidation, change of case type, or charges refused by prosecutor. There are two cases of note. The first is a DI case which was opened jointly upon the request of a partner agency. After looking into the allegation, it was determined there was not enough evidence to substantiate a complaint against the medical practitioner and the case was closed. The other is an UI case in which the suspect passed away and the charges were not pursued. These two cases account for over \$10 million of the closed cases. Cases closed for administrative reasons, as in the two scenarios above, are referred to the benefit program for administrative action. The

Investigation Division ended CY 2022 with 1,102 active and ongoing cases.

Fraud perpetration schemes observed related to CY 2022 pandemic era claims continue to include:

- Identity Theft and Address Theft - Impostor 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 information without knowledge or consent.
- Incarcerated: Fraudulent certification and receipt of benefits while detained in local, state and/or federal jurisdiction detention facility. Claims filed either by the incarcerated individual or by individuals who appropriated their PII with or without the incarcerated individual's knowledge.
- False wages: Individuals certifying to be 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 using stolen PII of children, transients, 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, in varying jurisdictions and in multiple task forces. The Investigation Division is part of the California Tax Recovery in the Underground Economy (TRUE) Task Force, as well as a participant in various District Attorney task forces aimed at combating employer fraud and tax evasion.

In 2022 the US Department of Justice created a COVID-19 Fraud Strike Force with teams in Los Angeles, Sacramento, Miami, and Baltimore. The Strike Force is led by federal prosecutors within each of the Federal Districts and is comprised of various federal law enforcement agencies. EDD is the only state agency invited to participate as an active member of the Strike Force. Many of the EDD Investigators have been assigned COVID-19 Fraud Strike Force cases, while others continue to work mutually with local, state, and federal agencies. As always, the Investigation Division continues to work closely with DOL OIG on UI fraud cases involving multi-state perpetration and large benefit fraud schemes.

## BENEFIT PROGRAM ACTIVITIES

EDD continually monitors, conducts research, and works to identify new systems and activities to detect and prevent fraud to improve benefit payment accuracy within its programs. Staff from the UI and DI Branches work closely with the Investigation Division and its criminal investigators to combat fraud.

### Unemployment Insurance Program

The UI program provides benefits to individuals who have lost their jobs through no fault of their own. Claimants must be actively seeking work, be able to work, and be willing to accept employment. In 2022, the UI program was also responsible for administering the workload resulting from the federal programs continued under the CARES Act of 2020, as amended under the Continued Assistance Act of 2021, and the American Rescue Plan (ARP) Act of 2021.

The following are some program highlights for CY 2022:

Table 4

Unemployment Insurance	Claims Processed	Benefits Paid
Regular UI	2,283,914	\$5,071,609,638
Pandemic Emergency Unemployment Compensation	7,640	\$299,764,921
FED-ED (EB)	8,274	\$26,886,036
PUA	2,419	\$332,176,634
TOTAL	2,302,247	\$5,730,437,229

## Fraud Prevention Measures

### ➤ Claimant Information

Notifications to the claimant include the *Unemployment Insurance Benefits: What You Need to Know Booklet*. This booklet is available online and explains 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 notified of the legal consequences of willfully making a false statement or knowingly concealing a material fact to obtain benefits. This notification is provided on the claim form declaration statement and is acknowledged and signed by the claimant when applying for benefits through UI Online.

### ➤ Continued Claim Certification

Claim certification is completed by claimants every two weeks to attest 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.



➤ **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, the notice instructs the employer how to protest the claim.

Employers may elect 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 an UI claim. The form is mailed to the respective employer after the first benefit payment is made to the claimant advising them of the 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 the submission of information to EDD. All 50 US states participate in SIDES, in one or more exchanges, with their state's employer community.

➤ **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 US DOL requirements and detects the nature and extent of improper payments, reveals operating weaknesses, and serves as a check on agency employee fraud or collusion. Claims that appear fraudulent are referred to the Investigation Division for review for a possible criminal case or to the program for administrative follow-up.

➤ **Quarterly Benefit Audits**

This automated quarterly process crossmatches wages reported to EDD by employers to UI benefits paid within the same period. Through this process, the UI program can detect when claimants have collected UI benefits while they worked and failed to report their work and wages earned as they certified for UI benefits. Traditionally, this is one of the most common forms of fraud committed against the UI program. This process allows overpayments and penalties to be established and collected, protecting the solvency of the UI Trust Fund.

➤ **Last Employer Address Information**

This information is obtained from EDD's internal database. The ability to crossmatch 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.

➤ **Customer Account Number**

EDD assigns 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 instructions on how to set up an account. Claimants can use their 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.

➤ **Identity Alert Process**

The Identity Alert Process was developed and implemented to reduce the risk of identity theft fraud. When the Identity Alert Process is initiated on a claim, payments are not 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.

EDD staffing resources dedicated to the validation process in CY 2022 performed an estimated savings to the UI Trust Fund of more than \$6.3 million. The tools utilized by EDD to specifically prevent UI impostor fraud include the following:

- Stopping benefit payments on active UI claims 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 collectively where the parties have a connection to multiple states.

## **Data Sharing**

➤ **UI/DI Benefit Overlap Flag**

This crossmatch automatically stops payments on UI claims when a DI/PFL claim benefits period overlaps with the dates that UI benefits are claimed. The UI staff then block the overlapping period pending an eligibility determination thereby preventing improper payments.

➤ **National Directory of New Hires**

This crossmatch 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 nationally maintained database allows EDD to identify and investigate claimants receiving UI benefits who have returned to work outside of California and failed to report their work and wages.

➤ **New Employee Registry Benefit Crossmatch for California Employers**

This crossmatch 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. Through this process, EDD can detect fraud and other eligibility issues up to six months earlier than through its benefit audit process.

➤ **Interstate Crossmatch**

This process crossmatches wages reported quarterly by employers outside of California to UI benefits paid within the same period. Through this process, the UI program can detect when claimants have been fraudulently collecting benefits while working outside of California. This process allows overpayments and penalties to be established and collected.

➤ **Social Security Number Verification Process**

EDD interfaces with the Social Security Administration's records to help the UI Branch verify the identity of the claimant during the claimant's identification process.

➤ **Department of Motor Vehicles Verification Process**

EDD interfaces with Department of Motor Vehicles records to help the UI Branch verify the 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.

➤ **Mortality Data Crossmatch**

The Mortality Data crossmatch process matches UI claimant records with information from the Social Security Administration's Death Master File which EDD receives monthly from the Department of Commerce National Technical Information Service. By crossmatching EDD's UI claimant data against the Death Master File, EDD can proactively detect and prevent UI fraud and improper benefit payments, protecting the UI Trust Fund.

➤ **California Department of Corrections and Rehabilitation Crossmatch**

The CDCR crossmatch allows EDD to check against incarceration data provided by CDCR monthly. The partnership allows EDD to identify violations of the CUIC. The crossmatch allows for EDD to detect and deter improper payments and suspected fraud.

In CY 2022, using the strong match protocol, EDD identified that 2.8 percent of the total population of the CDCR incarceration data received required further evaluation to determine if the individuals were legally or fraudulently collecting benefits. After evaluating these claims to determine if the individuals met the eligibility criteria to be paid unemployment benefits, 46 percent were disqualified from receiving benefits. The remaining 54 percent were not disqualified because they were not incarcerated and met all eligibility requirements during the period in which they were attempting to collect benefits.

## **Outreach and Information Sharing**

➤ **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 to claimants during a selected month for each calendar quarter in 2022. 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 it explains the consequences when wages are misreported. These efforts will be continued at the same interval throughout the end of CY 2023.

EDD's [Help Fight Fraud](#) webpage includes important public guidance for common fraud schemes, and it communicates to the public how to Report Fraud through Ask EDD.

➤ **Employer Education**

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

corresponding webpage and publication are also available to assist employers.

➤ **Continuous Public Outreach and Education Efforts**

EDD continues 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 hard-copy publications available for distribution during employer and community outreach events.

➤ **SMS Messaging**

EDD utilizes SMS messaging 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 inform 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 to trick people into giving up personal information by text message. 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 customers to reactivate a debit card.

## **Technology Improvements and Innovations**

➤ **Document Upload Project**

The Document Upload Project allows claimants to upload required documents through their UI Online account for claims that have already been filed. The positive effects of this added functionality 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 the immediate submittal of identity documents to EDD.

➤ **Unemployment Insurance Customer Service Center**

The EDD UI Customer Service Center allows UI customers the ability to select options to file a claim, obtain claim and overpayment information, confirm Form 1099-G information, and Tele-Cert<sup>SM</sup> for benefits without the need to call a separate EDD self-service telephone number. Callers are authenticated using their SSN and are routed to the appropriate options within the Interactive Voice Response system to utilize these services. With this system, EDD can record and report caller activity, data, and call history for fraud detection and prevention.

➤ **Unemployment Insurance Online Features**

Within the departments' benefit payment system, UI Online, EDD 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 employers' reserve accounts are charged appropriately. The integration of ID.me allowed the UI Online self-service functions to be available 24 hours per day. Previously, the UI Online system closed for several hours each night for connectivity to the Social Security Administration systems. The Social Security

Administration verification process is completed for applications not submitted through the UI Online channel.

## Unemployment Insurance Results and Accomplishments

The following table illustrates the UI program's results and Investigation Division's criminal case accomplishments, specific to the program, for the last three calendar years:

Table 5

<b>UI Program Results</b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
Cases Under Investigation	\$167,880,922 392 cases	\$316,145,179 819 cases	\$428,208,298 961 cases
Criminal Complaints Filed	\$1,784,406 13 cases	\$28,142,006 137 cases	\$21,564,772 41 Cases
Completed Criminal Prosecutions	\$3,794,480 11 cases	\$8,457,812 78 cases	\$29,501,881 54 cases
Fraud Overpayments (OPs) Established	\$59,181,845 60,510 OPs	\$127,052,138 48,850 OPs	\$188,204,896 159,417 OPs

Notably, this data reflects only the cases where the Investigation Division is leading the investigation or working the case jointly with a law enforcement partner. Multiple additional independent active investigations, arrests, and prosecutions are also underway by various jurisdictions.

The following provides more detailed information on the actions in the above table. At the end of 2022, the Investigation Division closed 92 of the 961 cases under investigation and continues to work 869 active and ongoing cases representing \$415,204,641 in potential fraudulent benefit payments. These investigations include:

- Impostor fraud/Identity Theft (464 cases representing \$252,617,384).
- Incarceration (323 cases representing \$112,728,984).
- Work and Earnings Violation – Working while certifying for benefits (36 cases representing \$851,345).
- Pandemic False Self-Certified Wages (23 cases representing \$23,645,404).
- Fictitious Employer (7 cases representing \$18,807,571).
- Multiple SSNs used by one person, Forgery, and other violations (16 cases, representing \$6,553,953).

The Investigation Division filed 61 criminal complaints on 41 cases representing potential fraudulent benefits in the amount of \$21,564,772. These complex fraud cases involved egregious violations, identity theft, and high overpayments.

The Investigation Division obtained 86 criminal prosecutions on 54 cases representing fraudulent benefits in the amount of \$29,501,811.

The Investigation Division referred some violations to the UI Branch for assessment of administrative penalties and collection of overpayments. These violations were appropriate for administrative action based on the amount of overpayment, number of weeks of violation, and other factors identified by prosecuting authorities.

The UI program staff in the Integrity and Accounting Division (IAD) established over 159,417 fraud overpayments totaling \$188.2 million in CY 2022 for regular UI program benefits.

Out of the total 159,417 fraud overpayments established, over 35,921 (nearly 23%), were detected as a result of four specific tools:

Table 6

Method of Detection	Number	Dollars
Benefit Audit Crossmatch	12,470	\$13,322,149
New Employee Registry Crossmatch	18,549	\$17,723,924
Interstate Benefit Crossmatch	61	\$122,106
National Directory of New Hires Crossmatch	4,841	\$5,276,502
Total	35,921	\$36,444,681

The remaining fraud overpayments not attributed to the above totaled approximately \$148.9 million. These overpayments were established for a variety of reasons including retroactive disqualifications of miscellaneous eligibility issues and unreported work and earnings not discovered through the crossmatch systems.

### Future Unemployment Insurance Program Enhancements

#### ➤ State Information Data Exchange System Enhancements

The Department is focusing efforts on marketing the many benefits of SIDES to encourage business participation and continues to explore different marketing strategies to reach a larger audience. EDD strives to increase participation and usage of SIDES in the business community to maximize the number of electronic communications received by employers.

#### ➤ National Association of State Workforce Agencies Integrity Data Hub Cross-Match

EDD engages with the National Association of State Workforce Agencies (NASWA) as programming continues for the implementation of the Integrity Data Hub (IDH) crossmatch, estimated to be completed in Spring 2023. The IDH is a secure, robust, centralized, multi-state data system that allows EDD to crossmatch UI claims against a database of information associated with known or potentially fraudulent claims or overpayments in other states and to share EDD's data with other states.

## **State Disability Insurance Program**

The State Disability Insurance (SDI) program includes two types of benefits: Disability Insurance (DI) and Paid Family Leave (PFL). DI provides partial-wage replacement benefits for eligible California workers who are unable to work due to their own illness, injury, pregnancy, or disability while PFL provides partial-wage replacement benefits for eligible California workers who are unable to work and need to provide care for a seriously ill family member, bond with a new child, or participate in a qualifying event resulting from a family member's military deployment to a foreign country.

The following are some program highlights for CY 2022:

Table 7

<b>State Disability Insurance</b>	<b>Claims Processed</b>	<b>Benefits Paid</b>
DI program	819,644	\$7,861,434,162
PFL program	311,420	\$1,698,028,305

The SDI Program Integrity Unit oversees, coordinates, and conducts various staff education efforts and investigative activities involving suspicious claims in the SDI offices. The DI Branch staff complete in-depth data analysis of various reports and develop procedures and forms to enhance program integrity efforts.

Primary fraud deterrence and detection tools for the DI Branch include sending key notifications to claimants, data sharing with key partners, systematic reviews, training, and outreach. With these tools in place, the DI Branch was able to suspend fraudulent payments and strengthen the medical provider and claimant vetting process in response to the new fraud attempts which began in late 2021.

## **Fraud Prevention Measures**

### ➤ **Automated Identity and Address Verification Form**

The DE 4365 Notice and Request for Eligibility Information series forms were created to verify a claimant's identity and address by requesting identity documentation, rental agreements, utility bills, or other substantiating documentation. The requested documents can be mailed back to EDD or uploaded via an online portal.

### ➤ **Review of Bank of America Frozen Electronic Benefits Payment Accounts**

Bank of America shares the list of frozen Electronic Benefits Payment accounts with EDD per federal financial institution regulations. The DI Branch reviews and verifies the identity of the DI and PFL claimants who are on the list.

### ➤ **In-Office Eligibility Review Process**

This process permits EDD to require claimants who are suspected of fraud and currently receiving benefits to submit to an in-person interview before a decision is made regarding their continued eligibility to receive benefits. 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 claimants' rights to due process are protected.

➤ **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 qualifying relationship.

➤ **Digitizing 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 compare current signatures of claimants and physicians on these documents with documents submitted previously by the same claimant and/or physician.

## **Data Sharing**

➤ **Secured Data Sharing with Bank of America Regarding DI and PFL Fraud Attempts**

DI and PFL fraud attempts are identified using business logic, which is translated from recent fraud patterns. When an impostor files a DI or PFL claim under a stolen SSN, the true SSN owner's information is compromised. EDD and Bank of America communicate to ensure the fraud attempts are captured in both entities.

➤ **Interface With the Department of Motor Vehicles**

EDD interfaces with Department of Motor Vehicles records to help the DI Branch verify the identity of SDI Online claimants and medical providers.

➤ **New Employee Registry Benefit Cross Match**

EDD uses the New Employee Registry interface to validate new hires are not collecting DI or PFL benefits when they have returned to work. This interface also allows overpayments to be established against new hires.

➤ **Unemployment Insurance/DI Overlap Flags**

The Overlap Flags automatically stop payments on DI and PFL claims when an UI claim benefits period overlaps with the dates that DI or PFL benefits are claimed. The DI and PFL staff then block the overlapping period pending an eligibility determination thereby preventing improper payments.

➤ **Increasing Data Sharing Frequency with the Department of Consumer Affairs**

The DI and PFL programs use data from the Department of Consumer Affairs to verify medical providers' license information. These notifications identify medical providers whose licenses have been revoked or suspended. This information helps ensure claims are certified by licensed medical providers and alerts EDD of potential fraud.

## **Reports**

The reports below were used to research potential fraud based on leads that were provided to the DI Branch.

➤ **Activity Tracking for Top Certifying Medical Providers**

This report tracks, monitors, and updates ongoing medical provider investigation activities on an existing medical fraud case.



➤ **Medical Provider Account Creation Information**

This report delivers all the information used to create a medical provider State Disability Insurance Online (SDIO) account in a specified time frame, including PII and contact and license information.

➤ **Medical Provider Run**

This report queries all the DI claims certified by a specific medical provider in a specified time frame. The DI Branch uses this report to identify claims that are falsely certified by the medical provider.

➤ **Decedent Cross Match Reports**

The report checks all SSNs in DI Branch's database against the Social Security Administration Death Master File. This report enables the DI Branch to identify and recover benefits paid after the claimant's date of death.

## **Training and Outreach**

➤ **Program Integrity Training**

This training is provided to heighten staff awareness and develop the capacity to detect and deter fraud and abuse in the SDI program. The DI Branch is in the process to update all the fraud related training to include newly implemented fraud prevention measures. This training is provided to all newly hired SDI Program Representatives.

➤ **Medical Training**

This training, provided to the DI field office staff, includes a comprehensive presentation of medical information and case study training to educate and enhance staff's knowledge of disability 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 DI claim. Medical terminology training provides staff with a better understanding of a diagnosis, and it assists staff in determining the severity and expected length of a disability, the appropriate action to control claim duration, and potential abuse of the program. This training is provided to newly hired DI Program Representatives via the 15-Week New Hire Training.

➤ **Impostor Fraud Training**

Impostor Fraud is defined as someone who represents themselves as another to obtain a benefit. The impostor is generally assuming the identity of another to collect benefits to which they are not legally entitled. This training provides resources to identify abuse or fraudulent activity and is provided to newly hired DI Program Representatives via the 15-Week New Hire Training. In addition, trainees are instructed on processing claims with claimant identity issues, claims involving deceased claimants, impostor allegations, and anonymous tips.

➤ **Education and Outreach to Stakeholders**

The DI Branch's Outreach Development Section develops and implements strategies to reach and educate California's SDI program stakeholders (e.g., hospitals, licensed health providers, employers, military families, community groups, and eligible California workers). The Outreach Development Section provides accurate and timely SDI program information via webinars, events, conferences, publications, and the EDD website. The Outreach Development Section also creates and maintains partnerships with community organizations across California to increase program awareness and utilization rates in underserved communities.

## Technology Improvements and Innovations

### ➤ New Business Logic for Fraud Prevention

The DI Branch worked with the Information Technology Branch to translate identified fraud patterns into scripted business logic to prevent fraud attempts from being processed and paid. This measure includes stop payment flags on fraud attempts and indicators on unverified medical providers.

### ➤ Identifying Suspected Fraudulent Claims

The DI Branch expanded system identifiers to alert staff to follow special instructions to assist with claim processing and payment of suspected fraudulent claims. In 2022, the DI Branch was able to swiftly halt fraudulent impostor medical provider activities.

### ➤ Knowledge Management System

The Knowledge Management System utilizes software to post articles that provide directions to the field offices on how to process SDI claims. The system is a convenient and user-friendly program which allows staff to search by keywords when assistance is needed processing claims.

## State Disability Insurance Criminal Case Results and Accomplishments

The following table illustrates the SDI program results and Investigation Division's criminal case accomplishments for the last three calendar years.

Table 8

<b>SDI Program Results</b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
Cases Under Investigation	\$36,986,976 125 Cases	\$39,497,169 124 Cases	\$96,287,530 132 Cases
Criminal Complaints Filed	\$5,344,424 10 Cases	\$3,033,312 23 Cases	\$54,072,746 3 Cases
Completed Criminal Prosecutions	\$2,580,088 7 Cases	\$3,199,743 10 Cases	\$6,017,532 7 Cases
Fraud Overpayments Established	\$6,057,523 504 OPs	\$6,581,486 353 OPs	\$4,586,073 332 OPs

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

At the end of 2022, the Investigation Division had closed 11 of the 132 cases under investigation and continues to work 121 active and ongoing criminal cases representing \$86,793,152 in potential fraudulent benefit payments. These investigations include:

- Impostor Fraud/Identity Theft and DI/PFL claim takeover (23 cases representing \$7,936,099).
- Altered or forged documents (23 cases representing \$9,813,029).
- Medical practitioner fraud (8 cases representing \$63,098,262).
- Working while certifying for benefits (55 cases representing \$2,199,431).

- The remaining 12 cases, representing approximately \$3,746,331, include fictitious employer registrations on which fraudulent claims were based, false injury certified by claimant, multiple SSNs used by an individual, and other miscellaneous violations.

Notably, the Investigation Division filed one criminal complaint with charges filed against a medical practitioner representing most of the total overpayment amount at just under \$54 million.

The Investigation Division completed seven criminal prosecutions involving 10 different individuals. A singular Identity Theft case has an overpayment estimated at over \$3.3 million. The remaining cases primarily involve individuals working while certifying for benefits.

DI and PFL staff established a cumulative total of 332 fraud overpayments in the amount of \$4,586,073.

- SDI program established 170 fraud overpayments totaling \$2,499,128 on fraudulent claims associated with suspects who were prosecuted.
- The PFL program established four fraud overpayments totaling \$6,808 on fraudulent claims associated with suspects who were prosecuted.
- The DI program established 154 fraud overpayments not attributed to prosecutions. These overpayments, totaling \$2,073,328, were the result of administrative actions applied by DI staff, such as false statement overpayment.
- The PFL program established four fraud overpayments not attributed to prosecutions. These overpayments, totaling \$6,809, were the result of administrative actions applied by PFL staff, such as false statement overpayments.

Program anti-fraud efforts stopped over \$4,986,455,651 in benefits from being paid.

- Existing anti-fraud efforts stopped \$2,126,888 in benefits from being paid utilizing the following detection methods:
  - Independent Medical Examinations.
  - Verification of SSN ownership with deletion of improper base period wages.
  - Referrals to Investigation Division resulting in convictions or administrative actions.
- Newly installed fraud prevention measures and technologies stopped \$4,984,328,763 in benefits from being paid in State Fiscal Year 2021-2022. The newly installed prevention measures included ID.me verification, Stop Pay flags for claims that fit the recent fraud patterns, and the identity and address verification form for suspicious claims.

During 2022, there were 153 medical providers who certified an unusually high number of claims. A review concluded that 40 medical providers' certifications were justified, and no fraud or abuse was detected. Of the remaining 113 medical provider certifications, one doctor is currently under investigation by the EDD Investigation Division and has been flagged as suspicious. The remaining 112 medical providers continue to be evaluated by staff to determine if fraud or abuse can be detected.

## **Future Fraud Prevention Measures**

### **➤ ID.me**

The DI Branch has partnered with ID.me to create a highly secured identity verification process to ensure that only claimants or medical providers can access their respective accounts. ID.me is an

online identity network company that allows people to prove their legal identity online. It notifies the DI Branch upon claimants and/or medical providers validating their identities. ID.me implementation will be completed in 2023.

➤ **Thomson Reuters Solutions**

TR Solutions contains IDRA and Fraud Detect. IDRA provides the DI Branch with a set of identity alerts for claimants and medical providers. It helps the DI Branch identify potential risks when processing claims. The Fraud Detect tool contains dashboards and a search function for claimants, medical providers, and employers. The dashboards will summarize data for potentially fraudulent activities that are related to an individual. TR implementation will be completed in 2023.

➤ **Streamlined Identity, Address, and Wage Verification Process**

The DI Branch is consolidating forms to verify a claimant's identity, address, and wages. The new process provides claimants with clear guidance on acceptable document types and offers convenient ways to submit their documents to EDD.

➤ **New Fraud Prevention and Detection Section**

The DI Branch is in the process of establishing a new section to detect fraud data patterns and prevent fraudulent claims from being filed. This new section will review current and past DI and PFL claim data hosted in the BICC, identify data patterns that might be caused by fraudulent activities, and work with SDI Online and TR teams to improve existing business rules and TR alerts to prevent fraudulent claimants and medical providers from entering the system.

➤ **Establish Identity Verification Training and ID Checking Guide Reference**

The DI Branch is developing training materials to educate staff on how to properly verify identity documents that are submitted by claimants. The DI Branch also purchased an online I.D. Checking Guide that provides samples of all government-issued identity documents, including foreign passports and consular ID cards.

## **Employment Tax Program**

As 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 ETT, as well as employee payroll deductions of SDI, and PIT. The Tax Branch also processes quarterly wage reports from the state's more than 1.6 million employers, accounting for more than 18.5 million workers. Collecting almost 50 percent of the state's General Fund, the Tax Branch collected over \$105.5 billion in taxes and contributions in 2022.

The Tax Branch ensures the integrity of the Employment Tax Program by collaborating with 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's Field Audit and Compliance Division has staff located throughout the state to operate its administrative enforcement efforts. This also includes conducting out-of-state audits with the goal of providing education, assistance, and enforcement. The Tax Branch embraces EDD's strategic approach to combating the underground economy, by providing education and outreach, administrative enforcement, and working with partners on criminal prosecution.

## **Fraud Prevention Measures**

### **➤ 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 public to promote voluntary compliance. The methods used to distribute information and provide education include publications, online and in-person seminars, community outreach, social media, and websites.

EDD conducts various payroll tax seminars available at no cost, including co-presented joint seminars with other agencies, including EDD/IRS payroll taxes and EDD/Department of Industrial Relations labor law and payroll tax seminars. EDD's outreach efforts also include providing special presentations upon request and participating in information booths at events sponsored by entities such as payroll associations, industry groups, non-profit organizations, and other governmental entities. In 2022, EDD continued to host webinars and virtual outreach events because of continued COVID-19 pandemic precautions, as well as the overwhelming success and higher participation rates. EDD conducted and participated in 104 outreach events with 56,630 attendees. One event EDD participated in was a Korean speaking event hosted by Radio Korea, which had an estimated 50,000 listeners in attendance.

EDD established an on-going partnership with the State Controller's Office (SCO) by participating in the SCO's Small Business Webinars throughout the state. These webinars were jointly sponsored with other governmental agencies and local organizations to provide education and assistance to small businesses and the employer community as they recover through these unprecedented times. A variety of government business assistance programs shared during these events have greatly benefited small business owners and helped their businesses grow. 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 the public.

➤ **Administrative**

The Tax Branch uses administrative enforcement activities to address noncompliance such as site inspections, audits, and involuntary collection of amounts due. Data and information are shared with various governmental agencies where permitted, to maximize enforcement results. The Tax Branch's Collection Division administers the Employment Tax Collection and Benefit Overpayment Collection Programs. Collection Division personnel work with employers to promote prompt and accurate payroll data reporting, which is necessary to support the benefits provided by the UI, DI, and ETT programs. Collection Division personnel also work with employers and claimants to ensure the prompt collection of UI, ETT, and DI taxes, as well as collecting UI and DI benefit overpayments, which are a major source of revenue for the UI and DI funds, used to pay future benefits. Collection Division's Field Operations program works on complex accounts involving the most flagrant and egregious employers, engaged in underground economy activities, asset deception, UI rate manipulation (state unemployment tax avoidance schemes), and employers that have been penalized due to fraud or intent to evade.

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

**Tax Audit Program**

In 2022, the Audit Program conducted 5,345 audits and investigations, resulting in assessments totaling \$554,479,365 and identification of 170,726 unreported employees. A breakdown of the audit and investigation results is provided in the following table:

Table 9

<b>Calendar Year 2022</b>	<b>Cases Completed</b>	<b>Payroll Tax Assessments</b>	<b>Previously Unreported/ Misclassified Employees</b>
EDD Payroll Tax Audits	4,995	\$523,152,156*	164,364*
EDD Payroll Tax Investigations	350	\$31,327,209	6,362
Total EDD Payroll Tax Audits and Investigations	5,345	\$554,479,365	170,726

*\* In Calendar Year 2022, four very large audits were completed that resulted in assessments of more than \$27 million each, the largest being more than \$242 million. These four audits revealed 31,460 previously misclassified employees.*

The following table illustrates amounts collected to date from audits and investigation assessments as of January 17, 2023. The 2020 and 2021 figures include amounts collected after 2021, which is why they differ from prior reports:

Table 10

<b>Calendar Year of Assessment</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Audit and Investigation Assessed Amounts Collected	\$13,664,745	\$33,263,372	\$34,113,406

## Compliance Development Operations

Compliance Development Operations (CDO) is a program within EDD's Tax Branch. CDO functions include conducting on-site business inspections as part of the Joint Enforcement Strike Force (JESF) and Labor Enforcement Task Force (LETf) operations. CDO is responsible for screening allegations received from task force partners to determine suitability for on-site inspections. In addition, CDO captures allegations of non-compliance submitted through the Payroll Tax Fraud Hotline (1-800-528-1783), correspondence, fax, 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 CUIA, 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 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 and Investigative Services
- ✓ California Department of Insurance
- ✓ California Department of Justice
- ✓ Franchise Tax Board
- ✓ California Department of Tax and Fee Administration
- ✓ California Labor & Workforce Development Agency
- ✓ Alcoholic Beverage Control
- ✓ Internal Revenue Service
- ✓ US Department of Labor
- ✓ District Attorneys throughout California
- ✓ Local law enforcement

The JESF's administrative enforcement efforts undertaken 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 multi-agency compliance approach presents a united effort to show taxpayers and their representatives that federal and state agencies work together to enforce tax laws.
- Pursuing administrative actions to address employer noncompliance detected via the JESF's efforts, or for cases warranting criminal investigation, Investigation Division'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 is responsible for ensuring that California workers receive proper payment of wages and are provided a safe work environment. The LETF ensures that California receives all employment taxes, fees, and penalties due from employers, while eliminating unfair business competition by leveling the playing field, making efficient use of state and federal resources in carrying out its mission.

The Department of Industrial Relations leads this multi-agency coalition. 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 calendar years:

Table 11

<b>CDO JESF/LETf Cumulative Lead Development Activities and Results*</b>	<b>2020**</b>	<b>2021**</b>	<b>2022</b>
Joint Inspections	333	474	1,551
EDD Audit Referrals	413	274	813
EDD Payroll Tax Audits	252	547	712
EDD Payroll Tax Assessments	\$12,696,520	\$49,911,078***	\$31,707,280
Assessed Amounts Collected To-Date*	\$2,231,295	\$5,401,418	\$3,790,381
Previously Unreported Employees	2,538	8,254***	7,554
Cases w/Fraud Penalty Assessed	1	15	9
Assessments on Fraud Cases	\$46,239	\$16,309,230	\$3,151,079
Fraud Assessed Amounts Collected To-Date*	\$0	\$260,404	\$145,627

\* These figures reflect cumulative collections for each of the years listed under which the liabilities were created as of January 17, 2023. The amounts for the years 2020 and 2021 include funds collected after 2021 which is why the totals are greater than what was reported in the 2021 report.

\*\* The results for calendar years 2020 and 2021 were impacted by the suspension of field operations due to the pandemic.

\*\*\* These figures include a large audit completed in calendar year 2021 which included 1,801 previously unreported employees and resulted in an assessment of over \$15 million.

## 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 initiated by non-CDO leads for the last three calendar years:

Table 12

<b>Fraud Audit and Investigation Results from Non-CDO Leads</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Cases w/Fraud Penalty Assessed	16	25	28
Previously Unreported Employees	2,120	1,364	8,355
Assessments on Fraud Cases	\$8,682,585	\$7,959,198	\$12,815,356
Fraud Assessed Amounts Collected To-Date*	\$1,263,169	\$198,326	\$8,172

*\* These figures reflect cumulative collections for each of the years listed under which the liabilities were created, as of January 17, 2023. The amounts for the years 2020 and 2021 include funds collected after 2021 which is why the totals are greater than what was reported in the 2021 report.*

The Field Audit and Compliance Division's Central Office staff conduct follow-up work on informant allegations of non-compliance received by the CDO's Complex Case Group when the circumstances or information received does not warrant a site inspection. They conduct desk reviews of 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 calendar years:

Table 13

<b>Desk Investigation Results</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
EDD Audit Referrals	14	7	7
EDD Payroll Tax Audits	5	5	9
EDD Payroll Tax Assessments	\$1,026,721	\$153,624	\$338,111
Previously Unreported Employees	168	62	140
Assessed Amounts Collected To-Date*	\$229,958	\$23,127	\$31,322

*\* These figures reflect cumulative collections for each of the years listed under which the liabilities were created as of January 17, 2023. The amounts for the years 2020 and 2021 include funds collected after 2021 which is why the totals are greater than what was reported in the 2021 report.*

EDD's Complex Case Group receives allegations of noncompliance by several methods. In 2020 and 2021, due to the pandemic, EDD received a significantly higher number of contacts than usual. In 2022, the number of contacts returned to normal levels.

The following table provides a breakdown of the number of contacts received by each method for the last three calendar years:

Table 14

<b>Number Of Contacts Received and Processed</b>	<b>2020*</b>	<b>2021*</b>	<b>2022</b>
Telephone Call to Payroll Tax Fraud Hotline	6,674	6,954	969
Online Submission (EDD Website or Email)	7,852	9,962	2,619
Correspondence (Fax or Mail)	65	180	197
<b>Total</b>	<b>14,591</b>	<b>17,096</b>	<b>3,785</b>

*\*There were unusually high call and online contact volumes during 2020 and 2021 due to the pandemic and the need for individuals to contact EDD with questions about unemployment insurance, pandemic unemployment assistance, and to report unemployment insurance fraud. The contact volumes returned to normal levels in 2022.*

Of the 3,785 overall contacts in 2022:

- 1,282 were allegations of potential payroll tax violations.
- 604 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 for further investigation.
- 137 contacts inquiring about UI and/or PUA claims were provided to the UI Branch for review.
- 1,762 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.

In addition to conducting audits of employers located within California, EDD conducts audits of out-of-state employers with California workers. The following are the out-of-state audit results for the last three calendar years:

Table 15

<b>Out-Of-State Audits Completed</b>	<b>2020*</b>	<b>2021*</b>	<b>2022</b>
EDD Payroll Tax Audits	43	172	175
EDD Payroll Tax Assessments	\$1,069,733	\$4,868,064	\$113,355,108**
Average Liability Change	\$24,878	\$28,303	\$647,743
Unreported Employees	3,170	3,260	57,663***
Assessed Amounts Collected To-Date****	\$585,379	\$1,415,626	\$7,707,677

*\* The results for calendar years 2020 and 2021 were impacted by the suspension of field operations due to the pandemic.*

**\*\* In Calendar Year 2022, two very large out-of-state audits were completed that resulted in assessments of more than \$27 million each.**

**\*\*\* In Calendar Year 2022, two out-of-state audits resulted in the discovery of a high number of unreported employees. One had 22,435 unreported employees, the other 12,331.**

**\*\*\*\* These figures reflect cumulative collections for each of the years listed under which the liabilities were created as of January 17, 2023. The amounts for the years 2020 and 2021 include funds collected after 2021 which is why the totals are greater than what was reported in the 2021 report.**

The Questionable Employment Tax Practices Program (QETP) was initiated in 2007 as a collaborative effort between EDD and the IRS. A Memorandum of Understanding (MOU) was created to allow for exchange of case information. These IRS cases are excellent audit leads for EDD since the leads sent under this MOU, only include cases in which the employers concurred with IRS's findings regarding unreported wages and/or misclassified workers. These referrals usually result in liability change audits for EDD.

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

Table 16

<b>QETP Results from IRS Leads</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
EDD Payroll Tax Audits	8	20	18
EDD Payroll Tax Assessments	\$418,948	\$1,867,654	\$2,440,275
Average Liability Change	\$52,369	\$93,383	\$135,571
Previously Unreported Employees	207	394	204
Assessed amounts Collected To-Date*	\$128,745	\$355,042	\$133,869

*\* These figures reflect cumulative collections for each of the years listed under which the liabilities were created as of January 17, 2023. The amounts for the years 2020 and 2021 include funds collected after 2021 which is why the totals are greater than what was reported in the 2021 report.*

When employers attempt to circumvent the UI experience rating system to inappropriately gain a lower UI rate, the Tax Branch conducts payroll tax investigations and makes assessments of UI rate differences under section 1061 of the CUIC. The table below illustrates the Tax Branch's workload accomplishments in this area for the last three calendar years. The number of section 1061 payroll tax investigations decreased significantly in 2020 due to staff being redirected to assist with the record volume of UI claims work caused by the pandemic. The number of section 1061 investigations increased in 2021 and 2022 due to staff returning from being redirected to assist with UI workloads.

Table 17

<b>Results – Experience Rating Exploitation, CUIC Section 1061 (business transfers)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
EDD Payroll Tax Investigations	43	100	111
EDD Payroll Tax Assessments	\$2,017,903	\$3,768,634	\$4,028,444
Average Liability Change	\$46,928	\$37,686	\$36,292

➤ **Fed/State Steering Committee**

The Fed/State Steering Committee is an ongoing alliance between EDD, the Franchise Tax Board, the California Department of Tax and Fee Administration, and the IRS. The mission of the committee is to increase tax compliance and provide greater convenience to taxpayers. The committee 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.

➤ **Interagency Tax Collection Committee**

This committee is an alliance between EDD, the Franchise Tax Board, the California Department of Tax and Fee Administration, and the IRS. It provides a forum to share common collection practices 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, share best practices, and encourage cooperation on common tax collection issues.

➤ **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**  
Once the Contractors State License Board receives the request from EDD to place a license hold, the Contractors State License Board 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 Licenses**  
EDD may request Alcoholic Beverage Control 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 Licenses**  
EDD is authorized to notify the Labor Commissioner of the Department of Industrial Relations' Division of Labor Standards Enforcement in writing that a Farm Labor Contractor 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 last three years:

Table 18

Type of Hold	2020	2021	2022
Contractors State License Board	135	507	499
Alcoholic Beverage Control	5	30	36
Farm Labor Contractor	0	6	8

### Tax Branch Criminal Case Results and Accomplishments

EDD's Tax Branch, Investigation Division, and local district attorneys leverage resources, share best practices, and work together to combat the underground economy. The Investigation Division has a specialized Law Enforcement Unit responsible for investigating criminal violations of the CUIA, the California Penal Code, and the United States Code for federal prosecution. The Investigation Division conducts criminal investigations involving employer collusion in the underground economy, employer failure to register and report wages paid to employees and collaborates on workers' compensation 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. EDD monitors employer accounts that have been the subject of a criminal prosecution to determine if the convicted party made restitution and is still on active probation.

The following table illustrates the Tax program's results and Investigation Division's criminal case accomplishments, specific to the program, for the last three calendar years:

Table 19

Tax Program Results	2020	2021	2022
Cases Under Investigation	\$97,098,810 132 cases	\$98,125,881 143 cases	\$80,811,745 120 Cases
Criminal Complaints Filed	\$2,799,970 15 cases	\$377,989 13 cases	\$853,631 5 Cases
Completed Criminal Prosecutions	\$8,550,022 13 Cases	\$434,107 3 cases	\$5,004,534 10 Cases

The Investigation Division continues to partner with staff from the Tax, DI, and UI Branches to 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 prevent fraudulent UI and SDI benefit claims filed against EDD.

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 the Tax Branch's Collection Division Support Program 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's Field Operations Program for collection action.

The following table illustrates data for criminal restitution cases for the last three calendar years:

Table 20

<b>Criminal Restitution Cases</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Restitution Cases Monitored*	140	175***	88****
Beginning Restitution Accounts	\$26,724,735	\$26,420,507	\$27,023,699
Receivable Restitution Amounts	\$1,185,882	\$1,964,347	\$1,518,671
Ordered	\$1,282,002	\$1,245,834	\$2,928,395
Payments Received During the Year	\$208,108	\$115,321	\$14,476,139
Transfers**			
Ending Restitution Accounts Receivable	\$26,420,507	\$27,023,699	\$11,137,836

\*Inventory at the end of the calendar year.

\*\*"Transfers" are restitution collection cases transferred to the Collection Division Field Operations Program 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 large increase in cases stems mainly from a change in the way the cases are monitored. Previously, with a manual monitoring system, if there was more than one account number involved in a criminal complaint, the accounts were combined and counted as one case. With the implementation of Restitution Cases in EDD's Accounting & Compliance Enterprise System (ACES), there is now a restitution case set up for each account number and they are counted separately.

\*\*\*\*The large decrease in cases is the result of an in-depth review of all cases being monitored. Cases were found that should have been transferred to the Collection Division Field Operations Program for collection action due to non-payment and/or expiration of probation.

## Future Fraud Prevention Measures

### ➤ Recent Legislation

Governor Newsom signed Assembly Bill [\(AB\) 1561](#) into law on September 30, 2021. The bill took effect January 1, 2022, which modified the exceptions provided under AB 5 and added additional exceptions. 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 CUIA, and Industrial Welfare Commission wage orders.

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

## Education and Outreach for Emerging Issues

- To continue to educate California's employers for AB 5, EDD conducted 18 Employment Status webinars in 2022. Critical information regarding the implementation of AB 2257 was included in

webinars conducted after Governor Newsom signed the bill and it became law. AB 2257 recast, clarified, and expanded the ABC test exceptions from AB 5.

- EDD is taking various steps to address external stakeholders who may be impacted by AB 1561. Updates are being made to all payroll tax seminars, forms and publications, and other outreach materials that include employment status content.
- EDD conducted a newly developed webinar in partnership with the Department of Industrial Relations, Division of Labor Standards Enforcement (DLSE). This webinar is titled, *AB 5 Motor Carrier Worker Classification Webinar*. Attendees received the latest information updates from EDD and DLSE on AB 5, the ABC test, and how to distinguish between an employee and independent contractor. This webinar was recorded, and a link was established on the EDD website at [https://edd.ca.gov/en/Payroll\\_Taxes/ab-5](https://edd.ca.gov/en/Payroll_Taxes/ab-5) so it can be viewed by interested individuals that missed the webinar.

Due to continued pandemic precautions as well as the overwhelming success and higher participation rates, all 2023 regularly scheduled payroll tax seminars have been scheduled as webinars. The no-cost payroll tax seminars cover a variety of payroll tax topics. Two of the seminars are offered in collaboration with the IRS 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*.

In addition to regularly scheduled payroll tax seminars, EDD will continue to provide in-person and virtual special presentations upon request.



## **Workforce Services Program**

EDD administers the federally funded 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 the US DOL and provides general program direction to local administrative entities that deliver services to eligible clients via a statewide system of WIOA LWDA and other grantees.

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, the 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 the WIOA include:

➤ **Monitoring Reviews**

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

➤ **Local Workforce Development Areas Administrative Entity Sub-Recipient Monitoring**

Each LWDA administrative entity, as a condition of receiving the 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 the WIOA funding.

➤ **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 the 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.

➤ **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. The department may also conduct ad hoc WIOA audits as warranted (See page 14 for audits conducted by the Compliance Resolution Unit).

➤ **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.

### ➤ **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 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 (job seekers and employers) is the California Job Opening Browse System (CalJOBSSM). In 2022, CalJOBSSM was accessed by over 800,000 job seekers and employers. Through CalJOBSSM, clients can utilize the system themselves, and EDD staff can refer job seekers to available jobs, workshops, and appointments. The system can also be used to track services for the federally mandated reports. EDD ensures client data is kept confidential and works with the vendor to ensure that CalJOBSSM maintains its program integrity and security.

The CalJOBSSM vendor, Geographic Solutions, adheres to a detailed risk assessment and defense process to properly define requirements and design appropriate security solutions. Their comprehensive security program is an integral part of their product design and development lifecycle. Geographic Solutions maintains a strong focus on data confidentiality, availability, and integrity to ensure the satisfaction of all client security policies and has a dedicated team of experienced operations staff that handle all the security measures, database maintenance, and system upgrades for each of their client sites. Additional program integrity components related to CalJOBSSM include:

### ➤ **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.
- 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.
- Utilizing reCAPTCHA (Completely Automated Public Test to Tell Computer and Humans Apart) to keep malicious software from engaging with the system.
- Restricting the creation of accounts with duplicate and/or invalid email addresses.

**ACRONYMS**

AB	Assembly Bill
ARP	American Rescue Plan
BICC	Business Intelligence Competency Center
BPO	Benefit Programs Online
BSM	Benefit Systems Modernization
CalJOBS <sup>SM</sup>	California Job Opening Browse System
Cal OES	California Office of Emergency Services
CARES	Coronavirus Aid, Relief, and Economic Security
CIS	Criminal Intelligence Section
CDCR	California Department of Corrections and Rehabilitation
CDO	Compliance Development Operations
CUIC	California Unemployment Insurance Code
CY	Calendar Year
DI	Disability Insurance
DOL OIG	Department of Labor Office of Inspector General
EDD	Employment Development Department
ETT	Employment Training Tax
IDH	Integrity Data Hub
IDRA	Identity Risk Analytics
IRS	Internal Revenue Service
JESF	Joint Enforcement Strike Force
LETf	Labor Enforcement Task Force
LWDA	Local Workforce Development Area
NASWA	National Association of State Workforce Agencies
OP	Overpayment
PACB	Policy, Accountability and Compliance Branch
PFL	Paid Family Leave
PII	Personal Identifying Information
PIT	Personal Income Tax
PUA	Pandemic Unemployment Assistance
QETP	Questionable Employment Tax Practices Program

SDI	State Disability Insurance
SIDES	State Information Data Exchange System
SMS	Short Messaging Service
SSN	Social Security Number
TAA	Trade Adjustment Assistance
TR	Thomson Reuters
UI	Unemployment Insurance
US	United States
WIA	Workforce Investment Act
WIOA	Workforce Innovation and Opportunity Act
WSB	Workforce Services Branch

This report was prepared by the Policy, Accountability and Compliance Branch of the  
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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.



STATE OF CALIFORNIA

LABOR AND WORKFORCE DEVELOPMENT  
AGENCY

EMPLOYMENT DEVELOPMENT DEPARTMENT